

CITY OF WORCESTER

Massachusetts



**Comprehensive Annual Financial Report
For the Year Ended June 30, 2016**



CITY OF WORCESTER, MASSACHUSETTS

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2016

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, 2016

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INTRODUCTORY SECTION



CITY OF WORCESTER, MASSACHUSETTS
AUDITING DEPARTMENT

Robert V. Stearns, CPA
City Auditor

December 12, 2016

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, 2016 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, 2016 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, 2016. The independent auditors' report is presented as the first component of the financial section of this report.

Pursuant to the Uniform Grant Guidance, 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 Grant Guidance requires that an internal control review and a compliance audit be performed. The United States Department of Housing and Urban Development was assigned as the cognizant audit agency. The requirements of the Uniform Grant 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 incorporated as a Town on June 14, 1722 and as a City on February 29, 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 from Boston, 40 miles from Providence, Rhode Island and 63 miles from Hartford, Connecticut. The Towns of Holden, West Boylston, Shrewsbury, Grafton, Millbury, Auburn, Leicester and Paxton border it. The City occupies 39 square miles and is the second largest city in New England with a population of 181,045, according to the 2010 federal census. 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, 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 114 through 121 as part of required supplementary information.

Local economy

Worcester has seen its employment base shift from manufacturing to services with health and education making up the largest percentage at 48% of employment by industries and representing ten of the top fifteen employers in the City. Worcester is home to nine colleges and universities with over 35,000 students and 10,000 employees. Also located within Worcester are two major hospitals serving central Massachusetts. UMass Memorial Medical Center, an academic medical center and part of the UMass Memorial Health Care system employs 13,473 while St. Vincent Hospital located in the downtown CitySquare area, employs 2,269. The school district and the City of Worcester also have a significant economic presence, employing in total more than 5,300 employees including teachers, professionals and support staff.

Most of the colleges and hospitals located in the City have been expanding through new construction that has brought more jobs, students and visitors into the City. In 2013, UMass Medical Center opened a new \$405 million 500,000 square foot facility on its Worcester campus designed for advanced biomedical research and education. UMass is also planning to expand in fiscal 2017 by leasing renovated space that will bring 500 employees downtown including over 160 new jobs. In 2013, St. Vincent Hospital expanded its downtown facility with a new \$23 million 65,000 square foot center for cancer and wellness treatment. Gateway Park, a multi-use science park located at Worcester Polytechnic Institute, is a development of several facilities between 2007 and 2013 that provides biotech, life science, health care, robotics, and cyber security industries the opportunity to co-locate with WPI. During fiscal 2015, Quinsigamond Community College expanded to downtown for its healthcare program and is leasing 73,000 square feet of space in a recently renovated 135,000 square foot building bringing in 500 students to the downtown area. Most of the colleges have also had significant new developments of residential, health and wellness, and recreational use facilities at its campuses.

CSX Corporation, a commercial intermodal transportation company, invested over \$100 million to relocate its intermodal container operation to Worcester in 2012 creating 85 new permanent jobs. CSX processes approximately 110,000 intermodal containers annually, and that number is expected to double over the long term. Union Station, located in downtown Worcester, is an intermodal hub hosting commuter rail and bus service. Amtrak and the state, through the MBTA, operate commuter rail systems with lines running from Worcester to Boston. The WRTA recently constructed a 14,000 square foot administrative and bus transfer station with eight slips. In addition, a 500 car garage was built in 2008 at Union Station. The state, through Massport, also operates the local airport that has recently added a major carrier with direct flights to Florida and plans to add small carriers for connecting flights to additional hub cities. Massport plans a \$40 million upgrade its landing system to allow for zero visibility landings which is expected to attract additional carriers with lines to major city hubs.

Worcester's local economy is also enhanced by its restaurant and entertainment scene. There are over one hundred restaurants in the City and there are several cultural venues for exhibits, performing arts and sporting attractions including museums, concert halls, ice rinks, and theaters. The City owned DCU Arena and Convention Center in addition to hosting and organizing major entertainment events also hosts national and local trade conferences and expositions.

There is approximately \$2.7 billion of public and private investment in recently completed, ongoing, or proposed projects in Worcester. Construction continued on the CitySquare project, the public-private \$390 million project located in downtown adding over 2 million square feet of mixed-use development. The project is one of the largest public-private development projects in the state. Demolition and site preparation of the former Worcester Common Outlets was completed in fiscal 2015 and construction was completed on a 550 space underground public parking garage which opened in August, 2016. This will support a planned 150 room hotel and a 6,000

square foot standalone restaurant. Construction began in 2016 for the first of two residential apartment buildings offering 370 units at market rate along with a five level parking garage. Renovations with projected costs totaling \$75 million of the Mercantile Center, an area within CitySquare began in fiscal 2016.

In the north section of Main Street, plans continued in fiscal 2016 to redevelop the old County Courthouse, an historical site, into residential units and retail space. Redevelopment is planned on several previously abandoned manufacturing sites. The South Worcester Industrial Park which underwent remediation now has businesses planning to expand on its five parcels. Private construction of two new hockey rinks with 100,000 total square feet on former manufacturing sites is in progress. Redevelopment of a vacant building near Union station is underway to convert it to a 250 unit market-rate student housing complex. Redevelopment of other vacant parcels near Union Station is also underway to construct a new 120 room extended stay hotel. The City's arena and conference facility, the DCU Center has undergone major renovations in recent years and neighboring restaurants have recently opened.

Median household incomes within the City of Worcester were \$43,572 compared to the state median for households of \$70,628. At the end of the fiscal year the unemployment rate in the City fell to 5.4% down from 6.2% the year before. Worcester's total assessed property value increased to \$11.237 billion in fiscal 2016, \$0.066 billion or 0.6% more than the previous year.

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 the next 18-24 months, an estimated 300 new hotel rooms, 1,000 new market-rate residential units, and 1,500 new jobs will come online in downtown Worcester.

General fund revenue sources to the City during fiscal 2016 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 \$6 million in untaxed levy capacity at the end of fiscal 2016. Total reserves increased \$3 million to \$97 million and, in addition to the unused levy capacity, included balances in debt related stabilization funds, the health insurance internal service fund, the general fund and other smaller uncommitted special revenue funds. Due to the strong financial results and reserves, the City has maintained its stable bond ratings through fiscal 2016 from the major credit agencies.

Long-term financial planning and major initiatives

In November of 2006, the City Council adopted a Five Point Plan designed to improve the City's financial position that was submitted by the City Manager. The plan involves a five-year financial forecast, quarterly reports to the City Council, a borrowing cap, a capital improvement program integrated with the five-year forecast and borrowing cap and a policy to boost reserves to 5-percent of the general fund's total annual revenues and also provide a dedicated source to fund long term debt. The City has been dedicating at least 50-percent of annual "Free Cash" to a "bond rating stabilization fund" to help reach the goal of having general fund reserves of 5-percent of general fund revenues. Additionally, starting in fiscal 2013 the City began to contribute 30-percent of "Free Cash" annually to pre-fund the liability for Other Post- Employment Benefits (OPEB).

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. Through the creation of the DCU Center finance district pursuant to state special legislation, 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 Center.

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 million which have reduced the amount the City has needed to borrow for infrastructure. The City has made significant investments in education with assistance from grants from the state's Massachusetts School Building Authority (MSBA). Construction

began of a new elementary school in fiscal 2016. Replacement of windows and doors and repairs to boilers occurred at other schools. MSBA grants totaled \$17 million in fiscal 2016.

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 is in the process of constructing a solar array atop a former landfill site which would become the largest solar array owned by a municipality in the state. The City has also implemented a program to switch to more efficient LED lighting at its buildings and in its street lights.

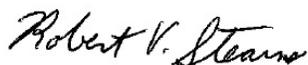
The City has taken advantage of the current low interest environment by retiring general obligation bonds with higher rates through the issuance of refunding bonds. In fiscal 2016, \$23 million of bonds have been refunded that generated an economic gain in excess of \$2 million.

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, 2015. 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-three 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, 2016

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

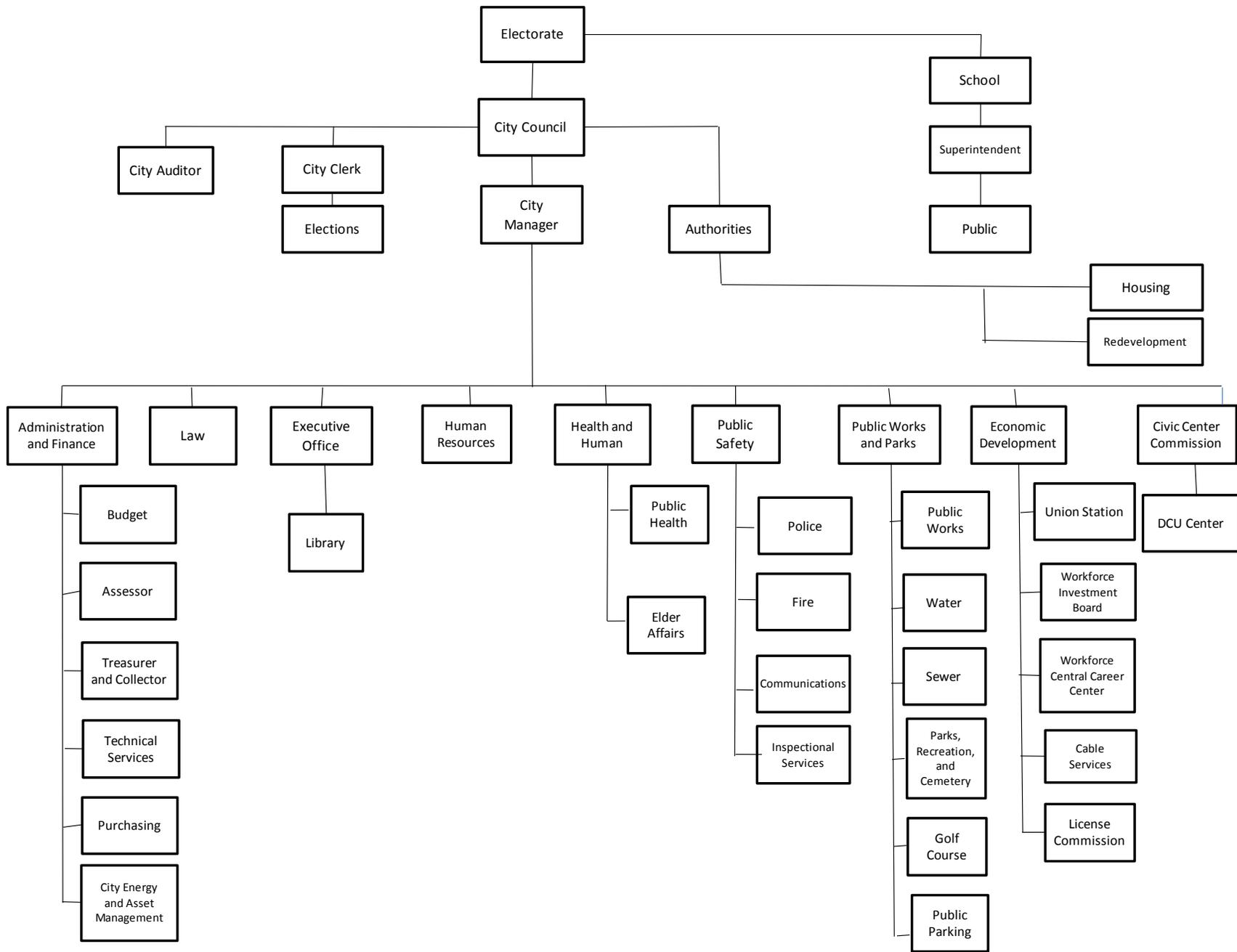
Molly O. McCullough
John F. Monfredo
Brian A. O'Connell

APPOINTED OFFICIALS

CITY MANAGER
ASSISTANT CITY MANAGER
HEALTH & HUMAN SERVICES COMMISSIONER
EMERGENCY COMMUNICATIONS DIRECTOR
FIRE CHIEF
INSPECTIONAL SERVICES COMMISSIONER
CITY SOLICITOR
PUBLIC WORKS & PARKS COMMISSIONER
CHIEF OF POLICE
CHIEF DEVELOPMENT OFFICER
CHIEF FINANCIAL OFFICER
SUPERINTENDENT OF SCHOOLS
HEAD LIBRARIAN
CITY CLERK
CITY AUDITOR
DIRECTOR OF ACCOUNTS
BUDGET OFFICER
TREASURER & COLLECTOR
CITY ASSESSOR
PURCHASING AGENT
DIRECTOR OF TECHNICAL SERVICES
DIRECTOR OF ENERGY & ASSET MGMT.

Edward M. Augustus, Jr.
Kathleen G. Johnson
Dr. Matilde Castiel, MD
Richard H. Fiske
Geoffrey Gardell
John R. Kelly
David M. Moore
Paul J. Moosey
Steven M. Sargent
Michael E. Traynor
Thomas F. Zidelis
Maureen Binienda
Geoffrey Dickinson
Susan M. Ledoux
Robert V. Stearns
Kimberly J. Laino
Jarrett B. Conner
Mariann Castelli Hier
William J. Ford
Christopher J. Gagliastro
Paul R. Covello
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, 2015

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, 2016 (except for the Worcester Retirement System, which is as of and for the year ended December 31, 2015), and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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%, 42.1% and 96.6%, 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, 2016 (except for the Worcester Retirement System, which is as of and for the fiscal year ended December 31, 2015), 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 114 through 131) 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 12, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, MA

December 12, 2016

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2016

(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, 2016 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 2016 by \$156,604.
- The change to the city's proportionate share of the net pension liability and net deferred outflows and inflows resulted in a decrease to net position of \$20,979 for fiscal year 2016. The net pension liability was \$450,271, an increase of \$76,638 over the prior year end. Offsetting this was the increase to the net deferred outflows and inflows related to pensions which totaled \$87,663, and increased \$55,659 during the year.
- The City's total net position decreased by \$10,517 or 7.2% during the year.
- The City's general fund balance increased \$8,301 or 23.6% during the year to \$43,548. The unassigned general fund balance increased \$7,829 to \$34,652 and the fund restricted for OPEB increased \$472 to \$8,896.
- At the end of fiscal 2016, the unassigned portion of the general fund was \$34,652 or 5.7% of total general fund revenues.
- "Free Cash", certified by the state's Department of Revenue as of July 1, 2016 was \$5,489. This amount is unassigned in the general fund and available for appropriation in fiscal 2017.
- The City's total capital assets (net) increased by \$69,701 or 7.4% during fiscal 2016.
- The City's total debt increased by \$3,940 or 0.6% during fiscal 2016.

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 2016. 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, the DCU Center construction fund and the rehabilitation of public buildings fund, each of which are considered major funds. Data from the 26 other governmental funds are combined into a single aggregated presentation titled "other governmental funds". Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements.

The City adopts an annual budget for its general fund and its enterprise funds.

The governmental funds financial statements can be found on pages 32 through 35.

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 113.

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 114 through 131.

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 132 through 153) and statistical section (pages 155 through 182).

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 \$156,604 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 | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Current and other assets | \$ 306,354 | 290,444 | 37,606 | 39,315 | 343,960 | 329,759 |
| Capital assets | 774,867 | 708,938 | 237,703 | 233,931 | 1,012,570 | 942,869 |
| Total assets | <u>1,081,221</u> | <u>999,382</u> | <u>275,309</u> | <u>273,246</u> | <u>1,356,530</u> | <u>1,272,628</u> |
| Deferred outflows of resources | 86,284 | 30,785 | 5,214 | 1,916 | 91,498 | 32,701 |
| Long-term liabilities | 1,233,653 | 1,122,406 | 178,422 | 175,200 | 1,412,075 | 1,297,606 |
| Other liabilities | 165,234 | 129,442 | 23,489 | 23,671 | 188,723 | 153,113 |
| Total liabilities | <u>1,398,887</u> | <u>1,251,848</u> | <u>201,911</u> | <u>198,871</u> | <u>1,600,798</u> | <u>1,450,719</u> |
| Deferred inflows of resources | 3,157 | 656 | 677 | 41 | 3,834 | 697 |
| Net position: | | | | | | |
| Net investment in capital assets | 402,433 | 361,677 | 90,920 | 88,675 | 493,353 | 450,352 |
| Restricted | 56,244 | 56,178 | - | - | 56,244 | 56,178 |
| Unrestricted | (693,216) | (640,192) | (12,985) | (12,425) | (706,201) | (652,617) |
| Total net position | \$ <u>(234,539)</u> | <u>(222,337)</u> | <u>77,935</u> | <u>76,250</u> | <u>(156,604)</u> | <u>(146,087)</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 (\$706,201). However, this balance includes outstanding pension obligation bonds of \$137,605 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 \$5,260 and \$1,075, respectively, at year-end. Additionally, the City has a note payable of \$2,085 for improvement to neighborhood assets it does not own and also owes \$671 for the Blackstone Valley Visitors Center, which was destroyed by fire. Also on this list is \$96 debt for the airport, which is no longer owned by the City. Absent the aforementioned debt, there is a balance of (\$559,409) of unrestricted net position.

At the end of fiscal 2016, 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 increased \$114,469 primarily as a result of an increase in the net pension liability of \$76,638 and the net OPEB liability of \$31,332.

Other liabilities increased for governmental activities by \$35,792 or 28%. Accounts payable and accrued liabilities increased \$16,016 including an increase of \$5,795 in accrued liabilities for capital projects, \$1,901 increase in payroll warrants outstanding and accrued payroll, and an increase in accounts payable and reserves for encumbrances \$8,320. Temporary debt increased \$21,206 or 46% from \$46,393 to \$67,599 due to an

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increase in capital project costs. Business-type activities had a decrease in other liabilities of \$182 as temporary notes decreased \$205 from \$17,786 to \$17,581.

Governmental activities capital assets net of depreciation increased by \$65,929 or 9.3%. Construction on CitySquare totaled \$21,968 during fiscal 2016 including work on the new underground city garage which opened in August 2016. Building energy improvements totaled \$14,046 during fiscal 2016. Construction began on the new elementary school at Nelson Place with progress costs totaling \$13,845. 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 \$8,406. Other improvements included renovations to streets and sidewalks of \$19,473 and the construction of a new regional emergency communication center with progress costs during fiscal 2016 of \$3,818. The new regional emergency communication center opened in August 2016. Capital improvement to parks and cemetery totaled \$5,501 including phase 4 at Elm Park \$912, the WWII Memorial fountain at the Worcester Common \$808, upgrades to the toilets, building and landscape at Green Hill Park's farm and zoo \$755, phase I began at Indian Hill Park \$600, the administration building at Hope Cemetery \$470, Institute Park \$464, and Crompton Park \$315 were among the largest park projects during fiscal 2016. Conservation land was acquired totaling \$835 and improvements at the DCU Center totaled \$986. Two new fire engines were acquired with a total cost of \$973. Other rolling equipment including heavy duty trucks were acquired totaling \$1,338. A capital lease was entered into to acquire new communication equipment totaling \$7,671. Other equipment was capitalized with a cost of \$1,416. Other assets that were capitalized totaled \$4,904. Depreciation expense for the year totaled \$39,161.

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The City's total net position decreased by \$10,517, or 7.2%, summarized as follows:

| | Governmental activities | | Business-type activities | | Total | |
|---|-------------------------|------------------|--------------------------|---------------|------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 38,792 | 34,890 | 71,034 | 68,401 | 109,826 | 103,291 |
| Operating grants and contributions | 363,557 | 342,932 | - | - | 363,557 | 342,932 |
| Capital grants and contributions | 29,007 | 24,528 | 330 | - | 29,337 | 24,528 |
| General revenues: | | | | | | |
| Property taxes | 271,801 | 257,423 | - | - | 271,801 | 257,423 |
| Motor vehicle excise taxes | 15,554 | 14,305 | - | - | 15,554 | 14,305 |
| Intergovernmental | 39,096 | 37,844 | - | - | 39,096 | 37,844 |
| Other | 11,883 | 11,244 | - | - | 11,883 | 11,244 |
| Total revenues | <u>769,690</u> | <u>723,166</u> | <u>71,364</u> | <u>68,401</u> | <u>841,054</u> | <u>791,567</u> |
| Expenses: | | | | | | |
| General government | 29,353 | 23,721 | - | - | 29,353 | 23,721 |
| Public safety | 156,918 | 160,408 | - | - | 156,918 | 160,408 |
| Health and human services | 19,262 | 16,650 | - | - | 19,262 | 16,650 |
| Education | 480,201 | 424,350 | - | - | 480,201 | 424,350 |
| Public works | 41,955 | 47,280 | - | - | 41,955 | 47,280 |
| Culture and recreation | 26,351 | 27,461 | - | - | 26,351 | 27,461 |
| Community development | 6,562 | 4,063 | - | - | 6,562 | 4,063 |
| Interest on debt | 20,883 | 21,806 | - | - | 20,883 | 21,806 |
| Water | - | - | 26,785 | 27,391 | 26,785 | 27,391 |
| Sewer | - | - | 42,018 | 39,972 | 42,018 | 39,972 |
| Golf course | - | - | 1,386 | 1,429 | 1,386 | 1,429 |
| Total expenses | <u>781,485</u> | <u>725,739</u> | <u>70,189</u> | <u>68,792</u> | <u>851,674</u> | <u>794,531</u> |
| Change in net position before transfers and contributions | (11,795) | (2,573) | 1,175 | (391) | (10,620) | (2,964) |
| Transfers | (510) | (297) | 510 | 297 | - | - |
| Contributions | <u>103</u> | <u>87</u> | <u>-</u> | <u>-</u> | <u>103</u> | <u>87</u> |
| Change in net position | (12,202) | (2,783) | 1,685 | (94) | (10,517) | (2,877) |
| Net position – beginning | <u>(222,337)</u> | <u>(219,554)</u> | <u>76,250</u> | <u>76,344</u> | <u>(146,087)</u> | <u>(143,210)</u> |
| Net position – ending | <u>\$ (234,539)</u> | <u>(222,337)</u> | <u>77,935</u> | <u>76,250</u> | <u>(156,604)</u> | <u>(146,087)</u> |

Governmental activities – Governmental activities decreased the City's net position by \$12,202. The key elements of this decrease are as follows:

Total revenues were \$769,690, which was a \$46,524 or 6.4% increase from the previous fiscal year.

Charges for services increased \$3,902 or 11.2%. A new process for maintaining vacant foreclosure property was put into place in fiscal 2016 from holding amounts in escrow which were accounted for as liabilities in prior years to charging a one-time fee which is now counted as revenue. Total fees from vacant foreclosure properties increased \$3,204 including the conversion of escrow deposits. Code inspection fees were up \$527 or 14.8% as commercial building permits were up \$262 or 17.9% and residential building permits were up \$180 or 33.4%. Distributions of surpluses from DCU Center operations totaled \$691 for fiscal 2016 compared to \$0 distributions received in fiscal 2015. Program income collected from community development programs increased \$687. Special assessment revenue recognized on an accrual basis was up \$547. Offsetting these increases were

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decreases in school nutrition revenue of \$294 for collections from parents as schools went to a universal feeding program, administrative fees collected from federal awards were down \$487 as the assessed rate decreased from 3.0% to 2.5%, and charges for services were down in other grant programs approximately \$500.

Operating grants and contributions increased \$20,625 or 6.0%. School based grants increased \$27,074. State aid for schools, Chapter 70 revenue, increased \$10,971 due to an increase in the foundation enrollment and the foundation budget per pupil. School based Medicaid reimbursements were up \$743. Charter school reimbursements from the state increased \$266. An in-kind revenue adjustment for state on-behalf of payments for teachers' net pension expense increased \$14,339. Decreases from the prior year were a result of one-time grants received in fiscal 2015 including a state grant of \$3,000 for environmental remediation at the old courthouse, a state grant of \$400 for the acquisition of land for conservation, and federal pass-through funding from FEMA accrued at the end of fiscal 2015 totaling \$834 for snow removal costs. Additionally, federal grant revenue from HUD for community development was down \$3,103 because of a return of funds related to prior year questioned costs totaling \$3,418 and also fiscal 2015 having a higher year than average because of the need to spend down expiring grants. With respect to the return of funds, HUD increased funds available for spending by a similar amount which resulted in the funds being available for community development costs of which \$919 was spent in fiscal 2016 and \$2,499 is available for future years.

Capital grants increased \$4,479 or 18.3% over the prior fiscal year. The largest increase was grant revenue from the MSBA for the construction of Nelson Place, a new elementary building which experienced an increase of \$7,697 over the prior year. Another increase was state funding for the construction of the regional emergency communication center totaling \$1,422. Offsetting the increases was a decrease of \$3,635 in state funds received from the MassWorks Infrastructure Program for CitySquare projects.

General revenues increased by \$17,518 or 5.5% as property tax revenue increased by \$14,378 or 5.6%, primarily because of an increase in property taxes committed for collection. Motor vehicle excise revenue increased \$1,249 or 8.7%. This continues the trend of annual increases in motor vehicle taxes collected since low points that occurred in 2009-2011. Other taxes and in-lieu of payments were up \$493 or 8.0% as hotel taxes increased \$169 or 7.8% and meals taxes increased \$280 or 8.8%. Investment income was up \$249 or 36.6% as interest income from cash on hand in banks was up \$303 and investment income from the OPEB account increased \$156. Offsetting the increases to investment income was interest received in the prior year from WHA for pension contributions payable. WHA paid monthly with interest in fiscal 2015 versus all at once at the start of fiscal 2016 and no interest was assessed. In addition, invested trust funds experienced a decrease in investment earnings over the prior year totaling \$89 as a result of changes in fair market value of marketable securities.

Total expenses were \$781,485, which was a \$55,746 or 7.7% increase from the previous fiscal year.

General government expenses increased \$5,632 or 23.7%. Court judgements paid and charged to general government increased \$1,835. The change to the OPEB adjustment was a net increase over the prior year in the amount of \$3,052. Net pension expense attributable to general government departments increased \$1,012. Salaries increased \$818 over the prior year. Depreciation expense increased \$173. City revolving grants increased \$104. Offsetting the increases was a change in presentation of the veteran's administration that moved from general government to health and human services. This resulted in a decrease in general government expenses in fiscal 2016 over fiscal 2015 totaling \$2,117.

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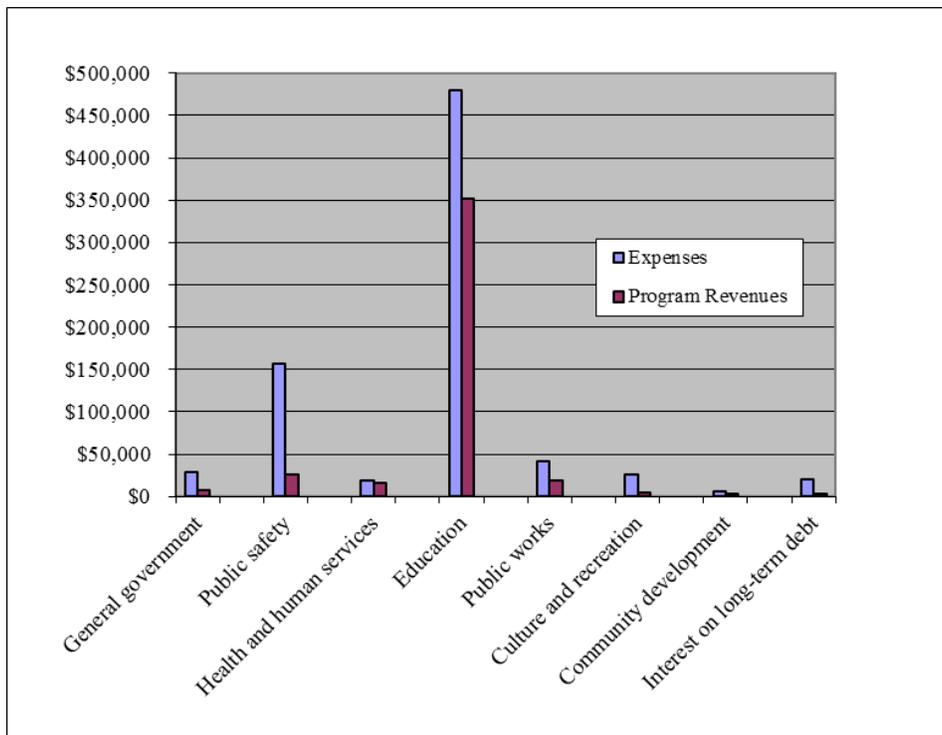
Public safety decreased \$3,490 or 2.2%. The change to the OPEB adjustment was a net decrease over the prior year in the amount of \$16,032. Offsetting this decrease were increases to salaries and net pension expense. Public safety salaries increased \$3,436 or 4.3% with police increasing \$3,697 or 8.8% due to raises including retroactive raises and a new police class; fire decreased \$420 as no raises were provided for in fiscal 2016 due to on-going collective bargaining discussions, a new fire class was created toward the end of the year but was offset by retirements. Net pension expense increased \$7,308. Police details increased \$754 or 8.7%

Health and human services expenses increased \$2,612 or 15.7% as the department added the veteran’s administration formerly reported with general government resulting in an increase of \$2,010. Net pension expense increased \$517.

Educational expenses increased by \$55,851 or 13.2%. The change to the OPEB adjustment was a net increase over the prior year in the amount of \$20,686, The on-behalf state teachers’ retirement system increased \$14,338, and the net pension expense from the City’s retirement plan increased \$6,186. In addition, the school committee’s budget increased \$13,540 as a result of an increase in state and local aid.

Public works expenses decreased \$5,325 or 11.3%. Snow removal costs decreased \$3,508 or 54.1%. Salaries decreased \$142 as there was an increase in the indirect costs allocated to enterprise funds. The change to the OPEB adjustment was a net decrease over the prior year in the amount of \$649. Expenditures from city grants were down \$474. Net pension expense increased \$502.

FY 2016 Expenses and Program Revenues– Governmental Activities



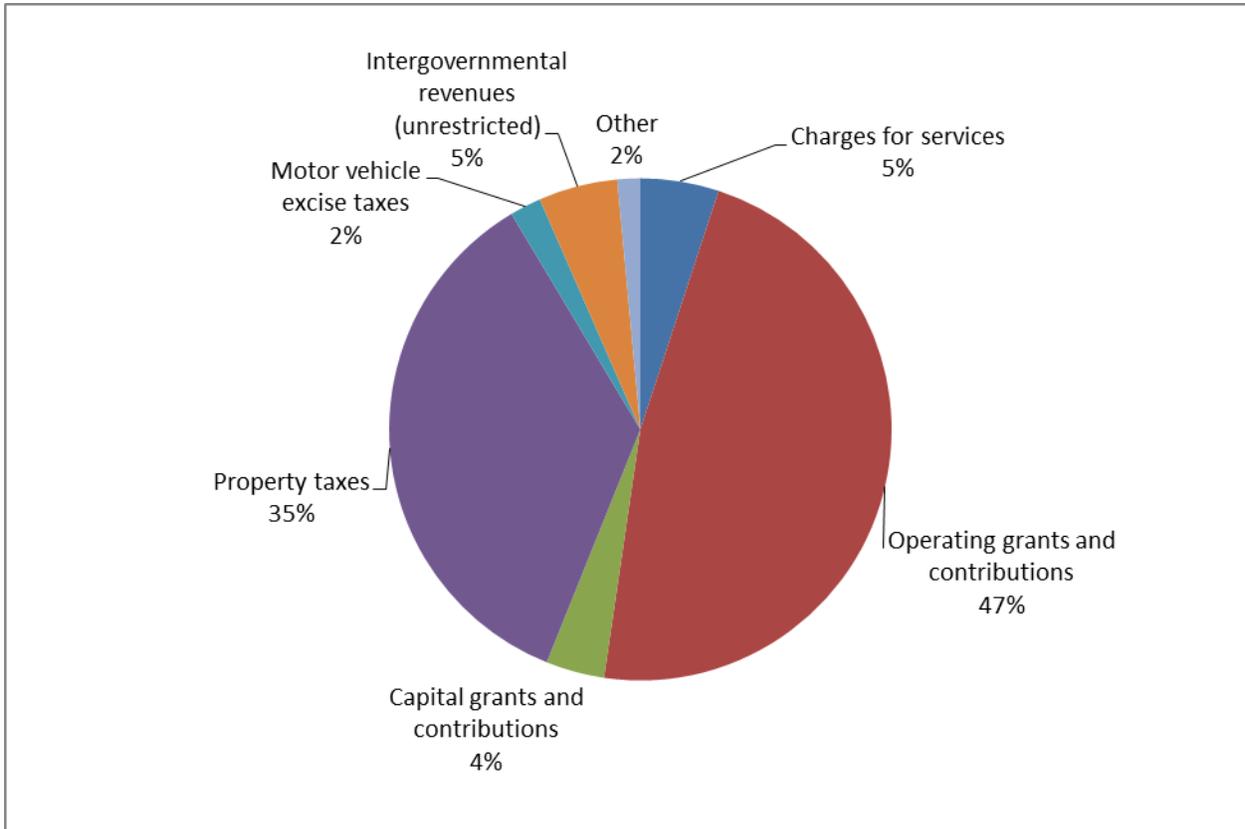
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FY 2016 Revenues by Source – Governmental Activities



Business-type activities – Business-type activities increased the City's net position by \$1,684.

- The water fund had operating income of \$4,809 and had an increase in net position of \$2,210. This follows the previous year's operating income of \$3,492 with a \$384 increase in net position. Water rates increased \$0.06 per 100 cubic feet or 1.7% over the prior year resulting in an increase in water fees of \$868 while miscellaneous revenue increased \$50 for a net increase in water revenue of \$918. Salaries and fringes decreased \$162. Ordinary maintenance expenses decreased \$693. The net investment in capital assets increased \$3,182.
- The sewer fund had operating income of \$1,846 and had a decrease in net position of \$529. This follows the previous year's operating income of \$2,142 with a \$358 decrease in net position. Sewer rates increased \$0.33 per 100 cubic feet or 5.2% over the prior year resulting in an increase in revenue of \$1,460. Salaries and fringes decreased \$37. Ordinary maintenance increased \$612 primarily because of the increase in the Upper Blackstone water treatment plant's assessment which increased \$1,147. The net investment in capital assets decreased \$990.

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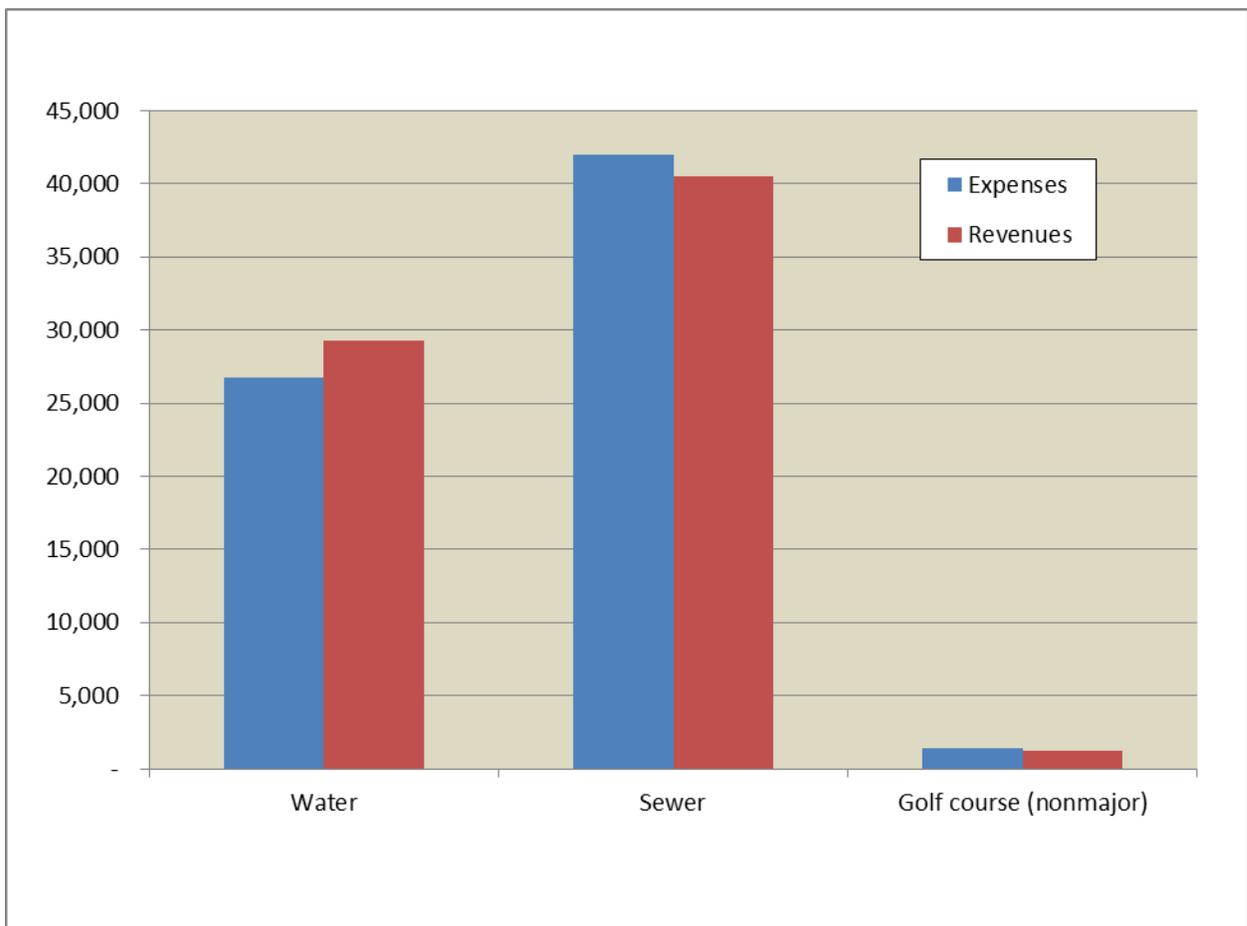
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- The golf course fund (nonmajor) had an operating loss of \$123 and net position increased by \$5. This follows the previous year's operating loss of \$277 and decrease in net position of \$120. Revenues increased \$116 from the previous year while salaries and fringe increased \$17. The net investment in capital assets increased \$52.

FY 2016 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.

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At the end of fiscal 2016, the City's governmental funds reported combined ending fund balances of \$79,541 a decrease of \$11,732 or 12.9% from fiscal 2015. Fund balance includes \$13,062 of non-spendable amounts contained in nonexpendable permanent funds and \$34,652 of unassigned general fund balance available for spending at the City's discretion. Deficits of \$1,154 in the DCU Center construction fund, \$17,501 in the rehabilitation of public buildings fund, \$25,433 in the CitySquare fund and \$9,284 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 \$46,275 restricted for specific purposes or by federal or state grants, \$19,901 of funds committed for debt service and \$19,023 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 2016, unassigned fund balance of the general fund was \$34,652 or 5.7% of total general fund revenues and a restricted fund balance of \$8,896. During fiscal 2016, the City's general fund balance increased by \$8,301 or 23.6%. Total revenues exceeded expenditures by \$9,346, while transfers out exceeded transfers in by \$10,248. The general fund also received a premium on the issuance of bonds of \$1,532. Equipment in public safety expenditures was financed through a capital lease of \$7,671.

CitySquare had a fund balance deficit of \$25,433 at the end of fiscal 2016, a \$4,109 increase to the previous year's fund balance deficit. Total expenditures in fiscal 2016 were \$21,968 including the continued construction of a new public parking garage totaling \$20,883 which was close to completion at the end of fiscal 2016. Bond proceeds received totaled \$17,859. The deficit has been temporarily financed with accounts payable and temporary loans. Bond Anticipation Notes (BANS) outstanding at the end of the year totaled \$27,440.

The debt service fund had a fund balance of \$19,901 at the end of fiscal 2016, a \$508 or 2.6% increase from the previous year. During the year \$2,220 in local meals and hotel tax revenue was received attributable to the DCU special district which increased \$126 or 6% over the previous year. There were \$13,228 net transfers in from the general fund. Debt service expenditures were \$14,940.

DCU Center construction fund had a fund balance deficit of \$1,154 at the end of fiscal 2016, a \$1,090 increase in the deficit from the previous year. Issuances of bonds and refunding bonds totaled \$1,547. Expenditures net of refunded debt paid totaled \$1,304, a \$751 increase from the prior year. BANS outstanding at the end of the year totaled \$1,447.

Rehabilitation of public buildings had a fund balance deficit of \$17,501 at the end of fiscal 2016, a \$5,756 increase in the deficit from the previous year. Issuances of bonds and refunding bonds totaled \$10,352. Expenditures net of refunded debt paid totaled \$17,510 and net transfers to other funds totaled \$6,573. BANS outstanding at the end of the year totaled \$18,098.

Other governmental funds had a fund balance of \$60,179 at the end of fiscal 2016, a \$9,585 or 13.7% decrease from the previous year. Special revenue funds decreased by \$408 as expenditures of \$102,799 and net transfers out of \$3,355 exceeded revenues of \$100,976 and premiums on issuance of bonds of \$4,770. The capital projects funds decreased \$8,894 as expenditures of \$50,941, payments to refunded bonds escrow agent of \$2,933 and net transfers out to other funds of \$6,717 exceeded revenues of \$27,737 and bond proceeds of \$23,960. Permanent funds decreased by \$283 as expenditures of \$320 and net investment losses of \$76 exceeded net transfers in from other funds of \$10 and donations of \$103.

CITY OF WORCESTER, MASSACHUSETTS

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(In thousands of dollars)

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

Net position of the enterprise funds at the end of fiscal 2016 totaled \$77,935. There was a \$1,685 increase in net position from current year operations. The water fund had an increase of \$2,209 while the sewer fund had a decrease of \$529 and the golf course fund (nonmajor) had an increase of \$5. Unrestricted net position consisted of (\$13,959) in the water fund, \$1,545 in the sewer fund and (\$572) in the golf course fund (nonmajor). Net investment in capital assets consisted of \$56,562 in the water fund, \$34,426 in the sewer fund and (\$67) 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 \$1,289 higher than the original amount. The estimate for property taxes was increased by \$1,219 as additional assessments were added. The state local aid was decreased by \$444. Miscellaneous revenue was increased \$514. Penalties and interest on taxes decreased \$200 while other taxes and assessments increased \$200.

The final budget for transfers-in increased by \$5,523 from the original budget. There were transfers from various special revenue fund accounts; \$4,661 from premium on loans to cover debt service on bonds and refunded bonds, \$786 from premium on loans and real estate sales to cover debt issuance costs. There was also a \$64 transfer from a budgetary basis non-irrevocable trust to fund health costs of airport retirees and \$12 from other funds.

The final general fund expenditure budget was \$4,072 higher than the original. Police salaries required an increase to the budget of \$4,450 to cover retroactive raises for fiscal 2014 through 2016. Court judgements increased \$1,614 due to settlement of outstanding cases. HHS budget for ordinary maintenance increased \$350 for an increase to the budget for veteran's benefits. The workforce development board was an added department costing \$96. Snow equipment was added to the final DPW capital outlay budget line in the amount of \$837. Union station expenses were increased \$80K in the DPW budget. Regional transit authority charges were increased \$104 in the intergovernmental budget. Debt principal increased \$1,985 and interest expense increased \$168 due to the cost of refunded bonds funded with premium transfers. The contingency budget increased \$858 at the tax rate setting. There were decreases to fire salaries \$307 and snow removal \$837. The contingency line, after increasing to \$6,671 from \$5,800, decreased \$6,589 with authorized transfers to police salaries \$3,597; court judgements \$1,114; health insurance \$437; veteran's benefits \$350; the clerks' union salary settlement \$280; and other sundry transfers \$811.

The final budget for transfers-out increased from the original budget by \$4,228. A transfer was made to the community development fund in the amount of \$3,418 to cover a repayment to HUD of past questioned costs. Other transfers to the special revenue and capital projects fund totaled \$378 to fund deficits in various grant accounts. A \$92 was transferred to the debt service fund to cover a short-fall in the airport debt account. A transfer to the OPEB account was made pursuant to a free cash appropriation in the amount of \$302. Additionally, \$38 was transferred to subsidize the golf enterprise in addition to the \$150 in the original budget.

The general fund balance had a budgetary basis increase of \$7,434 during the year and was better than the budgeted deficit of \$1,489 by \$8,923. In comparison, the net changes in the previous three fiscal years was

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(In thousands of dollars)

(\$2,060), \$367, and \$1,162. The budgeted deficit of \$1,488 included free cash appropriated from unassigned general fund for current year expenses totaling \$201 and a transfer to the OPEB fund of \$302. The year-end unassigned fund balance totaled \$33,949. Revenues did better than estimates in the final budget by \$5,443. Property taxes collected did slightly better than estimates by \$209. Other revenue accounts with collections that exceeded estimates included motor vehicle excise \$2,111, penalties and interests on taxes \$330; special assessments \$63, local option for meals and hotel tax \$415, fees from inspectional services including building permits \$1,059, inter-governmental revenues from school based Medicaid reimbursements of \$797 and school bus reimbursements for homelessness which was not anticipated had actual receipts of \$178. Trash bag collections exceeded estimates by \$178. Investment income exceeded estimates by \$421 and miscellaneous revenue by \$100. Offsetting these were accounts that fell short of estimates including federal indirect cost reimbursements by \$111; parking fines \$211; court fines \$233. Other departmental revenue, excluding trash bag sales, experienced a net shortfall of \$2. The bottom line was also assisted from revenues from premium on loans which were \$232 over the final budget and transfers to the DCU center that was not needed in the amount of \$77.

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, 2016 amounted to \$1,012,570. This includes land, buildings, improvements other than buildings, equipment and other, rolling equipment, infrastructure and construction in progress, net of depreciation. The total increase in the City's investment in capital assets for the current year was \$69,701 or 7.4%. Governmental activities increased by \$65,929 or 9.3% and business-type activities increased by \$3,772 or 1.6%.

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

- Streets and sidewalks were improved with capitalized costs added to infrastructure totaling \$19,941 including resurfacing projects \$8,314; street and sidewalk projects \$9,439; private street conversions \$1,665; and signal installation \$272 and street lighting upgrades \$251.
- The CitySquare project had additions to capital assets of \$23,046 including continued work on the new underground parking garage, continued work and final payments for other site work in CitySquare and work on Mercantile Plaza. Capitalized construction in progress costs for the new parking garage totaled \$20,883 in fiscal 2016 bringing the cumulative project costs to \$39,035. The new garage opened in August 2016.
- Capitalized costs for parks projects totaled \$6,074 during the year including improvements to park buildings, land, and open space acquisitions.
- Expenditures during the year for rehabilitation of public buildings were \$17,510 with the majority of it going towards energy improvements totaling \$14,050. \$2,444 was paid from this capital project fund for the new regional emergency communication center building in addition to \$1,374 paid from development grants in special revenue funds. The total cost for the building to date is \$3,818 and was placed into service in August 2016.
- Total capitalized costs for school construction were \$22,459 including construction in progress for the new elementary school at Nelson Place totaling \$13,845. Other construction capitalized during the year included window and door replacement, HVAC upgrades and solar panels for a total capitalized cost of

CITY OF WORCESTER, MASSACHUSETTS

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\$8,614. Much of the projects were funded through the state’s MSBA program for new school construction and the accelerated repair program.

- Capitalized costs for improvements to the DCU Center totaled \$1,246 including \$986 for building improvements and \$261 for equipment including metal detectors and portable staging.
- Resources were allocated during the year to business-type building, infrastructure and other capital asset additions costing \$19,095. Of this amount, \$13,750 was for sewer projects and \$5,345 was for water projects.

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 | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Land | \$ 22,623 | 21,788 | 6,488 | 6,488 | 29,111 | 28,276 |
| Buildings | 384,979 | 351,186 | 25,145 | 26,585 | 410,124 | 377,771 |
| Improvements, other than buildings | 132,634 | 39,325 | - | - | 132,634 | 39,325 |
| Equipment and other | 13,864 | 6,854 | 611 | 761 | 14,475 | 7,615 |
| Rolling equipment | 6,252 | 5,274 | 3,407 | 4,003 | 9,659 | 9,277 |
| Infrastructure | 141,108 | 117,863 | 202,052 | 185,904 | 343,160 | 303,767 |
| Construction in progress | 73,407 | 166,648 | - | 10,190 | 73,407 | 176,838 |
| Total | \$ <u>774,867</u> | <u>708,938</u> | <u>237,703</u> | <u>233,931</u> | <u>1,012,570</u> | <u>942,869</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 \$630,213, an increase of \$3,940 or 0.6% from the prior fiscal year.

| | Long-term debt | | | | | |
|--------------------------|------------------------------------|----------------|-------------------------------------|----------------|----------------|----------------|
| | Governmental activities | | Business-type activities | | Total | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| General obligation bonds | \$ 474,846 | 477,409 | 139,835 | 140,711 | 614,681 | 618,120 |
| Notes payable | 2,085 | 2,216 | 2,882 | 1,950 | 4,967 | 4,166 |
| Capital lease payable | 10,565 | 3,987 | - | - | 10,565 | 3,987 |
| Total | \$ <u>487,496</u> | <u>483,612</u> | <u>142,717</u> | <u>142,661</u> | <u>630,213</u> | <u>626,273</u> |

On December 15, 2015 the City issued \$79,533 of general obligation bonds of which \$58,878 was bonds issued for current projects and \$20,655 was refunding debt. The proceeds consisted of \$53,719 for governmental activities of which \$9,439 was refunding bonds issued and \$25,814 for business-type activities of which \$11,216

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was refunding bonds issued. Additionally, \$1,078 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 maintained a credit rating of AA- from Fitch Ratings, Aa3 from Moody's Investors Service and AA- by Standard and Poor's. In November 2016, Fitch Ratings upgraded the City's rating to AA.

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 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, 2016, compared with a 6.2% rate that existed a year earlier. This compares with June 30, 2016 unemployment rates of 4.3% in Massachusetts and 4.9% nationally.

A recent study by Colliers International reported that as of June 30, 2016, a sample of 2.06 million square feet of office space in Worcester was 81.7% occupied compared to 81.3% in the prior year.

Taxable assessed property values including personal property increased from \$11,171,271 in fiscal 2015 to \$11,236,881, or 0.6%, in fiscal 2016. Residential real estate totaled \$8,000,021 and increased 0.7%; commercial real estate totaled \$2,483,143 and decreased 1.8%; and personal property totaled \$753,717 and increased 7.5%.

The fiscal original 2017 general fund budget anticipates total revenues of \$609,647, premium on loans of \$702 and transfers from other funds of \$2,059 compared with actual results of \$601,953, \$1,532 and \$8,927 respectively in fiscal 2016. It is anticipated that property tax revenue will increase by \$7,926 or 2.9% 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 \$6,054, 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 \$5,407 primarily because of an increase in educational aid of \$3,798 due to an increase in the foundation budget and a net increase in other local aid of \$1,608. Other revenue categories were budgeted at levels slightly under by \$1,088 and when compared to the prior actual the fiscal 2017 other revenue is under by \$6,289; motor vehicle excise tax is budgeted under fiscal 2016 actual by \$1,311; penalties and interest on taxes is under by \$417; other taxes are under by \$358; license fees are under by \$703; school based Medicaid reimbursements are under by \$1,897 investment earnings are under by \$292; miscellaneous revenue is under by \$663; premiums from bond issuance is under by \$829 and departmental receipts are estimated under prior year actual by \$253.

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(In thousands of dollars)

Fiscal 2017 general fund expenditures were originally budgeted at \$599,124 with transfers out of \$11,214 to the debt service fund, \$470 to DCU Center operations \$150 to the golf course enterprise fund and \$500 to the OPEB fund compared with actual results of \$586,549, \$13,728, \$437, \$188 and \$301 in the prior year. There were also additional transfers out totaling \$3,773 to the special revenue fund in fiscal 2016 to cover grants including a repayment to HUD for questioned costs on previous year grants totaling \$3,418. Fiscal 2017 expenditure budgets increased over the prior year actuals by \$12,575 or 2.1% including \$5,741 or 6.5% for public safety which includes estimates for retroactive raises to firefighters for fiscal years 2014 through 2017; \$4,776 or 4.6% for fringe benefits; \$1,222 or 41.1% for snow removal; \$1,074 or 0.4% for education excluding fringe benefits; \$8174 or 4.4% for general government; \$268 or 2.1% for public works; \$735 or 7.6% for culture and recreation. Additionally, the contingency account was budgeted \$500 at the start of the year compared to total uses from the contingency in fiscal 2016 of \$6,589 or which \$3,877 was for raise settlements and \$100 was for planned capital improvements and \$2,595 were used on other transfers. Offsetting these was a decrease in debt service of \$2,698 which is attributable to the retirement of refunded bonds in fiscal 2016.

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 \$5,489 of certified "Free Cash". In accordance with the City's "Five Point Plan" 50% of Free Cash or \$2,745 will go to a "Bond Rating Stabilization" account, which is accounted for in the general fund and thus will preserve unassigned fund balance, \$1,647 to an OPEB reserve account, which is not irrevocable and is accounted for as restricted in the general fund, and \$1,097 for other various budget supplements.

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 \$42,731, \$2,396 more than the prior year actual and water revenue is budgeted at \$27,649, \$2,276 less than the prior year actual. Sewer rates were increased by 4.5% from the prior year and water rates did not change. The golf course anticipates revenues of \$1,310, which is \$104 more than the prior year actual with no major rate changes.

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, 2016

| | Component units | | | | |
|--|----------------------------|-----------------------------|----------------------|---|--|
| | Primary government | | | Worcester Redevelopment Authority | Upper Blackstone Water Pollution Abatement District |
| | Governmental activities | Business-type activities | Total | | |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 153,803,976 | 10,105,509 | 163,909,485 | 18,593 | 5,619,728 |
| Restricted cash and cash equivalents | 69,729,745 | 11,926,526 | 81,656,271 | 19,358 | - |
| Restricted investments | 25,953,533 | - | 25,953,533 | - | 5,950,162 |
| Receivables (net of allowance for uncollectibles) | 19,210,318 | 15,573,971 | 34,784,289 | 173,612 | 809,630 |
| Intergovernmental receivables | 37,657,353 | - | 37,657,353 | - | 376,525 |
| Capital assets, not being depreciated | 96,029,681 | 6,487,450 | 102,517,131 | 2,073,833 | 3,216,363 |
| Capital assets, net of accumulated depreciation | 678,837,023 | 231,215,557 | 910,052,580 | 25,242,576 | 162,943,167 |
| Total assets | 1,081,221,629 | 275,309,013 | 1,356,530,642 | 27,527,972 | 178,915,575 |
| Deferred outflows of resources: | | | | | |
| Related to pensions | 86,283,890 | 5,213,943 | 91,497,833 | - | 1,910,181 |
| Deferred charge on refunding | - | - | - | - | 560,934 |
| Total deferred outflows of resources | 86,283,890 | 5,213,943 | 91,497,833 | - | 2,471,115 |
| Liabilities: | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 67,367,134 | 3,533,380 | 70,900,514 | 181,662 | 964,081 |
| Accrued liabilities | 15,211,425 | 1,345,179 | 16,556,604 | 2,446,283 | 2,319,613 |
| Retainage payable | 4,843,263 | 1,029,842 | 5,873,105 | - | - |
| Other liabilities | 10,213,314 | - | 10,213,314 | 31,017 | - |
| Temporary notes payable | 67,598,802 | 17,580,749 | 85,179,551 | - | - |
| Noncurrent liabilities due within one year | 61,568,893 | 13,276,311 | 74,845,204 | 8,965,729 | 8,189,217 |
| Total current liabilities | 226,802,831 | 36,765,461 | 263,568,292 | 11,624,691 | 11,472,911 |
| Noncurrent liabilities: | | | | | |
| Net pension liability | 424,612,154 | 25,658,357 | 450,270,511 | - | 7,099,775 |
| OPEB payable | 273,037,822 | 8,230,126 | 281,267,948 | - | 2,582,556 |
| Other noncurrent liabilities due in more than one year | 474,434,312 | 131,256,967 | 605,691,279 | 587,811 | 148,861,426 |
| Total noncurrent liabilities | 1,172,084,288 | 165,145,450 | 1,337,229,738 | 587,811 | 158,543,757 |
| Total liabilities | 1,398,887,119 | 201,910,911 | 1,600,798,030 | 12,212,502 | 170,016,668 |
| Deferred inflows of resources: | | | | | |
| Related to pensions | 3,157,274 | 677,347 | 3,834,621 | - | 240,839 |
| Net position: | | | | | |
| Net investment in capital assets | 402,433,055 | 90,920,073 | 493,353,128 | 23,361,705 | 13,280,854 |
| Restricted for: | | | | | |
| Nonexpendable permanent funds: | | | | | |
| Libraries | 6,138,572 | - | 6,138,572 | - | - |
| Hope Cemetery | 3,374,183 | - | 3,374,183 | - | - |
| Health and human services | 2,192,209 | - | 2,192,209 | - | - |
| Other nonexpendable permanent funds | 1,357,144 | - | 1,357,144 | - | - |
| Expendable permanent funds: | | | | | |
| Libraries | 3,000,740 | - | 3,000,740 | - | - |
| Hope Cemetery | 532,838 | - | 532,838 | - | - |
| Health and human services | 507,764 | - | 507,764 | - | - |
| Other nonexpendable permanent funds | 798,946 | - | 798,946 | - | - |
| OPEB trust fund | 8,896,391 | - | 8,896,391 | - | - |
| State and federal grants | 13,742,419 | - | 13,742,419 | - | - |
| PEG access grant | 3,421,150 | - | 3,421,150 | - | - |
| Culture & recreation grants | 493,732 | - | 493,732 | - | - |
| General government grants | 582,644 | - | 582,644 | - | - |
| Health and human services grants | 649,089 | - | 649,089 | - | - |
| Library grants | 1,198,252 | - | 1,198,252 | - | - |
| Public safety grants | 4,128,031 | - | 4,128,031 | - | - |
| Public works grants | 2,673,616 | - | 2,673,616 | - | - |
| Educational grants | 2,556,205 | - | 2,556,205 | - | - |
| Unrestricted (deficit) | (693,215,854) | (12,985,375) | (706,201,229) | (8,046,235) | (2,151,671) |
| Total net position | \$ (234,538,874) | 77,934,698 | (156,604,176) | 15,315,470 | 11,129,183 |

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Activities

For the Fiscal Year Ended June 30, 2016

| 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 | \$ 29,353,466 | 3,138,996 | 3,703,275 | - | (22,511,195) |
| Public safety | 156,917,954 | 20,843,624 | 3,386,467 | 1,421,700 | (131,266,163) |
| Health and human services | 19,261,685 | 1,166,042 | 15,323,349 | - | (2,772,294) |
| Education | 480,201,046 | 1,645,821 | 333,199,669 | 17,156,658 | (128,198,898) |
| Public works | 41,954,540 | 9,369,341 | 140,613 | 9,858,079 | (22,586,507) |
| Culture and recreation | 26,350,870 | 1,903,921 | 2,444,651 | 570,558 | (21,431,740) |
| Community development | 6,562,068 | 724,086 | 2,856,769 | - | (2,981,213) |
| Interest on debt | 20,882,801 | - | 2,501,797 | - | (18,381,004) |
| Total governmental activities | <u>781,484,430</u> | <u>38,791,831</u> | <u>363,556,590</u> | <u>29,006,995</u> | <u>(350,129,014)</u> |
| Business-type activities: | | | | | |
| Water | 26,784,935 | 29,277,989 | - | - | 2,493,054 |
| Sewer | 42,018,146 | 40,550,054 | - | 329,481 | (1,138,611) |
| Golf course (nonmajor) | 1,385,724 | 1,206,167 | - | - | (179,557) |
| Total business-type activities | <u>70,188,805</u> | <u>71,034,210</u> | <u>-</u> | <u>329,481</u> | <u>1,174,886</u> |
| Total primary government | <u>\$ 851,673,235</u> | <u>109,826,041</u> | <u>363,556,590</u> | <u>29,336,476</u> | <u>(348,954,128)</u> |
| Component units: | | | | | |
| Worcester Redevelopment Authority | | | | | |
| Upper Blackstone Water Pollution Abatement District | \$ 2,839,456 | 492,045 | - | 464,208 | (1,883,203) |
| | <u>27,968,599</u> | <u>27,136,806</u> | <u>-</u> | <u>-</u> | <u>(831,793)</u> |
| Total component units | <u>\$ 30,808,055</u> | <u>27,628,851</u> | <u>-</u> | <u>464,208</u> | <u>(2,714,996)</u> |

(Continued)

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Activities

For the Fiscal Year Ended June 30, 2016

| | 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) | \$ (350,129,014) | 1,174,886 | (348,954,128) | (1,883,203) | (831,793) |
| General revenues: | | | | | |
| Property taxes | 271,801,496 | - | 271,801,496 | - | - |
| Motor vehicle excise taxes | 15,554,476 | - | 15,554,476 | - | - |
| Other taxes and in-lieu payments | 6,689,882 | - | 6,689,882 | - | - |
| Penalties and interest on taxes | 2,529,723 | - | 2,529,723 | - | - |
| Intergovernmental (unrestricted) | 39,096,151 | - | 39,096,151 | - | - |
| Investment earnings | 929,524 | - | 929,524 | 147 | - |
| Gain (loss) on sale of capital assets | - | - | - | 9,000 | - |
| Miscellaneous | 1,732,566 | - | 1,732,566 | - | - |
| Transfers (net) | (510,058) | 510,058 | - | - | - |
| Total general revenues and transfers (net) | 337,823,760 | 510,058 | 338,333,818 | 9,147 | - |
| Contributions to permanent funds | 103,353 | - | 103,353 | - | - |
| Sub-total | 337,927,113 | 510,058 | 338,437,171 | 9,147 | - |
| Change in net position | (12,201,901) | 1,684,944 | (10,516,957) | (1,874,056) | (831,793) |
| Net position - beginning | (222,336,973) | 76,249,754 | (146,087,219) | 17,189,526 | 11,960,976 |
| Net position - ending | \$ (234,538,874) | 77,934,698 | (156,604,176) | 15,315,470 | 11,129,183 |

(Concluded)

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Balance Sheet
Governmental Funds
June 30, 2016

| | General | CitySquare | Debt Service | DCU Center Construction | Rehabilitation of Public Buildings | Other governmental funds | Total governmental funds |
|--|-----------------------|---------------------|-------------------|----------------------------|--|--------------------------------|--------------------------------|
| Assets: | | | | | | | |
| Cash and cash equivalents | \$ 85,461,115 | - | 19,901,430 | - | - | 19,023,089 | 124,385,634 |
| Restricted cash and cash equivalents | - | 5,470,625 | - | 632,211 | 10,661,477 | 52,965,432 | 69,729,745 |
| Restricted investments | 8,896,391 | - | - | - | - | 17,057,142 | 25,953,533 |
| Due from other funds | 405,123 | - | - | - | - | - | 405,123 |
| Receivables (net of allowance for uncollectibles) | 15,583,156 | - | - | - | - | 1,055,586 | 16,638,742 |
| Intergovernmental receivables | 33,108,303 | - | - | - | - | 4,549,050 | 37,657,353 |
| Total assets | \$ 143,454,088 | 5,470,625 | 19,901,430 | 632,211 | 10,661,477 | 94,650,299 | 274,770,130 |
| Liabilities: | | | | | | | |
| Accounts payable | \$ 47,654,263 | 1,727,083 | - | 305,021 | 8,573,604 | 6,910,130 | 65,170,101 |
| Due to general fund | - | - | - | - | - | 405,123 | 405,123 |
| Retainage payable | - | 1,736,824 | - | 34,141 | 1,491,269 | 1,581,029 | 4,843,263 |
| Temporary loans | - | 27,440,000 | - | 1,446,750 | 18,097,669 | 20,614,383 | 67,598,802 |
| Other liabilities | 6,308,414 | - | - | - | - | 3,904,900 | 10,213,314 |
| Total liabilities | 53,962,677 | 30,903,907 | - | 1,785,912 | 28,162,542 | 33,415,565 | 148,230,603 |
| Deferred inflows of resources: | | | | | | | |
| Unavailable revenue-school construction reimbursement | 31,172,928 | - | - | - | - | - | 31,172,928 |
| Unavailable revenue-property taxes | 7,431,786 | - | - | - | - | - | 7,431,786 |
| Unavailable revenue-other | 7,338,258 | - | - | - | - | 1,055,586 | 8,393,844 |
| Total deferred inflows of resources | 45,942,972 | - | - | - | - | 1,055,586 | 46,998,558 |
| Fund balances: | | | | | | | |
| Nonspendable | - | - | - | - | - | 13,062,108 | 13,062,108 |
| Restricted | 8,896,391 | - | - | - | - | 37,377,653 | 46,274,044 |
| Committed | - | - | 19,901,430 | - | - | 19,023,089 | 38,924,519 |
| Unassigned | 34,652,048 | (25,433,282) | - | (1,153,701) | (17,501,065) | (9,283,702) | (18,719,702) |
| Total fund balances | 43,548,439 | (25,433,282) | 19,901,430 | (1,153,701) | (17,501,065) | 60,179,148 | 79,540,969 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 143,454,088 | 5,470,625 | 19,901,430 | 632,211 | 10,661,477 | 94,650,299 | 274,770,130 |

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, 2016

| | |
|--|------------------|
| Total governmental fund balances (Exhibit 3) | \$ 79,540,969 |
| Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore are not reported in the governmental funds. | 774,866,704 |
| Other assets are not available to pay for current period expenditures and, therefore are deferred inflows in the governmental funds. | 46,998,558 |
| 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. | 22,120,553 |
| 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. | (7,539,093) |
| Deferred outflows and inflows of resources of the pension plan are not reported in government funds. | 83,126,616 |
| 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 | (493,512,719) |
| Capital lease payable | (10,564,535) |
| Net pension liability | (424,612,154) |
| Net OPEB obligation | (273,037,822) |
| Judgments and claims | (14,136,827) |
| Compensated absences | (13,190,786) |
| Landfill closure costs and post closure costs | (4,598,338) |
| Net position of governmental activities (Exhibit 1) | \$ (234,538,874) |

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, 2016

| | General | CitySquare | Debt Service | DCU Center Construction | Rehabilitation of Public Buildings | Other governmental funds | Total governmental funds |
|--|--------------------|---------------------|---------------------|-------------------------|------------------------------------|--------------------------|--------------------------|
| Revenues: | | | | | | | |
| Property taxes | \$ 271,977,434 | - | - | - | - | - | 271,977,434 |
| Motor vehicle excise taxes | 15,346,090 | - | - | - | - | - | 15,346,090 |
| Other taxes and in-lieu payments | 5,082,794 | - | 2,220,466 | - | - | - | 7,303,260 |
| Penalties and interest on taxes | 2,529,723 | - | - | - | - | - | 2,529,723 |
| Licenses and permits | 6,387,809 | - | - | - | - | - | 6,387,809 |
| Intergovernmental | 291,662,174 | - | - | - | - | 100,610,060 | 392,272,234 |
| Charges for services | 5,799,728 | - | - | - | - | 22,617,943 | 28,417,671 |
| Fines and forfeitures | 2,584,315 | - | - | - | - | - | 2,584,315 |
| Investment earnings (losses) | 1,005,008 | - | - | - | - | (75,484) | 929,524 |
| Donations | - | - | - | - | - | 5,120,261 | 5,120,261 |
| Contributions to permanent funds | - | - | - | - | - | 103,353 | 103,353 |
| Miscellaneous | 1,367,820 | - | - | - | - | 364,746 | 1,732,566 |
| Total revenues | 603,742,895 | - | 2,220,466 | - | - | 128,740,879 | 734,704,240 |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| General government | 18,396,925 | - | - | - | 14,412,442 | 6,799,744 | 39,609,111 |
| Public safety | 95,320,971 | - | - | - | 2,638,374 | 16,455,074 | 114,414,419 |
| Health and human services | 3,196,095 | - | - | - | - | 12,613,860 | 15,809,955 |
| Education | 259,527,364 | - | - | - | - | 78,136,794 | 337,664,158 |
| Public works | 18,673,162 | 21,968,056 | - | - | 349,758 | 21,257,314 | 62,248,290 |
| Culture and recreation | 9,713,649 | - | - | 1,304,426 | 109,058 | 8,698,943 | 19,826,076 |
| Fringe benefits | 105,732,067 | - | - | - | - | - | 105,732,067 |
| Community development | - | - | - | - | - | 7,152,896 | 7,152,896 |
| State and regional charges | 31,165,582 | - | - | - | - | - | 31,165,582 |
| Debt service: | | | | | | | |
| Principal | 35,437,715 | - | 9,282,825 | - | - | 2,253,669 | 46,974,209 |
| Interest | 17,233,915 | - | 5,657,065 | - | - | 691,769 | 23,582,749 |
| Total expenditures | 594,397,445 | 21,968,056 | 14,939,890 | 1,304,426 | 17,509,632 | 154,060,063 | 804,179,512 |
| Excess (deficiency) of revenues over expenditures | 9,345,450 | (21,968,056) | (12,719,424) | (1,304,426) | (17,509,632) | (25,319,184) | (69,475,272) |
| Other financing sources (uses): | | | | | | | |
| Transfers in | 8,862,285 | - | 13,728,010 | - | 7,179,051 | 11,590,459 | 41,359,805 |
| Transfers out | (19,110,019) | - | (500,000) | - | (605,981) | (21,653,863) | (41,869,863) |
| Premium on issuance of bonds | 1,531,697 | - | - | - | - | 2,456,004 | 3,987,701 |
| Issuance of bonds | - | 17,859,131 | - | 214,000 | 5,180,000 | 21,027,000 | 44,280,131 |
| Premium on issuance of refunding bonds | - | - | - | - | - | 2,314,487 | 2,314,487 |
| Issuance of refunding bonds | - | - | - | 1,333,192 | 5,172,226 | 2,933,353 | 9,438,771 |
| Payment to refunded bonds escrow agent | - | - | - | (1,333,192) | (5,172,226) | (2,933,353) | (9,438,771) |
| Capital lease | 7,671,301 | - | - | - | - | - | 7,671,301 |
| Total other financing sources (uses) | (1,044,736) | 17,859,131 | 13,228,010 | 214,000 | 11,753,070 | 15,734,087 | 57,743,562 |
| Net change in fund balances | 8,300,714 | (4,108,925) | 508,586 | (1,090,426) | (5,756,562) | (9,585,097) | (11,731,710) |
| Fund balances – beginning | 35,247,725 | (21,324,357) | 19,392,844 | (63,275) | (11,744,503) | 69,764,245 | 91,272,679 |
| Fund balances – ending | \$ 43,548,439 | (25,433,282) | 19,901,430 | (1,153,701) | (17,501,065) | 60,179,148 | 79,540,969 |

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, 2016

| | |
|---|-------------------------------|
| Net change in fund balances - total governmental funds (Exhibit 5) | \$ (11,731,710) |
| <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 | 105,090,640 |
| Depreciation | (39,161,136) |
| <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> | |
| | (9,541,223) |
| <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 | (53,718,902) |
| Bond and note maturities | 56,412,980 |
| Net deferrals and amortization of bond premiums | (3,920,808) |
| Capital lease | (7,671,301) |
| <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> | |
| | 433,090 |
| <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> | |
| | 957,933 |
| <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> | |
| | (19,875,237) |
| <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 | (30,554,102) |
| Capital lease principal payments | 1,094,178 |
| Judgments and claims | 91,126 |
| Compensated absences | (174,355) |
| Landfill closure and post closure care | 66,926 |
| | <u>66,926</u> |
| Change in net position of governmental activities (Exhibit 2) | <u><u>\$ (12,201,901)</u></u> |

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Net Position

Proprietary Funds

June 30, 2016

| | Business-type activities | | | | Governmental |
|--|--------------------------|----------------------|--------------------|----------------------|-------------------|
| | Major | | Nonmajor | Totals | Internal |
| | Water | Sewer | Golf Course | | Service Fund |
| Assets: | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 5,705,840 | 4,312,274 | 87,395 | 10,105,509 | 29,418,342 |
| Restricted cash and cash equivalents | 6,149,547 | 5,699,749 | 77,230 | 11,926,526 | - |
| Receivables (net) | 3,465,832 | 12,108,139 | - | 15,573,971 | 2,571,576 |
| Total current assets | <u>15,321,219</u> | <u>22,120,162</u> | <u>164,625</u> | <u>37,606,006</u> | <u>31,989,918</u> |
| Noncurrent assets: | | | | | |
| Capital assets: | | | | | |
| Land | 6,370,950 | 116,500 | - | 6,487,450 | - |
| Buildings | 43,904,652 | 5,459,258 | 965,493 | 50,329,403 | - |
| Infrastructure | 162,744,021 | 218,272,524 | 1,709,731 | 382,726,276 | - |
| Equipment and other | 875,306 | 515,745 | - | 1,391,051 | - |
| Rolling equipment | 3,247,388 | 7,661,853 | - | 10,909,241 | - |
| Less accumulated depreciation | <u>(103,999,819)</u> | <u>(108,722,702)</u> | <u>(1,417,893)</u> | <u>(214,140,414)</u> | <u>-</u> |
| Capital assets, net | <u>113,142,498</u> | <u>123,303,178</u> | <u>1,257,331</u> | <u>237,703,007</u> | <u>-</u> |
| Total assets | <u>128,463,717</u> | <u>145,423,340</u> | <u>1,421,956</u> | <u>275,309,013</u> | <u>31,989,918</u> |
| Deferred outflows of resources: | | | | | |
| Related to pensions | <u>3,444,587</u> | <u>1,681,675</u> | <u>87,681</u> | <u>5,213,943</u> | <u>-</u> |
| Liabilities: | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 1,565,123 | 1,880,862 | 87,395 | 3,533,380 | 2,197,033 |
| Accrued liabilities | 577,912 | 756,568 | 10,699 | 1,345,179 | 7,672,332 |
| Retainage payable | 190,043 | 839,799 | - | 1,029,842 | - |
| Judgments and claims | 212,824 | 67,389 | - | 280,213 | - |
| Compensated absences | 393,675 | 169,367 | 9,638 | 572,680 | - |
| Temporary loans | 6,793,356 | 10,787,393 | - | 17,580,749 | - |
| Other | 55 | 3,295 | - | 3,350 | - |
| Bonds and notes payable | <u>7,001,440</u> | <u>5,251,105</u> | <u>167,523</u> | <u>12,420,068</u> | <u>-</u> |
| Total current liabilities | <u>16,734,428</u> | <u>19,755,778</u> | <u>275,255</u> | <u>36,765,461</u> | <u>9,869,365</u> |
| Noncurrent liabilities: | | | | | |
| Judgments and claims | 718,316 | 75,288 | - | 793,604 | - |
| Compensated absences | 97,349 | 40,660 | 4,560 | 142,569 | - |
| Net pension liability | 16,951,174 | 8,275,697 | 431,486 | 25,658,357 | - |
| OPEB payable | 5,313,445 | 2,724,538 | 192,143 | 8,230,126 | - |
| Other | - | 22,967 | - | 22,967 | - |
| Bonds and notes payable | <u>48,931,663</u> | <u>80,131,730</u> | <u>1,234,434</u> | <u>130,297,827</u> | <u>-</u> |
| Total noncurrent liabilities | <u>72,011,947</u> | <u>91,270,880</u> | <u>1,862,623</u> | <u>165,145,450</u> | <u>-</u> |
| Total liabilities | <u>88,746,375</u> | <u>111,026,658</u> | <u>2,137,878</u> | <u>201,910,911</u> | <u>9,869,365</u> |
| Deferred inflows of resources: | | | | | |
| Related to pensions | <u>559,013</u> | <u>107,662</u> | <u>10,672</u> | <u>677,347</u> | <u>-</u> |
| Net position (deficit): | | | | | |
| Net investment in capital assets | 56,561,567 | 34,425,902 | (67,396) | 90,920,073 | - |
| Unrestricted | <u>(13,958,651)</u> | <u>1,544,793</u> | <u>(571,517)</u> | <u>(12,985,375)</u> | <u>22,120,553</u> |
| Total net position (deficit) | <u>\$ 42,602,916</u> | <u>35,970,695</u> | <u>(638,913)</u> | <u>77,934,698</u> | <u>22,120,553</u> |

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Revenues, Expenses, and Changes in Net Position

Proprietary Funds

For the Fiscal Year Ended June 30, 2016

| | Business-type activities | | | Totals | Governmental |
|--|--------------------------|--------------------|------------------|--------------------|-------------------|
| | Major | | Nonmajor | | Internal |
| | Water | Sewer | Golf Course | | Service Fund |
| Operating revenues: | | | | | |
| Charges for services | \$ 27,930,607 | 39,681,256 | - | 67,611,863 | - |
| Employer contributions | - | - | - | - | 62,896,770 |
| Employee contributions | - | - | - | - | 21,976,979 |
| Fees | - | - | 1,181,514 | 1,181,514 | - |
| Miscellaneous | 1,347,382 | 868,798 | 24,653 | 2,240,833 | - |
| Total operating revenues | 29,277,989 | 40,550,054 | 1,206,167 | 71,034,210 | 84,873,749 |
| Operating expenses: | | | | | |
| Salaries and benefits | 11,459,918 | 6,577,793 | 390,021 | 18,427,732 | - |
| Benefit payments | - | - | - | - | 84,013,316 |
| Ordinary maintenance | 3,749,208 | 20,405,973 | 778,011 | 24,933,192 | - |
| Indirect costs | 2,236,383 | 3,551,718 | 30,600 | 5,818,701 | - |
| Depreciation | 7,023,735 | 8,169,012 | 130,773 | 15,323,520 | - |
| Total operating expenses | 24,469,244 | 38,704,496 | 1,329,405 | 64,503,145 | 84,013,316 |
| Operating income (loss) | 4,808,745 | 1,845,558 | (123,238) | 6,531,065 | 860,433 |
| Nonoperating revenues | | | | | |
| (expenses): | | | | | |
| Investment income | - | - | - | - | 97,500 |
| Interest expense | (2,315,691) | (3,313,650) | (56,319) | (5,685,660) | - |
| Total nonoperating revenues (expenses) | (2,315,691) | (3,313,650) | (56,319) | (5,685,660) | 97,500 |
| Income (loss) before capital grants and transfers | 2,493,054 | (1,468,092) | (179,557) | 845,405 | 957,933 |
| Capital grants and donations | - | 329,481 | - | 329,481 | - |
| Transfers in | 473,337 | 1,165,596 | 203,695 | 1,842,628 | - |
| Transfers out | (756,634) | (556,309) | (19,627) | (1,332,570) | - |
| Change in net position | 2,209,757 | (529,324) | 4,511 | 1,684,944 | 957,933 |
| Total net position – beginning | 40,393,159 | 36,500,019 | (643,424) | 76,249,754 | 21,162,620 |
| Total net position – ending | \$ 42,602,916 | 35,970,695 | (638,913) | 77,934,698 | 22,120,553 |

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2016

| | Business-type activities | | | | Governmental activities |
|--|---------------------------------|---------------------|--------------------|---------------------|--------------------------------|
| | Major | | Nonmajor | Totals | Internal Service Fund |
| | Water | Sewer | Golf Course | | |
| Cash flows from operating activities: | | | | | |
| Receipts from customers | \$ 29,925,606 | 40,334,528 | 1,206,167 | 71,466,301 | 83,512,875 |
| Payments for interfund service provided | - | - | - | - | (81,764,565) |
| Payments to suppliers | (5,583,703) | (25,321,931) | (797,513) | (31,703,147) | - |
| Payments to employees | (10,219,870) | (5,909,087) | (339,943) | (16,468,900) | - |
| Net cash provided (used) by operating activities | <u>14,122,033</u> | <u>9,103,510</u> | <u>68,711</u> | <u>23,294,254</u> | <u>1,748,310</u> |
| Cash flows from noncapital financing activities: | | | | | |
| Transfers in | 473,337 | 1,165,596 | 203,695 | 1,842,628 | - |
| Transfers (out) | (756,634) | (556,309) | (19,627) | (1,332,570) | - |
| Net cash provided (used) by noncapital financing activities | <u>(283,297)</u> | <u>609,287</u> | <u>184,068</u> | <u>510,058</u> | <u>-</u> |
| Cash flows from capital and related financing activities: | | | | | |
| Intergovernmental subsidies and grants | - | 300,000 | - | 300,000 | - |
| Issuance of capital debt | 16,985,983 | 27,309,832 | 176,840 | 44,472,655 | - |
| Acquisition and construction of capital assets | (5,268,433) | (14,243,926) | - | (19,512,359) | - |
| Principal paid on capital debt | (20,729,171) | (23,501,802) | (359,888) | (44,590,861) | - |
| Interest paid on capital debt | (2,391,297) | (3,302,521) | (56,414) | (5,750,232) | - |
| Net cash provided (used) by capital and related financing activities | <u>(11,402,918)</u> | <u>(13,438,417)</u> | <u>(239,462)</u> | <u>(25,080,797)</u> | <u>-</u> |
| Cash flows from investing activities: | | | | | |
| Investment income | - | - | - | - | 97,500 |
| Net increase (decrease) in cash and cash equivalents | 2,435,818 | (3,725,620) | 13,317 | (1,276,485) | 1,845,810 |
| Cash and cash equivalents at beginning of year (includes \$5,201,290, \$10,094,838 and \$77,413 reported as restricted in the Water, Sewer and Golf Course [nonmajor] funds) | <u>9,419,569</u> | <u>13,737,643</u> | <u>151,308</u> | <u>23,308,520</u> | <u>27,572,532</u> |
| Cash and cash equivalents at end 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> |
| Reconciliation of operating income to net cash provided (used) by operating activities: | | | | | |
| Operating income (loss) | \$ 4,808,745 | 1,845,558 | (123,238) | 6,531,065 | 860,433 |
| 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 | 7,023,735 | 8,169,012 | 130,773 | 15,323,520 | - |
| Increase in net deferred outflows | (2,165,870) | (1,076,377) | (55,540) | (3,297,787) | - |
| Increase in net OPEB obligation | 487,733 | 261,346 | 28,419 | 777,498 | - |
| Increase in net deferred inflows | 531,771 | 94,766 | 9,987 | 636,524 | - |
| Effect of changes in assets and liabilities requiring current expenditure of cash: | | | | | |
| Accounts receivable | 647,617 | (215,526) | - | 432,091 | (1,360,874) |
| Accounts payable | 677,542 | (191,822) | 13,500 | 499,220 | 2,197,033 |
| Accrued liabilities | - | - | - | - | 51,718 |
| Judgments and claims payable | (230,498) | (1,148,075) | - | (1,378,573) | - |
| Compensated absences payable | 308 | 4,873 | 554 | 5,735 | - |
| Increase in net pension liability | 2,340,950 | 1,359,755 | 64,256 | 3,764,961 | - |
| Total adjustments | <u>9,313,288</u> | <u>7,257,952</u> | <u>191,949</u> | <u>16,763,189</u> | <u>887,877</u> |
| Net cash provided (used) by operating activities | <u>\$ 14,122,033</u> | <u>9,103,510</u> | <u>68,711</u> | <u>23,294,254</u> | <u>1,748,310</u> |

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Fiduciary Net Position

June 30, 2016

| | Pension Trust Fund (As of December 31, 2015) | Agency Fund |
|--|---|-----------------------------|
| | <u> </u> | <u> </u> |
| Assets: | | |
| Cash and cash equivalents | \$ 3,795,507 | 423,527 |
| Investments, at fair value: | | |
| Equities | 16,730,714 | - |
| Fixed income | 101,432,199 | - |
| Pooled equities | 340,349,373 | - |
| Pooled fixed income | 65,618,721 | - |
| Real estate | 134,050,117 | - |
| Alternative investments | 137,524,157 | - |
| Total investments | <u>795,705,281</u> | <u>-</u> |
| Receivables: | | |
| Accrued interest and dividends | 532,387 | - |
| Due from Commonwealth of Massachusetts and other systems | 1,243,510 | - |
| Receivable for securities sold | 15,495 | - |
| Other receivables | 86,919 | - |
| Total receivables | <u>1,878,311</u> | <u>-</u> |
| Securities lending collateral | <u>14,577,328</u> | <u>-</u> |
| Total assets | <u>815,956,427</u> | <u>423,527</u> |
| Liabilities: | | |
| Accounts payable and accrued expenses | 299,627 | 5,989 |
| Due to student groups | - | 417,538 |
| Due to Commonwealth of Massachusetts and other systems | 2,257,637 | - |
| Payable for securities purchased | 991,765 | - |
| Collateral held on securities lending transactions | 14,577,328 | - |
| Total liabilities | <u>18,126,357</u> | <u>423,527</u> |
| Net position: | | |
| Net position restricted for pensions | \$ <u>797,830,070</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, 2016

| | Pension Trust Fund (Year ended December 31, 2015) |
|--|--|
| | <u> </u> |
| Additions: | |
| Contributions from: | |
| Employers | \$ 42,703,837 |
| Plan members | 17,409,182 |
| | <u> </u> |
| Total contributions | 60,113,019 |
| | <u> </u> |
| Investment earnings: | |
| Interest and dividends | 8,574,874 |
| Securities lending income | 61,857 |
| Net realized and unrealized gains | (14,002,659) |
| Less: management fees | (5,091,301) |
| Less: borrower rebates and fees under securities lending program | (32,795) |
| | <u> </u> |
| Net investment income | (10,490,024) |
| | <u> </u> |
| Other | 1,808,517 |
| | <u> </u> |
| Total additions | <u>51,431,512</u> |
| Deductions: | |
| Benefit payments to plan members and beneficiaries | 74,243,486 |
| Reimbursements to other systems | 2,257,638 |
| Refunds and transfers of plan member accounts to other systems | 2,160,748 |
| Administrative expenses | 572,743 |
| | <u> </u> |
| Total deductions | <u>79,234,615</u> |
| | <u> </u> |
| Net increase (decrease) in net position | (27,803,103) |
| Net position restricted for pensions – beginning | <u>825,633,173</u> |
| Net position restricted for pensions – ending | <u>\$ 797,830,070</u> |

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

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CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(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, 2016, except for the City of Worcester Contributory Retirement System (WRS), which is presented as of and for the fiscal year ended December 31, 2015.

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, 2016

(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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

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 2016 amounted to \$3,152, which represented approximately 69.6% 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, 2016, the City implemented the following pronouncements issued by the GASB:

- GASB Statement No. 72, *Fair Value Measurement and Application*
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- GASB Statement No. 77, *Tax Abatement Disclosures*

The implementation of GASB Statement No. 72 expanded note disclosures related to fair value measurements and No. 77 added note disclosures related to certain tax abatements.

The implementation of GASB Statements No. 73 and 76 had no reporting impact for the City.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

(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.

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 outflows of resources.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

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 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.
- **DCU Center Construction Fund** – The DCU Center construction fund was established to account for improvements to the City's civic center and arena.
- **Rehabilitation of Public Buildings Fund** – The rehabilitation of public buildings fund accounts for improvements to City owned buildings.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

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.

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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

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.

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 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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

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, 2016, and therefore are not reported.

Capital Assets

Capital assets, which include land, construction in progress, buildings, improvements other than buildings, rolling equipment, equipment and other, treatment facilities and infrastructure assets (e.g., roads, bridges, curbs, gutters, streets, sidewalks, and drainage systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$50 and an estimated useful life in excess of two years. The WRA and District define capital assets as assets with an estimated useful life in excess of one year, with no minimum capitalization threshold dollar value. These assets are valued at cost or estimated historical cost if actual cost is not available. Cost includes not only purchase price or construction cost, but also ancillary charges necessary to place the asset in its intended location and condition for use. Net interest costs related to construction projects, for business-type activities, is capitalized during the construction period if material. Such costs were not considered material during fiscal 2016. 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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

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 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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

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:

“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. 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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

“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. It is the City’s policy to maintain unassigned general fund balance on a budgetary basis of accounting equal to or greater than 5-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.

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, 2016, 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 2016 were \$67.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

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.

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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

(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 2016, the original general fund expenditure budget, excluding intergovernmental charges, was increased by \$3,921. In fiscal 2016, expenditures did not exceed budgetary estimates for intergovernmental expenditures.

(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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

(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, 2016, \$164,822 of the City's bank balance of \$249,731 was insured and collateralized with securities held by pledging financial institutions, and \$84,909 was uninsured and uncollateralized.

Investments Summary

The City's investments at June 30, 2016, are presented below. All investments are presented by investment type, with debt securities presented by maturity.

| <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..... | \$ 580 | 3 | 338 | 114 | 125 |
| U.S. Agencies..... | 1 | - | - | 1 | - |
| Corporate bonds..... | 277 | 11 | 32 | 145 | 89 |
| Money market mutual funds..... | 575 | 575 | - | - | - |
| Commercial paper..... | 4,910 | 4,910 | - | - | - |
| Mutual bond funds..... | 2,273 | 2,273 | - | - | - |
| Fixed income securities..... | 3,225 | 3,225 | - | - | - |
| External investment pools..... | <u>35,843</u> | <u>35,843</u> | - | - | - |
| Total debt securities..... | <u>47,684</u> | <u>46,840</u> | <u>370</u> | <u>260</u> | <u>214</u> |
| <u>Other Investments:</u> | | | | | |
| Equity mutual funds..... | <u>5,797</u> | | | | |
| Total investments..... | <u>\$ 53,481</u> | | | | |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

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, 2016, none of the City's investments were exposed 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 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, 2016, 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:

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

| <u>Quality Ratings</u> | <u>U.S. Agencies</u> | <u>Corporate Bonds</u> | <u>Money Market Mutual Funds</u> | <u>Commercial Paper</u> | <u>Mutual Bond Funds</u> | <u>Fixed Income Securities</u> | <u>External Investment Pools</u> | <u>Totals</u> |
|------------------------|----------------------|------------------------|----------------------------------|-------------------------|--------------------------|--------------------------------|----------------------------------|---------------|
| AAA..... | \$ - | - | - | 29 | - | - | - | 29 |
| AA+..... | 1 | 9 | - | - | - | - | - | 10 |
| AA..... | - | - | - | 213 | - | - | - | 213 |
| AA-..... | - | 8 | - | 173 | - | - | - | 181 |
| A+..... | - | 8 | - | 342 | - | - | - | 350 |
| A..... | - | 25 | - | 337 | - | - | - | 362 |
| A-..... | - | 54 | - | 756 | - | - | - | 810 |
| BBB+..... | - | 39 | - | 323 | - | - | - | 362 |
| BBB..... | - | 89 | - | 681 | - | - | - | 770 |
| BBB-..... | - | 36 | - | 479 | - | - | - | 515 |
| BB+..... | - | - | - | 131 | - | - | - | 131 |
| BB..... | - | - | - | 274 | - | - | - | 274 |
| BB-..... | - | - | - | 169 | - | - | - | 169 |
| B+..... | - | - | - | 46 | - | - | - | 46 |
| Unrated..... | - | 9 | 575 | 957 | 2,273 | 3,225 | 35,843 | 42,882 |
| Total..... | \$ <u>1</u> | <u>277</u> | <u>575</u> | <u>4,910</u> | <u>2,273</u> | <u>3,225</u> | <u>35,843</u> | <u>47,104</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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

| 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..... | \$ 580 | \$ 580 | \$ - | \$ - |
| U.S. Agencies..... | 1 | 1 | - | - |
| Corporate bonds..... | 277 | 277 | - | - |
| Commercial paper..... | 4,910 | 4,910 | - | - |
| Mutual bond funds..... | 2,273 | 2,273 | - | - |
| Fixed income securities..... | 3,225 | 3,225 | - | - |
| Total Debt Securities..... | <u>11,266</u> | <u>11,266</u> | <u>-</u> | <u>-</u> |
| <u>Equity Securities:</u> | | | | |
| Equity mutual funds..... | <u>5,797</u> | <u>5,797</u> | <u>-</u> | <u>-</u> |
| Total Investments by Fair Value Level | \$ <u>17,063</u> | \$ <u>17,063</u> | \$ <u>-</u> | \$ <u>-</u> |
| Total Investments measured at Fair Value.... | \$ <u>17,063</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, 2015, the WRS's bank balance of \$2,254 was not exposed to custodial credit risk.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

Investments Summary

The WRS's investments at December 31, 2015 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

| Investment Type | Fair Value | Investment Maturities (in Years) | | | |
|---|-------------------|----------------------------------|------------------|------------------|------------------|
| | | Less Than 1 | 1 - 5 | 6 - 10 | More Than 10 |
| <u>Debt Securities:</u> | | | | | |
| U.S. Treasuries..... | \$ 58,173 | \$ 48 | \$ 26,495 | \$ 27,680 | \$ 3,950 |
| U.S. Agencies..... | 10,487 | - | - | - | 10,487 |
| Corporate bonds..... | 17,485 | - | 4,423 | 6,494 | 6,568 |
| Money market mutual funds..... | 3,427 | 3,427 | - | - | - |
| Securities lending short-term collateral investment pool..... | 14,577 | 14,577 | - | - | - |
| Fixed income mutual funds..... | 65,619 | - | 45,249 | 20,370 | - |
| Other fixed income..... | 15,287 | - | 5,086 | 346 | 9,855 |
| Total debt securities..... | <u>185,055</u> | <u>\$ 18,052</u> | <u>\$ 81,253</u> | <u>\$ 54,890</u> | <u>\$ 30,860</u> |
| <u>Other Investments:</u> | | | | | |
| Equity securities..... | 16,731 | | | | |
| Equity mutual funds..... | 340,349 | | | | |
| Real estate investments..... | 134,050 | | | | |
| Alternative investments..... | <u>137,524</u> | | | | |
| Total other investments..... | <u>628,654</u> | | | | |
| Total investments..... | <u>\$ 813,709</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 life 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, 2015, the WRS was not exposed to custodial credit risk.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

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, 2015, the credit quality ratings of the WRS's debt securities are as follows:

| Quality Ratings * | Investment Type | | | | | | Fair Value |
|-------------------|-----------------|------------------|---------------------------|-------------------------|---------------------------|--------------------|-------------------|
| | U.S. Agencies | Corporate Bonds | Money Market Mutual Funds | Securities Lending Pool | Fixed Income Mutual Funds | Other Fixed Income | |
| AAA..... | \$ 194 | \$ 960 | \$ - | \$ - | \$ - | \$ 2,676 | \$ 3,830 |
| AA+..... | 393 | 675 | - | - | - | 943 | 2,011 |
| AA..... | 1,136 | 479 | - | - | - | 2,053 | 3,668 |
| AA-..... | 220 | 303 | - | - | - | 656 | 1,178 |
| A+..... | - | 525 | - | - | - | - | 525 |
| A..... | - | 2,917 | - | - | - | - | 2,917 |
| A-..... | - | 1,887 | - | - | - | - | 1,887 |
| BBB+..... | - | 6,209 | - | - | - | 346 | 6,555 |
| BBB..... | - | 2,311 | - | - | - | - | 2,311 |
| BBB-..... | - | 650 | - | - | - | - | 650 |
| D..... | - | - | - | - | - | - | - |
| Unrated..... | <u>6,210</u> | <u>570</u> | <u>3,427</u> | <u>14,577</u> | <u>65,619</u> | <u>8,613</u> | <u>99,016</u> |
| Total..... | \$ <u>8,153</u> | \$ <u>17,485</u> | \$ <u>3,427</u> | \$ <u>14,577</u> | \$ <u>65,619</u> | \$ <u>15,287</u> | \$ <u>124,549</u> |

* 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, 2015, the WRS had indirect exposure to foreign currency risk for certain equity and fixed income investments issued by foreign countries and direct exposure to foreign currency risk related to Euro currency deposits in the amount of \$1,055.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

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, 2015, the WRS was not exposed to concentration of credit risk.

(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, 2016, the District's deposits with MMDT totaled \$3,372. 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 contacted.

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, 2016:

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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

| | <u>Fair Value Measurement Listing</u> | | | |
|--|---------------------------------------|----------------|----------------|----------------|
| | <u>June 30, 2016</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 2</u> |
| Investments by Fair Value Level | | | | |
| Debt securities: | | | | |
| U.S. Agency Obligations | \$ 2,605 | 2,605 | - | - |
| Equity securities: | | | | |
| Industrials | 495 | 495 | - | - |
| Consumer discretionary | 171 | 171 | - | - |
| Consumer staples | 857 | 857 | - | - |
| Health care | 794 | 794 | - | - |
| Financial services | 243 | 243 | - | - |
| Other | 197 | 197 | - | - |
| Total equity securities | <u>2,757</u> | <u>2,757</u> | <u>-</u> | <u>-</u> |
| Total investments by fair value | 5,362 | <u>5,362</u> | <u>-</u> | <u>-</u> |
| Cash | <u>588</u> | | | |
| Total Investments | <u>\$ 5,950</u> | | | |

At June 30, 2016, the District had a net unrealized gain of \$663 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 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 asset lives currently average 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 the custody of Fidelity Investments at June 30, 2016. The District's securities are protected under Securities and Exchange Commission Rule 15c3-3. As of June 30, 2016, none of the District's investments were subject to custodial credit risk.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

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 a Aaa rating by Moody's rating service or are full faith obligations of the U.S. Treasury. As of June 30, 2016, the credit quality ratings of the District's debt securities are as follows:

| <u>Quality Rating</u> | <u>U.S. Agencies</u> |
|-----------------------|----------------------|
| Aaa | \$ 2,605 |

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. The District'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. Obligations of the U.S. Treasury, U.S. government agencies and money market funds are exempted from this restriction. As of June 30, 2016, 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.

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, 2016, none of the WRA's bank balance of \$83 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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

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, 2015. 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, 2015, 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, 2015 were \$15,020 and \$14,577, respectively. Borrower rebates and fees paid to the broker were \$33 for the year ended December 31, 2015.

(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.

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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

Membership in WRS was as follows at December 31, 2015:

| | |
|--|-----------------|
| Active employees | 3,275 |
| Pensioners and beneficiaries | 2,722 |
| Inactive employees not entitled to or not receiving benefits | 714 |
| Inactive employees entitled to or receiving benefits | <u>73</u> |
| Total members | <u>6,784</u> |
| Number of participating employers | <u><u>2</u></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 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%.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

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.

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 \$1,162 for the fiscal year ended June 30, 2016 and, accordingly, are reported in the general fund as intergovernmental revenues and fringe benefits.

For the year ended December 31, 2015, active member contributions totaled \$17,410 and employer contributions totaled \$42,704. Contributions to WRS from the City were \$39,316 for the year ended June 30, 2016.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

(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, 2015, were as follows:

| | | |
|--|----|-----------------------|
| Total pension liability | \$ | 1,286,900 |
| Plan fiduciary net position | | <u>(797,830)</u> |
| Net pension liability | \$ | <u><u>489,070</u></u> |
| Plan fiduciary net position as a percentage of the total pension liability | | 62.00% |

At June 30, 2016, the City reported a liability of \$450,271 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. The City's proportion of the net pension liability is the proportionate share of employer contributions to WRS for the year ended December 31, 2015, actuarially determined. At December 31, 2015, the City's proportion was 92.07 percent, which was 0.7 percent lower than the proportion measured as of December 31, 2014.

For the year ended June 30, 2016, the City recognized pension expense of \$60,295. At June 30, 2016, the City reported deferred outflows (inflows) of resources of \$87,663 related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Deferred outflows (inflows) of resources related to pensions | | |
| Changes of assumptions | \$ 22,997 | - |
| Net difference between projected and actual earnings on WRS investments | 68,500 | - |
| Change in proportion and differences between employer contributions and proportionate share of contributions | - | 2,039 |
| Differences between expected and actual experience | - | 1,795 |
| Total | <u>\$ 91,497</u> | <u><u>3,834</u></u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

The following schedule reflects the amortization of the net balance of remaining deferred outflows/ (inflows) of resources at June 30, 2016 that will be recognized in pension expense as follows:

| <u>Year Ended June 30</u> | |
|---------------------------|-----------|
| 2017 | \$ 22,675 |
| 2018 | 22,675 |
| 2019 | 22,675 |
| 2020 | 17,712 |
| 2021 | 1,926 |

(e) Actuarial Assumptions and Methods

The total pension liability was determined by an actuarial valuation as of January 1, 2016, 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 4.0% in fiscal 2018 and 5.85% per year thereafter. |
| Remaining amortized period (period is closed) | 2 years for the 2002 ERI liability 5 years for the 2010 ERI liability 18 years for the remaining unfunded liability 18 years is the equivalent single amortization period (ESAP) |
| Asset valuation method | Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual and expected return on a market value basis, and is recognized over a five-year period, further adjusted, if necessary, to be within 10% of the market value. |
| Discount rate/investment rate of return | 7.5%, net of pension plan investment expense, including inflation. |
| Projected salary increases | 3.5% per year for 2016 and 2017 and 4.50% per year thereafter. |
| Rate of inflation | 2.5% per year for 2016 and 2017 and 3.5% per year thereafter. |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

| | |
|----------------------------|--|
| 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, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2015 through December 31, 2015. 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 7.625% to 7.5% and adjustments to mortality assumptions to more closely reflect actual experience.

(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 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, 2015, the annual money-weighted rate of return on WRS investments, net of investment expense, was -1.46%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

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, 2015 are summarized in the following table:

| Asset Class | Target Allocation (%) | Long-Term Expected Real Rate of Return (%) |
|---|--------------------------|---|
| Domestic equity | 22.0 | 6.49 |
| International developed markets equity | 12.0 | 7.16 |
| International emerging markets equity | 9.0 | 9.46 |
| Core fixed income | 14.0 | 1.68 |
| High-yield fixed income | 7.0 | 4.76 |
| Real estate | 10.0 | 4.37 |
| Commodities | 7.0 | 4.13 |
| Hedge fund, global tactical asset allocation, risk parity | 9.0 | 3.60 |
| Private equity | 10.0 | 11.04 |
| Cash | 0.0 | 1.11 |
| | <u>100.0</u> | |

(g) Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution 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

June 30, 2016

(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 7.5 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 (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|--------------------------------|-----------------------|---------------------------------------|-----------------------|
| System's net pension liability | \$ 630,425 | \$ 489,070 | \$ 369,148 |

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 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 (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---------------------------------------|-----------------------|---------------------------------------|-----------------------|
| City's share of net pension liability | \$ 580,412 | \$ 450,271 | \$ 339,863 |

(i) Legally Required Reserve Accounts

The balance in WRS's legally required reserves as of December 31, 2015 are as follows:

| <u>Description</u> | <u>Amount</u> | <u>Purpose</u> |
|-----------------------|-----------------------|---|
| Annuity Savings Fund | \$ 186,699 | Active members' contribution balance |
| Annuity Reserve Fund | 59,752 | Retired members' contribution account |
| Military Service Fund | 201 | Members' contribution account while on military leave |
| Pension Reserve Fund | 543,350 | Amounts appropriated to fund future retirement benefits |
| Pension Fund | <u>7,828</u> | Remaining net position |
| Total | <u>\$ 797,830</u> | |

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

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(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

June 30, 2016

(In thousands of dollars)

(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, 2016. The Commonwealth's net pension liability associated with the City was \$550,243.

The MTRS' net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015.

For the year ended June 30, 2016, the City recognized pension expense of \$44,630 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, 2015 measurement date was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015. This valuation used the following assumptions:

| | |
|---------------------------|--|
| 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 |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

(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, 2015 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 | 2.4 |
| Private equity | 10.0 | 8.5 |
| Real estate | 10.0 | 6.5 |
| Value Added Fixed Income | 10.0 | 5.8 |
| Hedge funds | 9.0 | 5.8 |
| Portfolio completion strategies | 4.0 | 5.5 |
| Timber/Natural Resources | 4.0 | 6.6 |
| | <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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(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

June 30, 2016

(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 |

Contributions to MSERS from the District were \$389 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$7,100 for its proportionate share of the net pension liability. The net position was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015. 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, 2015, the District's proportion was 0.06237 percent, which was a decrease of 0.0054 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$832. At June 30, 2016, 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 |
|---|---|--|
| Changes of assumptions | \$ 1,230 | - |
| Net difference between projected and actual earnings on plan investments | 140 | 204 |
| Changes in proportionate share of contributions | 136 | 37 |
| District contributions subsequent to the measurement date | 404 | - |
| Total | \$ 1,910 | 241 |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

The \$404 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 year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

| Year Ended June 30 | |
|--------------------|--------|
| 2017 | \$ 227 |
| 2018 | 227 |
| 2019 | 227 |
| 2020 | 440 |
| 2021 | 144 |

(e) Actuarial Assumptions

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

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 3.5% to 9.0% depending on group and length of service.
3. 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).

(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, 2015 are summarized in the following table:

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

| Asset Class | Target Allocation (%) | Long-Term Expected Real Rate of Return (%) |
|---------------------------------|--------------------------|---|
| Global Equity | 40.0 | 6.9 |
| Core fixed income | 13.0 | 2.4 |
| Hedge funds | 9.0 | 5.8 |
| Private equity | 10.0 | 8.5 |
| Real estate | 10.0 | 6.5 |
| Value Added Fixed Income | 10.0 | 5.8 |
| Timber/Natural Resources | 4.0 | 5.5 |
| Portfolio completion strategies | 4.0 | 6.6 |
| | <u>100.0</u> | |

(g) Discount Rate

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

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

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

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|--|------------------------|--|------------------------|
| District's proportionate share of the net pension liability | \$ 9,650 | \$ 7,100 | \$ 4,899 |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

(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 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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

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 | \$ 51,709 |
| Interest on net OPEB obligation | 9,997 |
| Adjustment to annual required contribution | <u>(8,331)</u> |
| Annual OPEB cost | 53,375 |
| Contributions made | <u>(22,043)</u> |
| Increase in net OPEB obligation | 31,332 |
| Net OPEB obligation at beginning of year | <u>249,937</u> |
| Net OPEB obligation at end of year | <u><u>\$ 281,269</u></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, 2014 | \$ 47,823 | 48.4 % | \$ 224,157 |
| June 30, 2015 | 49,766 | 48.2 | 249,937 |
| June 30, 2016 | 53,375 | 41.3 | 281,269 |

(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:

| <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>Liability (AAL)</u> <u>Projected Unit</u> <u>Credit</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 Covered</u> <u>Payroll</u> <u>((B-A)/C)</u> |
|---|--|--|--|---|--|--|
| 07/01/15 | \$ - | \$ 860,873 | \$ 860,873 | 0.0% | \$ 352,401 | 244% |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

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(In thousands of dollars)

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

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(In thousands of dollars)

(f) Allocation of AOPEBC - City

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

| | |
|---|------------------|
| Governmental Activities: | |
| General government | \$ 2,366 |
| Public safety | 13,039 |
| Health and human services | 229 |
| Education | 33,510 |
| Public works | 1,515 |
| Culture and recreation | <u>1,209</u> |
| Total AOPEBC - governmental activities | <u>51,868</u> |
| Business-Type Activities: | |
| Water | 990 |
| Sewer | 489 |
| Golf course (nonmajor) | <u>28</u> |
| Total AOPEBC - business-type activities | <u>1,507</u> |
| Total AOPEBC | <u>\$ 53,375</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, 2015, the latest actuarial valuation, is as follows:

| | |
|---|------------------|
| Active employees | 44 |
| Retired employees, beneficiaries and dependents | <u>24</u> |
| Total | <u><u>68</u></u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(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 has not charged the District for the cost of benefits paid on behalf of retirees and their survivors. This “on-behalf of” payment is estimated at \$223 for fiscal 2016 and has been included in these financial statements as revenue. The costs of administering the Plan are paid by the District. Subsequent to June 30, 2016, the District was charged the cost of benefits for one retiree.

(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 | \$ 389 |
| Interest on net OPEB obligation | 84 |
| Adjustment to annual required contribution | <u>(74)</u> |
| Annual OPEB cost | 399 |
| Contributions made (by state) | <u>(223)</u> |
| Increase in net OPEB obligation | 176 |
| Net OPEB obligation at beginning of year | <u>2,407</u> |
| Net OPEB obligation at end of year | <u>\$ 2,583</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

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(In thousands of dollars)

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, 2014 | \$ 417 | 57.7 % | \$ 2,236 |
| June 30, 2015 | 368 | 53.7 | 2,407 |
| June 30, 2016 | 399 | 55.9 | 2,583 |

(j) Funded Status and Funding Progress – The District

The funded status of the Plan at June 30, 2015, 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> |
|---|--|--|--|---|--|--|
| 06/30/15 | \$ - | \$ 8,637 | \$ 8,637 | 0.0% | \$ 3,292 | 262% |

(k) Methods and Assumptions – The District

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

| | |
|-------------------------------------|--|
| Valuation date: | June 30, 2015 |
| 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% |
| Inflation rate: | 4.0% |
| Healthcare/Medical cost trend rate: | 5.0% initially reduced to 4.5% for 2016 and thereafter |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

(9) Accounts Receivable

At June 30, 2016, 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</u> | <u>Allowance</u> | <u>Net</u> |
|-----------------------------|------------------|-----------------------|---------------|
| | <u>Amount</u> | <u>for</u> | <u>Amount</u> |
| | | <u>Uncollectibles</u> | |
| <u>Receivables:</u> | | | |
| Governmental Funds | | | |
| Property taxes | \$ 11,276 | (6,350) | 4,926 |
| Tax liens | 4,269 | (425) | 3,844 |
| Motor vehicle excise taxes | 6,641 | (4,273) | 2,368 |
| Special assessments | 3,173 | - | 3,173 |
| Departmental and other | 5,050 | (2,722) | 2,328 |
| | <u>30,409</u> | <u>(13,770)</u> | <u>16,639</u> |
| Intergovernmental | 37,657 | - | 37,657 |
| Total governmental funds | <u>68,066</u> | <u>(13,770)</u> | <u>54,296</u> |
| Internal Service Fund | | | |
| Self-insured health plan | 2,572 | - | 2,572 |
| Total internal service fund | <u>2,572</u> | <u>-</u> | <u>2,572</u> |
| Fiduciary Fund | | | |
| Departmental and other | 634 | - | 634 |
| Intergovernmental | 1,244 | - | 1,244 |
| Total fiduciary funds | <u>1,878</u> | <u>-</u> | <u>1,878</u> |
| Total receivables | \$ <u>72,516</u> | <u>(13,770)</u> | <u>58,746</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

At June, 30, 2016, receivables for the enterprise funds are as follows:

| | Gross | Allowance | Net |
|------------------------|-------------------|-----------------------|-------------------|
| | Amount | for | Amount |
| | <u> </u> | <u>Uncollectibles</u> | <u> </u> |
| <u>Receivables:</u> | | | |
| Charges for services | \$ 12,711 | - | 12,711 |
| Utility liens | 1,727 | - | 1,727 |
| Special assessments | 1,136 | - | 1,136 |
| Total enterprise funds | <u>\$ 15,574</u> | <u>-</u> | <u>15,574</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> </u> | <u>Funds</u> | <u> </u> |
| <u>Deferred Inflows of Resources Type:</u> | | | |
| Unavailable revenue-school construction reimbursement | | | |
| Intergovernmental (school construction) | \$ 31,173 | - | 31,173 |
| Unavailable revenue-property taxes | | | |
| Property taxes | 3,588 | - | 3,588 |
| Tax liens | 3,844 | - | 3,844 |
| | <u>7,432</u> | <u>-</u> | <u>7,432</u> |
| Unavailable revenue-other | | | |
| Special assessments | 3,173 | - | 3,173 |
| Departmental and other | 1,272 | 1,056 | 2,328 |
| Motor vehicle excise tax | 1,477 | - | 1,477 |
| Intergovernmental (other state) | 1,416 | - | 1,416 |
| | <u>7,338</u> | <u>1,056</u> | <u>8,394</u> |
| Total deferred inflows of resources | <u>\$ 45,943</u> | <u>1,056</u> | <u>46,999</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

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(In thousands of dollars)

The Commonwealth has approved school construction assistance to the City. The assistance program, which is administered by the MSBA, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2016, \$11,575 of such assistance was received. Approximately \$38,034 will be received in future fiscal years. Of this amount, \$6,861 represents reimbursement of long-term interest costs, and \$31,173 represents reimbursement of approved construction costs. Accordingly, a \$31,173 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, 2016 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 | \$ 21,788 | 835 | - | 22,623 |
| Construction in progress | 166,648 | 107,968 | 201,209 | 73,407 |
| Total capital assets not being depreciated | <u>188,436</u> | <u>108,803</u> | <u>201,209</u> | <u>96,030</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 612,753 | 53,676 | - | 666,429 |
| Improvements other than buildings | 53,786 | 98,359 | - | 152,145 |
| Rolling equipment | 29,894 | 2,311 | - | 32,205 |
| Equipment and other | 23,749 | 9,087 | - | 32,836 |
| Infrastructure | 248,690 | 34,063 | - | 282,753 |
| | <u>968,872</u> | <u>197,496</u> | <u>-</u> | <u>1,166,368</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 261,567 | 19,883 | - | 281,450 |
| Improvements other than buildings | 14,461 | 5,050 | - | 19,511 |
| Rolling equipment | 24,620 | 1,333 | - | 25,953 |
| Equipment and other | 16,895 | 2,077 | - | 18,972 |
| Infrastructure | 130,827 | 10,818 | - | 141,645 |
| | <u>448,370</u> | <u>39,161</u> | <u>-</u> | <u>487,531</u> |
| Total capital assets being depreciated, net | <u>520,502</u> | <u>158,335</u> | <u>-</u> | <u>678,837</u> |
| Governmental capital assets, net | \$ <u>708,938</u> | <u>267,138</u> | <u>201,209</u> | <u>774,867</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

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

| | |
|---|-------------------------|
| Governmental activities: | |
| General government | \$ 240 |
| Public safety | 1,905 |
| Health and human services | 262 |
| Education | 14,081 |
| Public works | 14,521 |
| Culture and recreation | 8,135 |
| Community development | <u>17</u> |
| Total depreciation expense – governmental activities | \$ <u><u>39,161</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 | - | - | 6,371 |
| Construction in progress | <u>632</u> | <u>-</u> | <u>632</u> | <u>-</u> |
| Total capital assets, not being depreciated | <u>7,003</u> | <u>-</u> | <u>632</u> | <u>6,371</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 43,848 | 57 | - | 43,905 |
| Rolling equipment | 3,116 | 132 | - | 3,248 |
| Infrastructure | 156,955 | 5,789 | - | 162,744 |
| Equipment and other | <u>875</u> | <u>-</u> | <u>-</u> | <u>875</u> |
| Total capital assets, being depreciated | <u>204,794</u> | <u>5,978</u> | <u>-</u> | <u>210,772</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 21,039 | 1,244 | - | 22,283 |
| Rolling equipment | 2,220 | 177 | - | 2,397 |
| Infrastructure | 73,424 | 5,500 | - | 78,924 |
| Equipment and other | <u>293</u> | <u>103</u> | <u>-</u> | <u>396</u> |
| Total accumulated depreciation | <u>96,976</u> | <u>7,024</u> | <u>-</u> | <u>104,000</u> |
| Total capital assets, being depreciated, net | <u>107,818</u> | <u>(1,046)</u> | <u>-</u> | <u>106,772</u> |
| Water capital assets, net | <u>114,821</u> | <u>(1,046)</u> | <u>632</u> | <u>113,143</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

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(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 |
| Construction in progress | 9,559 | - | 9,559 | - |
| Total capital assets, not being depreciated | <u>9,676</u> | <u>-</u> | <u>9,559</u> | <u>117</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 5,459 | - | - | 5,459 |
| Rolling equipment | 7,661 | - | - | 7,661 |
| Infrastructure | 194,964 | 23,308 | - | 218,272 |
| Equipment and other | 516 | - | - | 516 |
| Total capital assets, being depreciated | <u>208,600</u> | <u>23,308</u> | <u>-</u> | <u>231,908</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 2,288 | 210 | - | 2,498 |
| Rolling equipment | 4,554 | 551 | - | 5,105 |
| Infrastructure | 93,375 | 7,360 | - | 100,735 |
| Equipment and other | 337 | 47 | - | 384 |
| Total accumulated depreciation | <u>100,554</u> | <u>8,168</u> | <u>-</u> | <u>108,722</u> |
| Total capital assets, being depreciated, net | <u>108,046</u> | <u>15,140</u> | <u>-</u> | <u>123,186</u> |
| Sewer capital assets, net | <u>117,722</u> | <u>15,140</u> | <u>9,559</u> | <u>123,303</u> |
| Golf course (nonmajor): | | | | |
| 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 | 361 | 43 | - | 404 |
| Infrastructure | 927 | 88 | - | 1,015 |
| Total accumulated depreciation | <u>1,288</u> | <u>131</u> | <u>-</u> | <u>1,419</u> |
| Total capital assets, being depreciated, net | <u>1,388</u> | <u>(131)</u> | <u>-</u> | <u>1,257</u> |
| Golf capital assets, net | <u>1,388</u> | <u>(131)</u> | <u>-</u> | <u>1,257</u> |
| Business-type activities capital assets, net | <u>\$ 233,931</u> | <u>13,963</u> | <u>10,191</u> | <u>237,703</u> |

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June 30, 2016

(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>786</u> | <u>1,845</u> | <u>116</u> | <u>2,515</u> |
| Total capital assets, not being depreciated | <u>1,488</u> | <u>1,845</u> | <u>116</u> | <u>3,217</u> |
| Capital assets, being depreciated: | | | | |
| Treatment facilities | 251,350 | 116 | - | 251,466 |
| Equipment and other | <u>8,151</u> | <u>901</u> | <u>113</u> | <u>8,939</u> |
| Total capital assets, being depreciated | <u>259,501</u> | <u>1,017</u> | <u>113</u> | <u>260,405</u> |
| Less accumulated depreciation for: | | | | |
| Treatment facilities | 83,379 | 9,189 | - | 92,568 |
| Equipment and other | <u>4,574</u> | <u>433</u> | <u>113</u> | <u>4,894</u> |
| Total accumulated depreciation | <u>87,953</u> | <u>9,622</u> | <u>113</u> | <u>97,462</u> |
| Total capital assets, being depreciated, net | <u>171,548</u> | <u>(8,605)</u> | <u>-</u> | <u>162,943</u> |
| The District's capital assets, net | \$ <u><u>173,036</u></u> | <u><u>(6,760)</u></u> | <u><u>116</u></u> | <u><u>166,160</u></u> |
| | | | | |
| Discretely presented component | | | | |
| units - WRA: | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 1,269 | - | 141 | 1,128 |
| Construction in progress | <u>402</u> | <u>543</u> | <u>-</u> | <u>945</u> |
| Total capital assets, not being depreciated | <u>1,671</u> | <u>543</u> | <u>141</u> | <u>2,073</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 40,198 | - | - | 40,198 |
| Equipment and other | <u>177</u> | <u>-</u> | <u>-</u> | <u>177</u> |
| Total capital assets, being depreciated | <u>40,375</u> | <u>-</u> | <u>-</u> | <u>40,375</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 13,971 | 1,031 | - | 15,002 |
| Equipment and other | <u>125</u> | <u>5</u> | <u>-</u> | <u>130</u> |
| Total accumulated depreciation | <u>14,096</u> | <u>1,036</u> | <u>-</u> | <u>15,132</u> |
| Total capital assets, being depreciated, net | <u>26,279</u> | <u>(1,036)</u> | <u>-</u> | <u>25,243</u> |
| WRA capital assets, net | \$ <u><u>27,950</u></u> | <u><u>(493)</u></u> | <u><u>141</u></u> | <u><u>27,316</u></u> |

CITY OF WORCESTER, MASSACHUSETTS

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June 30, 2016

(In thousands of dollars)

Construction Commitments

The City has active construction projects as of June 30, 2016. 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, 2016</u> | <u>Remaining commitment</u> |
|-----------------------------|--|---------------------------------|
| Infrastructure improvements | \$ 64,817 | 33,503 |
| Building improvements | 14,592 | 95,422 |
| Land improvements | 86,471 | 22,014 |
| Total | <u>\$ 165,880</u> | <u>150,939</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, 2016 is summarized as follows:

Governmental Activities

| | |
|--|-------------------|
| Capital assets | \$ 1,262,398 |
| Less accumulated depreciation | (487,531) |
| Less outstanding long-term debt (including capital leases) | (487,495) |
| Less outstanding temporary debt | (67,599) |
| Add outstanding debt that is not capital related | 146,792 |
| Add unspent proceeds of capital related debt | <u>35,868</u> |
| Net investment in capital assets | <u>\$ 402,433</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 | \$ 217,143 | 232,025 | 2,676 | 451,844 |
| Less accumulated depreciation | (104,000) | (108,722) | (1,419) | (214,141) |
| Less outstanding long-term debt | (55,933) | (85,383) | (1,403) | (142,719) |
| Less outstanding temporary debt | (6,793) | (10,787) | - | (17,580) |
| Add unspent proceeds of capital related debt | <u>6,145</u> | <u>7,293</u> | <u>78</u> | <u>13,516</u> |
| Net investment in capital assets | <u>\$ 56,562</u> | <u>34,426</u> | <u>(68)</u> | <u>90,920</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(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 \$2,805. 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, 2016, were as follows:

| | <u>Amount</u> |
|---|-----------------|
| Year ending June 30: | |
| 2017 | \$ 1,209 |
| 2018 | 1,209 |
| 2019 | <u>604</u> |
| Total minimum lease payments | 3,022 |
| Less: amount representing interest | <u>(129)</u> |
| Present value of minimum lease payments | <u>\$ 2,893</u> |

The portion of the capital lease that is due within one year is \$1,130 and amounts due in more than one year total \$1,763.

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, \$255 was included in depreciation expense. The net book value of the equipment is \$7,416. 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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016, were as follows:

| | <u>Amount</u> |
|---|-----------------|
| Year ending June 30: | |
| 2017 | \$ 695 |
| 2018 | 695 |
| 2019 | 695 |
| 2020 | 695 |
| 2021 | 695 |
| 2022 - 2031 | <u>6,954</u> |
| Total minimum lease payments | 10,429 |
| Less: amount representing interest | <u>(2,758)</u> |
| Present value of minimum lease payments | <u>\$ 7,671</u> |

The portion of the capital lease that is due within one year is \$237 and amounts due in more than one year total \$7,434.

(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 \$168 for the year ended June 30, 2016, including \$159 for the lease and \$9 for utilities. Future minimum lease payments for the lease are as follows:

| | <u>Amount</u> |
|----------------------|---------------|
| Year ending June 30: | |
| 2017 | \$ 159 |
| 2018 | <u>159</u> |
| Total | <u>\$ 318</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 \$54 for the year ended June 30, 2016

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

Future minimum lease payments for the lease are as follows:

| | <u>Amount</u> |
|----------------------|---------------|
| Year ending June 30: | |
| 2017 | \$ 54 |
| 2018 | 54 |
| 2019 | 54 |
| 2020 | <u>54</u> |
| Total | <u>\$ 216</u> |

The City leased premises for use as a public school facility under a non-cancelable operating lease that expired June 30, 2016. Total costs for the lease was \$94 for the year ended June 30, 2016.

The City entered into a non-cancelable operating lease date May 26, 2016 to lease 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: | |
| 2017 | 204 |
| 2018 | 204 |
| 2019 | <u>204</u> |
| Total | <u>\$ 612</u> |

The City currently leases premises for gymnasium use by a public school under a non-cancelable operating lease. Total costs for the lease was \$47 for the year ended June 30, 2016. Future minimum lease payments for the lease are as follows:

| | <u>Amount</u> |
|----------------------|---------------|
| Year ending June 30: | |
| 2017 | \$ 47 |
| 2018 | 47 |
| 2019 | 48 |
| 2020 | <u>49</u> |
| Total | <u>\$ 191</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

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, 2016. Future minimum lease payments for the lease are as follows:

| | <u>Amount</u> |
|------------------------------|---------------|
| Year ending June 30: | |
| 2017 | \$ 24 |
| 2018 | 24 |
| 2019 | 24 |
| 2020 | 24 |
| 2021 | 24 |
| 2022 - 2024 | <u>96</u> |
| Total minimum lease payments | <u>\$ 216</u> |

(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 | \$ 201,172 | 35,449 | 32,867 | 203,754 | 23,688 |
| Outside debt limit | 276,237 | 18,270 | 23,415 | 271,092 | 22,091 |
| Notes payable – HUD Sec 108 | 2,216 | - | 131 | 2,085 | 138 |
| Capital lease payable | 3,987 | 7,671 | 1,094 | 10,564 | 1,367 |
| Judgments and claims | 14,228 | 5,589 | 5,680 | 14,137 | 2,953 |
| Compensated absences | 13,016 | 8,675 | 8,500 | 13,191 | 8,679 |
| Landfill closure and post closure care costs | 4,665 | - | 67 | 4,598 | - |
| Net pension liability | 351,740 | 72,872 | - | 424,612 | - |
| Other post employment benefits | 242,484 | 51,869 | 21,315 | 273,038 | - |
| Deferred amounts on bond premium | 12,661 | 6,302 | 2,381 | 16,582 | 2,653 |
| | <u>\$ 1,122,406</u> | <u>206,697</u> | <u>95,450</u> | <u>1,233,653</u> | <u>61,569</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

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.

| | Outstanding beginning of year | Additions | Reductions | Outstanding end of year | Due within one year |
|----------------------------------|--|------------------|-------------------|--|--------------------------------|
| General obligation bonds: | | | | | |
| Inside debt limit | \$ 11,793 | 1,053 | 2,796 | 10,050 | 1,590 |
| Outside debt limit | 128,918 | 24,761 | 23,894 | 129,785 | 10,671 |
| MCWT notes payable | 1,950 | 1,078 | 145 | 2,883 | 159 |
| Judgments and claims | 2,452 | 310 | 1,688 | 1,074 | 280 |
| Compensated absences | 709 | 574 | 568 | 715 | 573 |
| Net pension liability | 21,893 | 3,765 | - | 25,658 | - |
| Other post employment benefits | 7,453 | 1,507 | 729 | 8,231 | - |
| Deferred amounts on bond premium | 32 | - | 6 | 26 | 3 |
| | <u>\$ 175,200</u> | <u>33,048</u> | <u>29,826</u> | <u>178,422</u> | <u>13,276</u> |

On December 15, 2015 the City issued \$79,533 of general obligation bonds of which \$58,878 was bonds issued for current projects and \$20,655 was refunding debt. The proceeds consisted of \$53,719 for governmental activities of which \$9,439 was refunding bonds issued and \$25,814 for business-type activities of which \$11,216 was refunding bonds issued. Additionally, \$1,078 of short term notes from the Massachusetts Clean Water Trust was converted to long term 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 20 years. General obligation bonds of the primary government outstanding at June 30, 2016 are as follows:

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

Governmental Activities

| Purpose/Type | Original Borrowing | Interest Rates to Maturity | Final Maturity | Outstanding June 30, 2016 |
|--|-----------------------|-------------------------------|-------------------|------------------------------|
| 1996 Medical City Project Loan of 1996, Series B | \$ 8,500 | 5.75% | 2017 | \$ 425 |
| 1998 General Obligation Bonds, Pension Funding Loan | 220,979 | 6.25% | 2028 | 137,605 |
| 2001 General Obligation Bonds | 26,685 | 5.25% to 5.41% | 2021 | 1,700 |
| 2002 General Obligation Bonds, Series A | 18,365 | 4.00% to 5.00% | 2023 | 4,229 |
| 2002 General Obligation Bonds, Series B | 8,000 | 4.25% to 4.625% | 2021 | 1,950 |
| 2003 General Obligation Bonds, Series C | 17,670 | 3.30% to 4.00% | 2024 | 2,195 |
| 2003 General Obligation Bonds, Series D | 5,965 | 4.125% to 5.80% | 2023 | 2,125 |
| 2004 General Obligation Bonds | 43,110 | 4.50% to 5.25% | 2025 | 12,760 |
| 2005 General Obligation Refunding Bonds, Series A | 34,067 | 4.05% to 5.00% | 2021 | 17,373 |
| 2005 General Obligation Refunding Bonds, Series B | 22,198 | 5.00% | 2019 | 8,161 |
| 2005 General Obligation Bonds, Series C | 46,125 | 4.00% to 4.125% | 2026 | 16,025 |
| 2006 General Obligation Bonds | 29,090 | 4.00% to 4.25% | 2027 | 5,059 |
| 2007 General Obligation Bonds, Parking Garage | 4,750 | 5.28% to 5.45% | 2019 | 1,475 |
| 2007 General Obligation Bonds | 23,110 | 3.625% to 4.00% | 2028 | 3,465 |
| 2008 General Obligation Bonds, Series A | 27,422 | 3.75% to 5.25% | 2029 | 11,124 |
| 2009 General Obligation Bonds | 25,905 | 3.50% to 5.00% | 2038 | 15,923 |
| 2010 General Obligation Bonds, Series A | 19,850 | 3.00% to 4.25% | 2036 | 10,904 |
| 2010 DCU Special Improvement District Bonds, Series B | 5,050 | 5.75% to 6.75% | 2035 | 4,490 |
| 2011 General Obligation School Bond | 10,000 | 2.00% | 2041 | 8,333 |
| 2011 General Obligation Refunding | 7,585 | 2.50% to 3.00% | 2022 | 3,633 |
| 2011 General Obligation Bonds, Series A | 21,057 | 3.00% to 4.25% | 2037 | 12,982 |
| 2011 General Obligation Bonds, Series B DCU Special District | 1,005 | 3.75% to 5.00% | 2029 | 880 |
| 2011 General Obligation Bonds, Series B Foley Stadium | 961 | 3.75% to 5.00% | 2029 | 570 |
| 2012 District Improvement Financing Bonds | 6,485 | 3.00% to 5.00% | 2040 | 6,845 |
| 2012 General Obligation Bonds | 48,150 | 3.00% to 4.00% | 2038 | 38,113 |
| 2013 General Obligation Refunding | 3,016 | 3.00% to 5.00% | 2024 | 2,282 |
| 2013 General Obligation Bonds | 52,492 | 3.00% to 5.00% | 2039 | 45,224 |
| 2014 General Obligation Bonds, Series A | 27,609 | 3.00% to 5.00% | 2040 | 25,127 |
| 2014 DCU Special Improvement District Bonds, Series B | 13,979 | 3.125% to 4.25% | 2039 | 13,595 |
| 2014 General Obligation Refunding Bonds, Series C | 3,195 | 2.00% to 5.00% | 2025 | 2,777 |
| 2014 General Obligation Refunding Bonds, Series A | 4,212 | 2.00% to 5.00% | 2040 | 3,777 |
| 2015 General Obligation Bonds, Series A | 26,895 | 3.00% to 5.00% | 2041 | 26,895 |
| 2015 General Obligation Bonds, Series B | 17,386 | 2.95% to 5.00% | 2033 | 17,386 |
| 2015 General Obligation Refunding Bonds, Series C | 9,439 | 2.00% to 5.00% | 2027 | 9,439 |
| | | | | \$ <u>474,846</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

Business-Type Activities

| Purpose/Type | Original Borrowing | Interest Rates to Maturity | Final Maturity | Outstanding June 30, 2016 |
|---|-----------------------|-------------------------------|-------------------|------------------------------|
| 2002 General Obligation Bonds, Series A | 7,324 | 4.00% to 5.00% | 2023 | \$ 3,044 |
| 2003 General Obligation Bonds, Series C | 7,945 | 3.30% to 4.00% | 2024 | 15 |
| 2004 General Obligation Refunding Bonds, Series B | 11,254 | 4.00% | 2017 | 525 |
| 2005 General Obligation Refunding Bonds, Series A | 34,067 | 4.05% to 5.00% | 2021 | 5,257 |
| 2005 General Obligation Refunding Bonds, Series B | 22,198 | 5.00% | 2019 | 1,954 |
| 2005 General Obligation Bonds, Series C | 11,550 | 4.00% to 4.125% | 2026 | 20 |
| 2006 General Obligation Bonds | 17,680 | 4.00% to 4.25% | 2027 | 46 |
| 2007 General Obligation Bonds | 15,987 | 3.625% to 4.00% | 2028 | 685 |
| 2008 General Obligation Bonds, Series A | 13,868 | 3.00% to 5.25% | 2029 | 7,386 |
| 2009 General Obligation Bonds | 12,190 | 3.50% to 5.00% | 2038 | 8,227 |
| 2010 General Obligation Bonds, Series A | 12,805 | 3.00% to 4.25% | 2036 | 9,586 |
| 2011 General Obligation Refunding | 9,170 | 2.50% to 3.00% | 2022 | 2,187 |
| 2011 General Obligation Bonds, Series A | 10,240 | 3.00% to 4.25% | 2037 | 8,328 |
| 2012 General Obligation Bonds | 23,983 | 3.00% to 4.00% | 2038 | 20,607 |
| 2013 General Obligation Refunding | 3,444 | 3.00% to 5.00% | 2024 | 2,838 |
| 2013 General Obligation Bonds | 14,995 | 3.00% to 5.00% | 2039 | 13,816 |
| 2014 General Obligation Bonds, Series A | 18,420 | 2.00% to 5.00% | 2040 | 17,599 |
| 2014 General Obligation Refunding Bonds Series C | 3,575 | 2.00% to 5.00% | 2025 | 8,643 |
| 2014 General Obligation Refunding Bonds, Series A | 9,248 | 2.00% to 5.00% | 2040 | 3,258 |
| 2015 General Obligation Bonds, Series A | 14,598 | 3.00% to 5.00% | 2041 | 14,598 |
| 2015 General Obligation Refunding Bonds, Series C | 11,216 | 2.00% to 5.00% | 2027 | 11,216 |
| | | | | \$ <u><u>139,835</u></u> |

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 \$2,085. 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 \$2,883.

Governmental Activities – Loans Payable HUD Section 108

| | | | | |
|----------------------|----------|----------------|------|------------------------|
| 2015 - A series loan | \$ 2,030 | 2.50% to 2.85% | 2025 | \$ 1,958 |
| 2015 - A series loan | 186 | 0.88% to 0.93% | 2018 | <u>127</u> |
| | | | | \$ <u><u>2,085</u></u> |

Business-Type Activities – Loans payable MCWT

| | | | | |
|--|--------|-------|------|------------------------|
| 2006 clean water loan to sewer enterprise fund | \$ 949 | 4.90% | 2024 | \$ 518 |
| 2014 clean water loan to sewer enterprise fund | 851 | 2.00% | 2033 | 777 |
| 2015 clean water loan to sewer enterprise fund | 561 | 2.00% | 2035 | 539 |
| 2016 clean water loan to sewer enterprise fund | 1,048 | 2.00% | 2036 | <u>1,048</u> |
| | | | | \$ <u><u>2,882</u></u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

(c) Maturity of Bond Indebtedness-Primary Government

Bond indebtedness outstanding at June 30, 2016 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: | | | | | | |
| 2017 | \$ 45,779 | 21,820 | 7,001 | 2,157 | 5,093 | 3,238 |
| 2018 | 42,731 | 19,738 | 5,477 | 1,885 | 5,022 | 3,009 |
| 2019 | 40,275 | 17,773 | 4,639 | 1,664 | 4,787 | 2,792 |
| 2020 | 36,273 | 15,882 | 3,667 | 1,471 | 4,155 | 2,594 |
| 2021 | 34,634 | 14,160 | 3,501 | 1,317 | 4,292 | 2,406 |
| 2022-2026 | 151,870 | 47,444 | 13,561 | 4,581 | 21,175 | 9,189 |
| 2027-2031 | 76,613 | 15,915 | 7,846 | 2,511 | 15,490 | 5,525 |
| 2032-2036 | 29,530 | 6,255 | 6,446 | 1,330 | 14,004 | 2,982 |
| 2037-2041 | 17,141 | 1,411 | 3,795 | 262 | 8,483 | 626 |
| | <u>\$ 474,846</u> | <u>160,398</u> | <u>55,933</u> | <u>17,178</u> | <u>82,501</u> | <u>32,361</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: | | | | |
| 2017 | \$ 168 | 52 | 12,262 | 5,447 |
| 2018 | 173 | 46 | 10,672 | 4,940 |
| 2019 | 178 | 39 | 9,604 | 4,495 |
| 2020 | 179 | 32 | 8,001 | 4,097 |
| 2021 | 80 | 26 | 7,873 | 3,749 |
| 2022-2026 | 367 | 85 | 35,103 | 13,855 |
| 2027-2031 | 167 | 28 | 23,503 | 8,064 |
| 2032-2036 | 57 | 11 | 20,507 | 4,323 |
| 2037-2041 | 33 | 3 | 12,311 | 891 |
| | <u>\$ 1,402</u> | <u>322</u> | <u>139,836</u> | <u>49,861</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(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, 2016 are as follows:

| | Governmental activities | | | | | |
|----------------------|--------------------------------|-----------------|--|--|--|--|
| | General fund | | | | | |
| | Principal | Interest | | | | |
| Year ending June 30: | | | | | | |
| 2017 | \$ 138 | 49 | | | | |
| 2018 | 145 | 48 | | | | |
| 2019 | 84 | 47 | | | | |
| 2020 | 88 | 46 | | | | |
| 2021 | 92 | 44 | | | | |
| 2022-2025 | 1,538 | 135 | | | | |
| | <u>\$ 2,085</u> | <u>369</u> | | | | |

| | Business-type activities | | | | | |
|----------------------|---------------------------------|-----------------|----------------------------|-----------------|--------------------------------|-----------------|
| | Sewer | | | | Business-type | |
| | Principal | Interest | Anticipated subsidy | | activities totals (net) | |
| | | | Principal | Interest | Principal | Interest |
| Year ending June 30: | | | | | | |
| 2017 | \$ 159 | 81 | - | 13 | 159 | 68 |
| 2018 | 166 | 67 | - | 12 | 166 | 55 |
| 2019 | 168 | 62 | - | 11 | 168 | 51 |
| 2020 | 175 | 57 | - | 10 | 175 | 47 |
| 2021 | 177 | 51 | 1 | 9 | 176 | 42 |
| 2022-2026 | 820 | 178 | 11 | 10 | 809 | 168 |
| 2027-2031 | 672 | 101 | - | - | 672 | 101 |
| 2032-2036 | 545 | 33 | - | - | 545 | 33 |
| | <u>\$ 2,882</u> | <u>630</u> | <u>12</u> | <u>65</u> | <u>2,870</u> | <u>565</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, 2016

(In thousands of dollars)

Authorized and unissued debt at June 30, 2016 is as follows:

| | | |
|--|----|----------------|
| Inside debt limit: | | |
| Building rehabilitation | \$ | 60,836 |
| School construction - Nelson Place | | 57,740 |
| School and citywide building ESCO projects | | 57,596 |
| School construction - North High | | 48,120 |
| Street construction | | 37,800 |
| Parks improvements | | 25,835 |
| School construction - MSBA other | | 10,175 |
| Union Station garage | | 17,835 |
| Departmental equipment | | 17,718 |
| Courthouse rehabilitation | | 4,000 |
| Emergency center | | 3,815 |
| Street signage and wayfinding improvements | | 3,000 |
| Off-street parking | | 2,975 |
| Sewer equipment | | 2,528 |
| Blackstone Valley Visitors' Center | | 2,000 |
| Sewer building rehabilitation | | 1,950 |
| Major Taylor garage walkway | | 1,850 |
| Water building rehabilitation | | 1,725 |
| Street lights | | 1,175 |
| Traffic signals | | 940 |
| Urban Systems Gateway | | 880 |
| Open space | | 875 |
| Land acquisition | | 825 |
| Bridge construction | | 700 |
| Dam improvements | | 575 |
| Greenhill Golf Course infrastructure | | 505 |
| Sewer generator | | 500 |
| Vocational School construction | | 410 |
| South Worcester Industrial Park | | 350 |
| Guardrails | | 300 |
| Building demolition | | 269 |
| Greenhill Golf Course access road | | 80 |
| Total inside debt limit | | <u>365,882</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

| | |
|-------------------------------------|-------------------|
| Outside debt limit: | |
| Sewer construction | 89,350 |
| CitySquare | 53,066 |
| DCU Center building improvements | 30,000 |
| Water mains | 25,725 |
| School construction - MSBA other | 13,054 |
| Reservoir rehabilitation | 10,740 |
| Dam improvements | 4,600 |
| Water filtration | 4,535 |
| Surface drain construction | 3,185 |
| Water equipment | 1,913 |
| Water filtration solar | 1,434 |
| Watershed land | 1,350 |
| Greenhill Golf Course facilities | 855 |
| December ice storm 2008 | 575 |
| Water hydrants | 550 |
| Water meters | 450 |
| Greenhill Golf Course design | 195 |
| | <hr/> |
| Total outside debt limit | 241,577 |
| Total inside and outside debt limit | <u>\$ 607,459</u> |

At June 30, 2016, in addition to debt authorized but unissued, the City may issue \$30,143 of additional general obligation debt under the normal debt limit. The City had \$400,877 of outstanding debt exempt from the debt limit.

(e) Current Refunding

On December 15, 2015, the City issued \$20,655 in current refunding bonds to redeem \$22,595 of previously issued and outstanding bonds. The current refunding was issued in three components; \$10,250 of refunding bonds with a true interest cost of 1.95% (inclusive of premium) to redeem \$11,105 of 2007 General Obligation Bonds with a true interest cost of 3.99% and \$9,745 of refunding bonds with a true interest cost of 1.71% to redeem \$10,765 of 2005 General Obligation Bonds Series C with a true interest cost of 4.05% and \$660 of refunding bonds with a true interest cost of 1.4% to redeem \$725 of 2005 General Obligation Bonds Series D with a true interest cost of 5.19%. 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 \$2,702 and will realize an economic gain of approximately \$2,426.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

(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. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2016, \$43,250 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, 2016:

| | |
|--|--------|
| 1997 General Obligation Bonds issued to the Massachusetts Clean Water Trust (MCWT). The bonds are payable in varying principal amounts at an average coupon rate of 5.528% with a final payment due February 1, 2017. | \$ 924 |
| 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. | 270 |
| 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. | 155 |
| 2003 General Obligation Bonds payable in varying annual installments at an average coupon rate of 4.139% with a final payment due March 15, 2023. | - |
| 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. | 34,749 |
| 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. | 4,649 |
| 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. | 20,171 |
| 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%. | 3,295 |
| 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. | 9,612 |
| 2008 General Obligation Bonds payable in varying annual installments at an average coupon rate of 4.158% with a final payment due May 1, 2028. | 735 |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

| | |
|---|-------------------|
| 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. | 19,106 |
| 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. | 19,188 |
| 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. | 6,396 |
| 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. | 17,425 |
| 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. | 3,380 |
| 2016 General Obligation refunding Bonds payable in varying principal amounts starting March 15, 2017 until March 15, 2023 with interest at 5.00%. | 4,405 |
| 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%. | 5,000 |
| Unamortized bond premiums | 2,181 |
| Net pension liability | 7,100 |
| OPEB net obligation | 2,583 |
| Accrued sick leave | 419 |
| Total long-term obligations | <u>166,733</u> |
| Less portion due within one year | <u>(8,189)</u> |
| Amount due in more than one year | <u>\$ 158,544</u> |

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: | | | | | |
| 2017 | \$ 7,877 | 4,575 | 12,452 | 1,037 | 11,415 |
| 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 |
| 2022-2026 | 35,247 | 14,524 | 49,771 | 2,710 | 47,061 |
| 2027-2031 | 36,983 | 8,787 | 45,770 | 2,182 | 43,588 |
| 2032-2036 | 33,288 | 3,215 | 36,503 | 1,351 | 35,152 |
| 2037-2041 | 11,843 | 547 | 12,390 | - | 12,390 |
| | <u>\$ 154,450</u> | <u>47,432</u> | <u>201,882</u> | <u>9,912</u> | <u>191,970</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

(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, 2017 through June 30, 2018).

Details related to notes payable to the City at June 30, 2016, are as follows:

| <u>Project</u> | <u>Outstanding at June 30, 2015</u> | <u>Additions</u> | <u>Reductions</u> | <u>Outstanding at June 30, 2016</u> |
|----------------------------------|---|------------------|-------------------|---|
| Union Station - Building Fit Out | \$ 3,346 | 125 | - | 3,471 |
| Union Station - Operating | 4,707 | 527 | - | 5,234 |
| Union Station - Bus Ports | 484 | - | - | 484 |
| General and Administrative | 79 | - | - | 79 |
| Urban renewal | 69 | 156 | - | 225 |
| Total | \$ <u>8,685</u> | <u>808</u> | <u>-</u> | <u>9,493</u> |

Debt service requirements in future fiscal years are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|------------------|-----------------|---------------|
| 2017 | \$ 8,966 | 2,446 | 11,412 |
| 2018 | <u>527</u> | <u>41</u> | <u>568</u> |
| Total | \$ <u>9,493</u> | <u>2,487</u> | <u>11,980</u> |

In addition to notes payable of \$9,493, the WRA also has accrued interest payable due in fiscal year 2018 of \$61 total noncurrent liabilities of \$9,554.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

(14) Temporary Borrowings

(a) Primary Government

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

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

Temporary loans are general obligations of the City and carry maturity dates limited by statute. Interest expenditures/expenses on temporary borrowings for the year ended June 30, 2016 in the general fund, debt service fund, nonmajor governmental funds, and enterprise funds were \$635.

At June 30, 2016, BANS totaling \$85,180 with interest rates of 1.50% to 2.00% and maturing December 21, 2016 were outstanding. The following is a summary of changes in temporary loans:

| | Outstanding as of <u>June 30, 2015</u> | <u>Additions</u> | <u>Reductions</u> | Outstanding as of <u>June 30, 2016</u> |
|----------------------------------|---|-------------------------|--------------------------|---|
| Bond anticipation notes payable: | | | | |
| General | \$ 46,393 | 67,599 | 46,393 | 67,599 |
| Water | 5,840 | 6,793 | 5,840 | 6,793 |
| Sewer | 11,946 | 10,788 | 11,946 | 10,788 |
| Total | <u>\$ 64,179</u> | <u>85,180</u> | <u>64,179</u> | <u>85,180</u> |

(b) Discretely Presented Component Units – The District

The District issues bond anticipation notes payable as preliminary financing for major capital additions. BAN activity for the year ended June 30, 2016 was as follows:

| | Outstanding as of <u>June 30, 2015</u> | <u>Additions</u> | <u>Reductions</u> | Outstanding as of <u>June 30, 2016</u> |
|------------------------|---|-------------------------|--------------------------|---|
| Bond Anticipation Note | \$ <u>2,000</u> | <u>-</u> | <u>2,000</u> | <u>-</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

(15) Interfund Receivables, Payables and Transfers

At June 30, 2016, there was a receivable and payable between the general fund and nonmajor governmental funds, respectively, in the amount of \$405 for a temporary cash advance.

Transfers and their purposes during the year ended June 30, 2016 were as follows:

| | 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 | \$ (13,636) | 13,636 | - | - | - | - | - |
| Debt service fund - to promote tourism | 500 | (500) | - | - | - | - | - |
| General fund - transfer to fund DCU obligations | (413) | - | - | 413 | - | - | - |
| 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) | - | - | - |
| FEMA reserve fund - prior year receipts to general fund operations | 935 | - | - | (935) | - | - | - |
| Golf fund - to fund pension obligation bonds | 20 | - | - | - | - | - | (20) |
| Sewer fund - to fund pension obligation bonds | 556 | - | - | - | - | (556) | - |
| Water fund - to fund pension obligation bonds | 757 | - | - | - | (757) | - | - |
| Sub-total | (10,795) | 13,136 | - | (1,158) | (757) | (556) | 130 |
| Subsequent transfers: | | | | | | | |
| General fund - to special revenue fund for prior year FEMA grant | (142) | - | - | 142 | - | - | - |
| General fund - to fund debt payments | (92) | 92 | - | - | - | - | - |
| General fund - transfer to fund DCU obligations | (24) | - | - | 24 | - | - | - |
| General fund - to special revenue fund for police auxiliary fund | (2) | - | - | 2 | - | - | - |
| General fund - to special revenue fund for fire auxiliary fund | (1) | - | - | 1 | - | - | - |
| General fund - to fund golf operations | (38) | - | - | - | - | - | 38 |
| Insurance settlement fund - fire and park vehicles | 12 | - | - | (12) | - | - | - |
| Premium on loans - to fund bond issuance costs | 165 | - | - | (165) | - | - | - |
| Real estate sales reserve-to fund bond issuance costs | 370 | - | - | (370) | - | - | - |
| Premium on loans - to fund refunded debt service | 2,228 | - | - | (2,228) | - | - | - |
| Premium on loans - to fund refunding debt issuance costs | 87 | - | - | (87) | - | - | - |
| Premium on loans - to fund other debt issuance costs | 164 | - | - | (164) | - | - | - |
| Premium on loans - to fund debt service in the general fund | 2,433 | - | - | (2,433) | - | - | - |
| General fund reserve to fund repayment of HUD grant in the special revenue fund | (3,418) | - | - | 3,418 | - | - | - |
| General fund - transfer to fund grant expenditure accounts | (209) | - | - | 209 | - | - | - |
| Enterprise refunded bonds paid in general fund from premiums | (985) | - | - | - | 466 | 503 | 16 |
| Sewer connection fees-fund sewer pumping station improvements | - | - | - | (390) | - | 390 | - |

(continued)

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

| (transfers continued) | Governmental Funds | | | | Proprietary Funds | | |
|---|--------------------|-------------------|------------------------------------|---------------------|-------------------|------------|----------------------|
| | General Fund | Debt Service Fund | Rehabilitation of Public Buildings | Other Gov'tal Funds | Water Fund | Sewer Fund | Golf Fund (Nonmajor) |
| Special revenue police auxiliary to water/sewer | - | - | - | (57) | 8 | 49 | - |
| Special revenue police auxiliary to capital projects | - | - | - | (23) | - | - | - |
| Special revenue police auxiliary to capital projects | - | - | - | 23 | - | - | - |
| Transfer between capital project funds | - | - | - | (224) | - | 224 | - |
| To transfer between capital project funds | - | - | 7,179 | (7,179) | - | - | - |
| To transfer between capital project funds | - | - | (606) | 606 | - | - | - |
| Parking receipts to fund off-street parking | - | - | - | 3,911 | - | - | - |
| Parking receipts to fund off-street parking | - | - | - | (3,911) | - | - | - |
| Transfer among capital project funds | - | - | - | 631 | - | - | - |
| Transfer among capital project funds | - | - | - | (631) | - | - | - |
| Land sales to open space preservation | - | - | - | 770 | - | - | - |
| Land sales to open space preservation | - | - | - | (770) | - | - | - |
| Greenwood St landfill reserve-for citywide tennis prgm. | - | - | - | 38 | - | - | - |
| Greenwood St landfill reserve-for citywide tennis prgm. | - | - | - | (38) | - | - | - |
| Greenwood St landfill reserve-for clean memorial | - | - | - | 1 | - | - | - |
| Greenwood St landfill reserve-for clean memorial | - | - | - | (1) | - | - | - |
| Greenwood St landfill reserve-Blackstone Gateway Pk. | - | - | - | 600 | - | - | - |
| Greenwood St landfill reserve-Blackstone Gateway Pk. | - | - | - | (600) | - | - | - |
| From capital project to special revenue for playground | - | - | - | 10 | - | - | - |
| From capital project to special revenue for playground | - | - | - | (10) | - | - | - |
| From capital project to special revenue for CDBG | - | - | - | 21 | - | - | - |
| From capital project to special revenue for CDBG | - | - | - | (21) | - | - | - |
| From GAR Hall account for monument restoration | - | - | - | 9 | - | - | - |
| From GAR Hall account for monument restoration | - | - | - | (9) | - | - | - |
| Transfer among permanent funds | - | - | - | 405 | - | - | - |
| Transfer among permanent funds | - | - | - | (405) | - | - | - |
| Special revenue PEG fund to educational access fd | - | - | - | 355 | - | - | - |
| Special revenue PEG fund to educational access fd | - | - | - | (355) | - | - | - |
| Total transfers, net | \$ (10,247) | 13,228 | 6,573 | (10,065) | (283) | 610 | 184 |

(concluded)

(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 AOC terms require complete construction and compliance with NPDES limits for all dry-weather flows by October 31, 2019. 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. The Integrated Planning report for Wet Weather Management in the Upper Blackstone Water Pollution Abatement District and the City of Worcester was also completed during the fiscal year, and recommended assessment of the AOC schedule as part of the overall City of Worcester Integrated Water Resource Management Plan. After the close of fiscal 2016, the EPA and the District finalized the AOC schedule modifications that incorporate an integrated planning approach. 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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

(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 \$225 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, historical trends of previous years, and attorneys' estimates of pending matters and lawsuits in which the City is involved.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

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, 2016 and 2015 were as follows:

| | <u>2016</u> | <u>2015</u> |
|--|-----------------|-----------------|
| Health claims, beginning of year | \$ 7,621 | 7,129 |
| Incurred claims | 82,803 | 81,452 |
| Payments of claims attributable to events of the current and prior fiscal years | <u>(82,752)</u> | <u>(80,960)</u> |
| Health claims, end of year | <u>\$ 7,672</u> | <u>7,621</u> |

Changes in judgments and claims liability for the years ended June 30, 2016 and 2015 were as follows:

| | <u>2016</u> | <u>2015</u> |
|--|------------------|----------------|
| Judgments and claims, beginning of year | \$ 16,680 | 14,347 |
| Additions to estimated claims liability | 5,899 | 5,795 |
| Payments of claims attributable to events of the current and prior fiscal years, and reductions to previous estimated liabilities: | | |
| Court judgments and legal settlements | (2,483) | (632) |
| Workers' compensation | <u>(4,885)</u> | <u>(2,830)</u> |
| Judgments and claims, end of year | <u>\$ 15,211</u> | <u>16,680</u> |

Judgments and claims consisted of the following at June 30:

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|------------------|---------------|
| Workers' compensation | \$ 11,096 | 11,497 |
| Court judgments and legal settlements | <u>4,115</u> | <u>5,183</u> |
| | <u>\$ 15,211</u> | <u>16,680</u> |

The fiscal 2016 liability for judgments and claims consist of governmental and business-type activities in the amount of \$14,137 and \$1,074, 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, 2016

(In thousands of dollars)

In October, 2015 the City was ordered by the state’s Supreme Judicial Court to clean up a 4.5 acre site by replacing soil contaminated with incinerator waste material dumped prior to 1940 with new clean soil. The City has taken the property by eminent domain and currently has ongoing legal challenges related to this matter. Potential costs to the City related to eminent domain case are estimated to be \$1,500 to \$3,000. If the challenge related to the environmental remediation is unsuccessful, the clean-up costs are estimated to be \$25,000.

On September 4, 2016, the Superior Court ordered the City to proceed with construction of a sky bridge related to a breach of contract case with a hotel located in the city. The sky bridge would connect the hotel to the DCU Center and a parking garage. The City is appealing the decision and the estimate to construct the sky bridge is \$8,000 to \$10,000.

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</u> | <u>CitySquare</u> | <u>Debt Service</u> | <u>DCU Center Construction</u> | <u>Rehabilitation of Public Buildings</u> | <u>Other governmental funds</u> | <u>Total Governmental Funds</u> |
|--------------------------------|------------------|-------------------|-------------------------|--|---|---|---|
| Nonspendable: | | | | | | | |
| Permanent fund principal..... | \$ - | - | - | - | - | 13,062 | 13,062 |
| Restricted: | | | | | | | |
| OPEB..... | 8,897 | - | - | - | - | - | 8,897 |
| School lunch..... | - | - | - | - | - | 180 | 180 |
| Police auxiliary..... | - | - | - | - | - | - | - |
| Off-street parking..... | - | - | - | - | - | 651 | 651 |
| City revolving funds..... | - | - | - | - | - | 5,127 | 5,127 |
| School grants..... | - | - | - | - | - | 6,302 | 6,302 |
| School revolving funds..... | - | - | - | - | - | 2,063 | 2,063 |
| Community development..... | - | - | - | - | - | 64 | 64 |
| Workforce Central..... | - | - | - | - | - | 2,161 | 2,161 |
| City grants..... | - | - | - | - | - | 12,898 | 12,898 |
| Capital..... | - | - | - | - | - | 3,092 | 3,092 |
| Permanent fund expendable..... | - | - | - | - | - | 4,840 | 4,840 |
| Sub-total - Restricted..... | <u>8,897</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>37,378</u> | <u>46,275</u> |
| Committed: | | | | | | | |
| Debt service..... | - | - | 19,901 | - | - | - | 19,901 |
| Receipts reserved..... | - | - | - | - | - | 19,023 | 19,023 |
| Sub-total - Committed.... | <u>-</u> | <u>-</u> | <u>19,901</u> | <u>-</u> | <u>-</u> | <u>19,023</u> | <u>38,924</u> |
| Unassigned..... | <u>34,652</u> | <u>(25,433)</u> | <u>-</u> | <u>(1,154)</u> | <u>(17,501)</u> | <u>(9,284)</u> | <u>(18,720)</u> |
| Total fund balances..... | \$ <u>43,549</u> | <u>(25,433)</u> | <u>19,901</u> | <u>(1,154)</u> | <u>(17,501)</u> | <u>60,179</u> | <u>79,541</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(In thousands of dollars)

(19) Fund Deficits

The following funds had deficits at June 30, 2016:

| <u>Major Funds</u> | | <u>Nonmajor Funds</u> | |
|---|-----------|--------------------------------|----------|
| | | Capital Projects Funds: | |
| CitySquare fund | \$ 25,433 | Capital Equipment | \$ 1,665 |
| DCU Center construction fund | 1,154 | School construction | 6,837 |
| Rehabilitation of Public Buildings fund | 17,501 | Parks improvements | 665 |
| | | Special Revenue Funds: | |
| | | DCU Center operations | 117 |
| | | Proprietary Funds: | |
| | | Golf Course Enterprise | 639 |

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

(20) 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, 2016, Worcester had tax abatement agreements with 21 entities with fifteen of those entities receiving abatements in fiscal year 2016 and six entities whose abatement will begin after fiscal year 2016 upon completion of the projects. The City's policy is to disclose individual tax abatement agreements in which the amount abated in fiscal year 2016 exceeded 10% of the total abatements made by the City in fiscal year 2016. In fiscal year 2016, Worcester abated property taxes totaling \$2,708. Detailed below are the tax abatement agreements that each exceed 10% of the total amount abated:

- 1 Eaton Place – a 77% 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 \$578, which accounts for 21% of total abatements in fiscal year 2016. The agreement is governed by the HDIP 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). In the event the hospital fails to meet its jobs requirement the City has the right to revoke the agreement.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2016

(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 \$881, which accounts for 33% of total abatements in fiscal year 2016. The agreement is governed by the HDIP and the recipient meets the criteria as the site is within the City's 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 within calendar years 2012 through 2016 with reasonable efforts that 51% of the new jobs are made available to be taken by Worcester residents. The abatement totals \$418, which accounts for 15% of total abatements in fiscal year 2016. The agreement is governed by the HDIP and the recipient meets the criteria as the site is within the City's EACC.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

For the Fiscal Year Ended June 30, 2016

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 | \$ 270,089,968 | 271,309,357 | 271,518,195 | 208,838 |
| Motor vehicle excise taxes | 13,300,000 | 13,300,000 | 15,410,932 | 2,110,932 |
| Penalties and interest on taxes: | | | | |
| Property taxes | 1,093,600 | 893,600 | 1,252,791 | 359,191 |
| Tax titles | 102,400 | 102,400 | 94,787 | (7,613) |
| Motor vehicle excise | 1,104,000 | 1,104,000 | 1,024,730 | (79,270) |
| Special assessments | 100,000 | 100,000 | 157,415 | 57,415 |
| | <u>2,400,000</u> | <u>2,200,000</u> | <u>2,529,723</u> | <u>329,723</u> |
| Other taxes and in-lieu payments: | | | | |
| In lieu of taxes | 952,000 | 852,000 | 874,673 | 22,673 |
| Special assessments | 350,000 | 550,000 | 613,378 | 63,378 |
| Meals tax | 2,300,000 | 2,400,000 | 2,727,742 | 327,742 |
| Hotel/motel tax | 780,000 | 780,000 | 867,001 | 87,001 |
| | <u>4,382,000</u> | <u>4,582,000</u> | <u>5,082,794</u> | <u>500,794</u> |
| Licenses and permits: | | | | |
| Clerk | 191,200 | 191,200 | 199,262 | 8,062 |
| Inspectional Services | 3,012,400 | 3,012,400 | 4,071,849 | 1,059,449 |
| Fire | 218,225 | 218,225 | 227,029 | 8,804 |
| Health | 625,250 | 625,250 | 674,017 | 48,767 |
| License Commission: | | | | |
| Liquor & common victualer | 808,000 | 808,000 | 792,990 | (15,010) |
| Other | 61,250 | 61,250 | 65,353 | 4,103 |
| Police | 92,700 | 92,700 | 101,174 | 8,474 |
| Public Works | 290,800 | 290,800 | 256,135 | (34,665) |
| | <u>5,299,825</u> | <u>5,299,825</u> | <u>6,387,809</u> | <u>1,087,984</u> |
| Intergovernmental: | | | | |
| State local aid | 274,619,619 | 274,175,386 | 274,261,516 | 86,130 |
| State school construction aid | 11,575,058 | 11,575,058 | 11,575,057 | (1) |
| State school busing assistance | - | - | 178,182 | 178,182 |
| School based Federal Medicaid | 2,400,000 | 2,400,000 | 3,196,690 | 796,690 |
| Federal indirect cost reimbursements | 1,400,000 | 1,400,000 | 1,289,068 | (110,932) |
| | <u>289,994,677</u> | <u>289,550,444</u> | <u>290,500,513</u> | <u>950,069</u> |

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

For the Fiscal Year Ended June 30, 2016

General Fund

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

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|---------------------------|---------------------------|---------------------------|---------------------------|---|
| | Original | Final | | |
| Fines and forfeitures: | | | | |
| Parking fines | \$ 1,779,000 | 1,779,000 | 1,567,884 | (211,116) |
| Court fines | 1,249,500 | 1,249,500 | 1,016,431 | (233,069) |
| | <u>3,028,500</u> | <u>3,028,500</u> | <u>2,584,315</u> | <u>(444,185)</u> |
| Investment earnings | 350,000 | 350,000 | 771,029 | 421,029 |
| Charges for services: | | | | |
| Airport land lease | 108,000 | 108,000 | 116,935 | 8,935 |
| Assessor | 5,000 | 5,000 | 7,608 | 2,608 |
| Cable TV | 22,000 | 22,000 | - | (22,000) |
| Clerk | 548,000 | 548,000 | 530,326 | (17,674) |
| Communications | 1,000 | 1,000 | 495 | (505) |
| Elder Affairs | 55,000 | 55,000 | 82,330 | 27,330 |
| Fire | 278,800 | 278,800 | 289,823 | 11,023 |
| Health | 37,700 | 37,700 | 35,328 | (2,372) |
| Hope Cemetery | 265,000 | 265,000 | 284,848 | 19,848 |
| Library | 46,000 | 46,000 | 39,681 | (6,319) |
| Energy & Asset Management | 500 | 500 | - | (500) |
| Parks | 77,500 | 77,500 | 68,459 | (9,041) |
| Planning | 102,600 | 102,600 | 95,169 | (7,431) |
| Police | 749,500 | 749,500 | 789,975 | 40,475 |
| Public Works | 20,000 | 20,000 | 9,479 | (10,521) |
| Contracted towing tevenue | 180,000 | 180,000 | 132,248 | (47,752) |
| Schools | 10,000 | 10,000 | 13,465 | 3,465 |
| Trailer coach park | 5,000 | 5,000 | 3,816 | (1,184) |
| Trash bags | 3,100,000 | 3,100,000 | 3,276,587 | 176,587 |
| Treasurer | 10,000 | 10,000 | 23,156 | 13,156 |
| | <u>5,621,600</u> | <u>5,621,600</u> | <u>5,799,728</u> | <u>178,128</u> |
| Miscellaneous | 754,500 | 1,268,185 | 1,367,820 | 99,635 |
| Total revenues | <u>595,221,070</u> | <u>596,509,911</u> | <u>601,952,858</u> | <u>5,442,947</u> |

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

For the Fiscal Year Ended June 30, 2016

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 | \$ 330,480 | 331,543 | 331,543 | - |
| Ordinary maintenance | 26,867 | 26,867 | 16,261 | 10,606 |
| | <u>357,347</u> | <u>358,410</u> | <u>347,804</u> | <u>10,606</u> |
| Mayor: | | | | |
| Salaries | 115,868 | 116,368 | 116,358 | 10 |
| Ordinary maintenance | 7,777 | 7,777 | 7,432 | 345 |
| | <u>123,645</u> | <u>124,145</u> | <u>123,790</u> | <u>355</u> |
| Manager: | | | | |
| Salaries: | | | | |
| Executive office | 849,564 | 849,564 | 834,153 | 15,411 |
| Economic Development | 1,497,705 | 1,487,705 | 1,402,690 | 85,015 |
| Ordinary maintenance: | | | | |
| Executive office | 155,483 | 255,483 | 156,717 | 98,766 |
| Economic Development | 150,090 | 165,090 | 150,480 | 14,610 |
| Tourism promotion | 500,000 | 500,000 | 500,000 | - |
| | <u>3,152,842</u> | <u>3,257,842</u> | <u>3,044,040</u> | <u>213,802</u> |
| Auditor: | | | | |
| Salaries | 493,175 | 532,355 | 521,169 | 11,186 |
| Ordinary maintenance | 90,722 | 90,722 | 90,337 | 385 |
| | <u>583,897</u> | <u>623,077</u> | <u>611,506</u> | <u>11,571</u> |
| Administration & Finance: | | | | |
| Salaries | 377,207 | 402,207 | 395,801 | 6,406 |
| Ordinary maintenance | 68,745 | 68,745 | 40,165 | 28,580 |
| | <u>445,952</u> | <u>470,952</u> | <u>435,966</u> | <u>34,986</u> |
| Treasurer and Collector: | | | | |
| Salaries | 1,127,366 | 1,213,466 | 1,178,245 | 35,221 |
| Ordinary maintenance | 691,676 | 1,226,676 | 1,099,422 | 127,254 |
| | <u>1,819,042</u> | <u>2,440,142</u> | <u>2,277,667</u> | <u>162,475</u> |
| Assessor: | | | | |
| Salaries | 578,416 | 590,784 | 575,107 | 15,677 |
| Ordinary maintenance | 167,500 | 167,500 | 166,669 | 831 |
| | <u>745,916</u> | <u>758,284</u> | <u>741,776</u> | <u>16,508</u> |

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

For the Fiscal Year Ended June 30, 2016

General Fund

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

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|----------------------------|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| License Commission: | | | | |
| Ordinary maintenance | \$ 1,200 | 1,200 | 800 | 400 |
| | <u>1,200</u> | <u>1,200</u> | <u>800</u> | <u>400</u> |
| Law: | | | | |
| Salaries | 829,234 | 840,995 | 840,995 | - |
| Ordinary maintenance | 137,842 | 137,842 | 137,218 | 624 |
| Casualty insurance | 119,948 | 119,948 | 112,998 | 6,950 |
| Court judgments | 878,100 | 2,491,600 | 2,426,805 | 64,795 |
| | <u>1,965,124</u> | <u>3,590,385</u> | <u>3,518,016</u> | <u>72,369</u> |
| City Clerk: | | | | |
| Salaries | 575,572 | 620,233 | 620,233 | - |
| Ordinary maintenance | 36,024 | 36,024 | 35,180 | 844 |
| | <u>611,596</u> | <u>656,257</u> | <u>655,413</u> | <u>844</u> |
| Energy & Asset Management: | | | | |
| Salaries | 267,424 | 334,924 | 305,819 | 29,105 |
| Ordinary maintenance | 760,524 | 823,924 | 781,897 | 42,027 |
| | <u>1,027,948</u> | <u>1,158,848</u> | <u>1,087,716</u> | <u>71,132</u> |
| Election Commission: | | | | |
| Salaries | 644,890 | 637,114 | 635,895 | 1,219 |
| Ordinary maintenance | 110,885 | 145,885 | 142,183 | 3,702 |
| | <u>755,775</u> | <u>782,999</u> | <u>778,078</u> | <u>4,921</u> |
| Purchasing: | | | | |
| Salaries | 187,269 | 207,269 | 201,420 | 5,849 |
| Ordinary maintenance | 14,595 | 14,595 | 12,555 | 2,040 |
| | <u>201,864</u> | <u>221,864</u> | <u>213,975</u> | <u>7,889</u> |
| Technical services: | | | | |
| Salaries | 1,950,166 | 1,958,166 | 1,927,236 | 30,930 |
| Ordinary maintenance | 1,283,726 | 1,352,726 | 1,331,041 | 21,685 |
| | <u>3,233,892</u> | <u>3,310,892</u> | <u>3,258,277</u> | <u>52,615</u> |
| Human Resources: | | | | |
| Salaries | 993,085 | 988,636 | 950,920 | 37,716 |
| Ordinary maintenance | 351,556 | 351,556 | 351,181 | 375 |
| | <u>1,344,641</u> | <u>1,340,192</u> | <u>1,302,101</u> | <u>38,091</u> |
| Total general government | <u>16,370,681</u> | <u>19,095,489</u> | <u>18,396,925</u> | <u>698,564</u> |

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

For the Fiscal Year Ended June 30, 2016

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 | \$ 41,447,765 | 45,897,752 | 45,518,385 | 379,367 |
| Ordinary maintenance | 2,570,255 | 2,570,255 | 2,463,282 | 106,973 |
| Capital | 30,000 | 30,000 | 29,365 | 635 |
| | <u>44,048,020</u> | <u>48,498,007</u> | <u>48,011,032</u> | <u>486,975</u> |
| Fire: | | | | |
| Salaries | 33,333,425 | 33,026,820 | 32,557,756 | 469,064 |
| Ordinary maintenance | 1,186,828 | 1,220,608 | 1,217,279 | 3,329 |
| Capital | 25,000 | 38,433 | 38,414 | 19 |
| | <u>34,545,253</u> | <u>34,285,861</u> | <u>33,813,449</u> | <u>472,412</u> |
| Inspectional services: | | | | |
| Salaries | 3,195,310 | 3,278,112 | 3,259,578 | 18,534 |
| Ordinary maintenance | 275,015 | 275,015 | 273,299 | 1,716 |
| | <u>3,470,325</u> | <u>3,553,127</u> | <u>3,532,877</u> | <u>20,250</u> |
| Communications: | | | | |
| Salaries | 2,047,953 | 1,980,974 | 1,869,258 | 111,716 |
| Ordinary maintenance | 354,114 | 426,094 | 423,054 | 3,040 |
| | <u>2,402,067</u> | <u>2,407,068</u> | <u>2,292,312</u> | <u>114,756</u> |
| Total public safety | <u>84,465,665</u> | <u>88,744,063</u> | <u>87,649,670</u> | <u>1,094,393</u> |
| Health and human services: | | | | |
| Public Health | | | | |
| Salaries | 391,316 | 391,316 | 292,588 | 98,728 |
| Ordinary maintenance | 49,500 | 49,500 | 40,956 | 8,544 |
| | <u>440,816</u> | <u>440,816</u> | <u>333,544</u> | <u>107,272</u> |
| Health and Human Services | | | | |
| Salaries | 381,562 | 381,562 | 325,587 | 55,975 |
| Ordinary maintenance | 1,683,100 | 2,033,100 | 1,962,641 | 70,459 |
| | <u>2,064,662</u> | <u>2,414,662</u> | <u>2,288,228</u> | <u>126,434</u> |
| Elder Affairs: | | | | |
| Salaries | 340,727 | 344,132 | 344,132 | - |
| Ordinary maintenance | 138,841 | 135,436 | 134,042 | 1,394 |
| | <u>479,568</u> | <u>479,568</u> | <u>478,174</u> | <u>1,394</u> |
| Workforce Development Board: | | | | |
| Salaries | - | 32,897 | 32,875 | 22 |
| Ordinary maintenance | - | 63,274 | 63,274 | - |
| | <u>-</u> | <u>96,171</u> | <u>96,149</u> | <u>22</u> |
| Total health and human services | <u>2,985,046</u> | <u>3,431,217</u> | <u>3,196,095</u> | <u>235,122</u> |

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

For the Fiscal Year Ended June 30, 2016

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 | \$ 206,459,531 | 203,288,967 | 203,288,967 | - |
| Ordinary maintenance | 34,521,607 | 37,206,710 | 37,206,709 | 1 |
| Capital | 250,000 | 439,467 | 439,467 | - |
| | <u>241,231,138</u> | <u>240,935,144</u> | <u>240,935,143</u> | <u>1</u> |
| Public Schools, Non Net School Spending (excluding fringe benefits): | | | | |
| Salaries | 3,908,698 | 3,741,488 | 3,741,488 | - |
| Ordinary maintenance | 14,683,380 | 14,850,733 | 14,850,733 | - |
| | <u>18,592,078</u> | <u>18,592,221</u> | <u>18,592,221</u> | <u>-</u> |
| Total education | <u>259,823,216</u> | <u>259,527,365</u> | <u>259,527,364</u> | <u>1</u> |
| Public works: | | | | |
| Department of Public Works: | | | | |
| Salaries | 5,794,009 | 5,835,588 | 5,797,648 | 37,940 |
| Ordinary maintenance | 6,659,222 | 6,634,524 | 6,506,068 | 128,456 |
| Capital | - | 837,315 | 612,315 | 225,000 |
| Snow and ice removal | 4,000,000 | 3,162,685 | 2,977,107 | 185,578 |
| Street lighting | 2,252,828 | 2,252,828 | 2,252,540 | 288 |
| | <u>18,706,059</u> | <u>18,722,940</u> | <u>18,145,678</u> | <u>577,262</u> |
| Union Station: | | | | |
| Ordinary maintenance | 447,484 | 527,484 | 527,484 | - |
| Total public works | <u>19,153,543</u> | <u>19,250,424</u> | <u>18,673,162</u> | <u>577,262</u> |
| Culture and recreation: | | | | |
| Parks and Cemetery: | | | | |
| Salaries | 3,231,823 | 3,286,851 | 3,274,656 | 12,195 |
| Ordinary maintenance | 1,194,941 | 1,141,925 | 1,130,278 | 11,647 |
| | <u>4,426,764</u> | <u>4,428,776</u> | <u>4,404,934</u> | <u>23,842</u> |
| Public Library: | | | | |
| Salaries | 3,746,310 | 3,746,310 | 3,564,984 | 181,326 |
| Ordinary maintenance | 1,646,142 | 1,646,142 | 1,646,142 | - |
| | <u>5,392,452</u> | <u>5,392,452</u> | <u>5,211,126</u> | <u>181,326</u> |
| Auditorium: | | | | |
| Ordinary maintenance | 121,506 | 121,506 | 97,589 | 23,917 |
| Total culture and recreation | <u>9,940,722</u> | <u>9,942,734</u> | <u>9,713,649</u> | <u>229,085</u> |

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

For the Fiscal Year Ended June 30, 2016

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 | \$ 5,949 | 6,806 | 6,806 | - |
| Regional planning | 47,399 | 46,970 | 46,970 | - |
| Regional Transit Authority | 2,881,926 | 2,985,589 | 2,985,589 | - |
| Air pollution control | 42,432 | 41,786 | 41,786 | - |
| Charter Schools | 24,819,492 | 24,866,853 | 24,793,043 | 73,810 |
| School choice | 2,641,818 | 2,651,386 | 2,669,896 | (18,510) |
| Special education - Chapter 766 | 147,660 | 147,618 | 179,832 | (32,214) |
| Registry parking ticket surcharge | 450,493 | 441,660 | 441,660 | - |
| Total intergovernmental | 31,037,169 | 31,188,668 | 31,165,582 | 23,086 |
| Debt service: | | | | |
| Principal | 26,917,485 | 28,902,470 | 28,857,486 | 44,984 |
| Interest | 7,992,109 | 8,160,790 | 8,160,790 | - |
| Pension obligation bond: | | | | |
| Municipal departments (P&I) | 10,470,831 | 10,470,831 | 10,470,831 | |
| Enterprise funds (P&I) | 1,332,570 | 1,332,570 | 1,332,570 | - |
| Public schools (P&I) | 4,834,724 | 4,834,724 | 4,834,724 | - |
| Total debt service | 51,547,719 | 53,701,385 | 53,656,401 | 44,984 |
| Fringe benefits: | | | | |
| Retirement: | | | | |
| Contributory pensions: | | | | |
| Municipal departments | 24,078,936 | 24,252,077 | 24,207,191 | 44,886 |
| Public Schools | 10,913,953 | 10,938,401 | 10,938,401 | - |
| Noncontributory pensions: | | | | |
| Municipal departments | 103,543 | 100,786 | 100,786 | - |
| Public Schools | 100,000 | 50,850 | 50,850 | - |
| | 35,196,432 | 35,342,114 | 35,297,228 | 44,886 |

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

For the Fiscal Year Ended June 30, 2016

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 | \$ 1,369,526 | 1,373,988 | 1,279,699 | 94,289 |
| Public Schools | 393,700 | 618,793 | 618,793 | - |
| Public safety injured on duty | 492,422 | 609,299 | 609,299 | - |
| Unemployment compensation: | | | | |
| Municipal departments | 50,000 | 142,757 | 142,112 | 645 |
| Public Schools | 186,058 | 346,002 | 346,002 | - |
| | <u>2,491,706</u> | <u>3,090,839</u> | <u>2,995,905</u> | <u>94,934</u> |
| Group insurance: | | | | |
| Municipal departments | 24,295,313 | 24,348,691 | 24,301,414 | 47,277 |
| Public Schools | 42,541,462 | 41,975,859 | 41,975,859 | - |
| | <u>66,836,775</u> | <u>66,324,550</u> | <u>66,277,273</u> | <u>47,277</u> |
| Total fringe benefits | <u>104,524,913</u> | <u>104,757,503</u> | <u>104,570,406</u> | <u>187,097</u> |
| Contingency | <u>5,800,000</u> | <u>82,079</u> | <u>-</u> | <u>82,079</u> |
| Total expenditures | <u>585,648,674</u> | <u>589,720,927</u> | <u>586,549,254</u> | <u>3,171,673</u> |
| Excess of revenues over expenditures | <u>9,572,396</u> | <u>6,788,984</u> | <u>15,403,604</u> | <u>8,614,620</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | 3,403,500 | 8,926,726 | 8,926,726 | - |
| Transfers out | (14,275,896) | (18,503,962) | (18,427,199) | 76,763 |
| Premium on loans | 1,300,000 | 1,300,000 | 1,531,697 | 231,697 |
| Total other financing sources (uses) | <u>(9,572,396)</u> | <u>(8,277,236)</u> | <u>(7,968,776)</u> | <u>308,460</u> |
| Net changes in fund balance | <u>-</u> | <u>(1,488,252)</u> | <u>7,434,828</u> | <u>8,923,080</u> |
| Budgetary fund balance - beginning | 26,513,702 | 26,513,702 | 26,513,702 | - |
| Budgetary fund balance - ending | <u>\$ 26,513,702</u> | <u>25,025,450</u> | <u>33,948,530</u> | <u>8,923,080</u> |

(Concluded)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2016

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)*

| | <u>2016</u> | <u>2015</u> |
|--|-------------------------|----------------------|
| <u>Total pension liability</u> | | |
| Service cost | \$ 26,309,138 | 24,977,553 |
| Interest | 92,787,477 | 89,852,374 |
| Differences between expected and actual experience | (1,619,304) | (901,542) |
| Changes of assumptions | 16,825,451 | 16,436,189 |
| Benefit payments, including refunds of member contributions | <u>(75,957,945)</u> | <u>(72,435,430)</u> |
| Net change in total pension liability | 58,344,817 | 57,929,144 |
| Total pension liability - beginning | <u>1,228,554,779</u> | <u>1,170,625,635</u> |
| Total pension liability - ending (a) | \$ <u>1,286,899,596</u> | <u>1,228,554,779</u> |
| <u>Plan fiduciary net position</u> | | |
| Contributions - employer | \$ 42,703,837 | 41,200,578 |
| Contributions - member | 17,409,182 | 16,320,772 |
| Net investment income | (10,490,024) | 34,950,210 |
| Benefit payments, including refunds of member contributions | (75,957,945) | (72,435,430) |
| Administrative expense | (572,743) | (587,157) |
| Other | <u>(895,410)</u> | <u>(806,081)</u> |
| Net change in plan fiduciary net position | (27,803,103) | 18,642,892 |
| Plan fiduciary net position - beginning | <u>825,633,173</u> | <u>806,990,281</u> |
| Plan fiduciary net position - ending (b) | \$ <u>797,830,070</u> | <u>825,633,173</u> |
| WRS's net pension liability - ending (a) - (b) | \$ <u>489,069,526</u> | <u>402,921,606</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 62.00% | 67.20% |
| Covered-employee payroll | \$ 173,759,691 | 168,856,039 |
| Net pension liability as a percentage of covered-employee payroll | 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, 2016

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

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|-----------------------|--------------------|--------------------|--------------------|--------------------|
| Statutorily determined contribution | \$ 42,703,837 | 41,200,578 | 38,148,683 | 35,409,140 | 32,706,347 |
| Contributions in relation to the statutorily determined contribution | <u>42,703,837</u> | <u>41,200,578</u> | <u>38,148,683</u> | <u>35,409,140</u> | <u>32,706,347</u> |
| Contribution deficiency (excess) | \$ <u> -</u> | <u> -</u> | <u> -</u> | <u> -</u> | <u> -</u> |
| Covered-employee payroll | \$ 173,759,691 | 168,856,039 | 166,094,906 | 159,669,859 | 157,720,871 |
| Contributions as a percentage of covered-employee payroll | 24.58% | 24.40% | 22.97% | 22.18% | 20.74% |
| | | | | | (continued) |
| | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Statutorily determined contribution | \$ 29,770,499 | 28,505,066 | 24,947,158 | 24,166,318 | 23,354,603 |
| Contributions in relation to the statutorily determined contribution | <u>30,196,904</u> | <u>28,505,066</u> | <u>24,947,158</u> | <u>24,166,318</u> | <u>23,354,603</u> |
| Contribution deficiency (excess) | \$ <u>(426,405)</u> | <u> -</u> | <u> -</u> | <u> -</u> | <u> -</u> |
| Covered-employee payroll | \$ 166,392,075 | 166,050,095 | 156,585,326 | 152,838,201 | 145,830,593 |
| Contributions as a percentage of covered-employee payroll | 18.15% | 17.17% | 15.93% | 15.81% | 16.01% |
| | | | | | (concluded) |

Schedule of Investment Returns (WRS) *

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

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

| | <u>2016**</u> | <u>2015**</u> |
|---|----------------|---------------|
| City's proportion of the net pension liability | 92.066769% | 92.730893% |
| City's proportionate share of the net pension liability | \$ 450,270,511 | 373,632,802 |
| City's covered-employee payroll | 159,974,933 | 156,581,713 |
| City's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 281.46% | 238.62% |
| Plan fiduciary net position as a percentage of the total pension liability | 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, 2015 and 2014.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2016

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

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|---------------------|-------------------|-------------------|-------------------|-------------------|
| Statutorily determined contribution | \$ 39,316,043 | 38,205,664 | 35,084,000 | 32,246,000 | 29,720,000 |
| Contributions in relation to the statutorily determined contribution | <u>39,316,043</u> | <u>38,205,664</u> | <u>35,084,000</u> | <u>32,246,000</u> | <u>29,720,000</u> |
| Contribution deficiency (excess) | \$ <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Covered-employee payroll | \$ 159,974,933 | 156,581,713 | 154,955,555 | 148,961,412 | 147,143,135 |
| Contributions as a percentage of covered-employee payroll | 24.58% | 24.40% | 22.64% | 21.65% | 20.20% |
| | | | | | (continued) |
| | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Statutorily determined contribution | \$ 27,277,000 | 26,117,000 | 22,742,000 | 22,089,000 | 21,241,000 |
| Contributions in relation to the statutorily determined contribution | <u>27,703,405</u> | <u>26,117,000</u> | <u>22,742,000</u> | <u>22,089,000</u> | <u>21,241,000</u> |
| Contribution deficiency (excess) | \$ <u>(426,405)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Covered-employee payroll | \$ 155,232,794 | 154,913,750 | 146,083,747 | 142,587,927 | 136,050,293 |
| Contributions as a percentage of covered-employee payroll | 17.85% | 16.86% | 15.57% | 15.49% | 15.61% |
| | | | | | (concluded) |

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2016

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) *

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

Schedule of City's Contributions (MTRS) *

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

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2016

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*

| | <u>2016**</u> | <u>2015**</u> |
|--|---------------|---------------|
| District's proportion of the net pension liability | 0.06237% | 0.06291% |
| District's proportionate share of the net pension liability | \$ 7,099,775 | 4,670,154 |
| District's covered-employee payroll | 3,413,667 | 3,245,825 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 207.98% | 143.88% |
| Plan fiduciary net position as a percentage of the total pension liability | 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, 2015 and 2014.

Schedule of District's Contributions*

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

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2016

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, 2016

(In thousands of dollars)

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 2016, the original general fund expenditure budget, excluding intergovernmental charges, was increased by \$3,921. In fiscal 2016, revenues and other financial sources exceeded estimates by \$5,751 expenditures were less than budgetary estimates by \$3,172.

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, 2016:

| | <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 | \$ 601,953 | 586,549 | (7,969) | 7,435 |
| Reclassify OPEB reserve | 234 | - | 238 | 472 |
| Reclassify enterprise refunded bonds redeemed in general fund to transfer out to enterprise fund | - | (985) | (985) | - |
| COLA on-behalf payments | 1,162 | 1,162 | - | - |
| Capital leases | - | 7,671 | 7,671 | - |
| Adjustment of revenues to a modified basis | 394 | - | - | 394 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| As reported on a GAAP basis | \$ <u>603,743</u> | <u>594,397</u> | <u>(1,045)</u> | <u>8,301</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); payment of BANS in the general fund are considered principal expenditures but using the GAAP basis it is a payment of liability in the Capital Projects Fund and a transfer out from the general fund; and COLA on-behalf payments are recorded on a GAAP basis only.

CITY OF WORCESTER, MASSACHUSETTS

Notes to Required Supplementary Information

June 30, 2016

(In thousands of dollars)

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%.

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, 2016

(In thousands of dollars)

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 (2005-2015): | Entry Age Normal |
| Amortization method (2005, 2008): | Payment increases 4.50% per year |
| Amortization method (2006): | Payment increases 3.50% per year |
| Amortization method (2007, 2009-2014): | Payment increases 4.00% per year |
| Amortization method (2015): | Payment increases 4.00% in 2018 and 5.85% thereafter |
| Remaining amortization period (2005, 2013, 2015): | 17 years |
| Remaining amortization period (2006-2007): | 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 (2014): | 18 years |
| Asset valuation method (2005-2007): | Market value |
| Asset valuation method (2008-2015): | 5-year smoothed market value |
| Inflation (2005-2009): | 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): | 2.50% for the next 2 years; 3.50% thereafter |
| Salary increases (2005-2007, 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, 2015): | 3.50% for the next 2 years; 4.50% thereafter |
| Salary increases (2014): | 3.50% for the next year; 4.50% thereafter |
| Investment rate of return (2005-2009): | 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% |

CITY OF WORCESTER, MASSACHUSETTS

Supplementary Statements and Schedules

June 30, 2016

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 – 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.

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.

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

CITY OF WORCESTER, MASSACHUSETTS

Supplementary Statements and Schedules

June 30, 2016

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, 2016

| | Special Revenue Funds | | | | |
|--|------------------------------|----------------|------------------|-------------------|------------------|
| | DCU | School | Police | Off-Street | City |
| | Center | Lunch | Auxiliary | Parking | Revolving |
| Assets: | | | | | |
| Cash and cash equivalents | \$ - | - | - | - | - |
| Restricted cash and cash equivalents | 3,788,150 | 222,912 | 216,195 | 654,395 | 5,130,469 |
| Restricted investments | - | - | - | - | - |
| Receivables, net | - | - | 937,735 | - | 48,509 |
| Intergovernmental receivables | - | - | - | - | - |
| Total assets | \$ 3,788,150 | 222,912 | 1,153,930 | 654,395 | 5,178,978 |
| Liabilities: | | | | | |
| Accounts payable | \$ - | 43,024 | 216,195 | 2,945 | 3,240 |
| Due to general fund | - | - | - | - | - |
| Retainage payable | - | - | - | - | - |
| Temporary loans | - | - | - | - | - |
| Other liabilities | 3,904,900 | - | - | - | - |
| Total liabilities | 3,904,900 | 43,024 | 216,195 | 2,945 | 3,240 |
| Deferred inflows of resources: | | | | | |
| Unavailable revenue-other | - | - | 937,735 | - | 48,509 |
| Total deferred inflows of resources | - | - | 937,735 | - | 48,509 |
| Fund balances: | | | | | |
| Nonspendable | - | - | - | - | - |
| Restricted | - | 179,888 | - | 651,450 | 5,127,229 |
| Committed | - | - | - | - | - |
| Unassigned | (116,750) | - | - | - | - |
| Total fund balances | (116,750) | 179,888 | - | 651,450 | 5,127,229 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 3,788,150 | 222,912 | 1,153,930 | 654,395 | 5,178,978 |

Special Revenue Funds

| School Grants | School Revolving | Receipts Reserved | Community Development | Workforce Central | City Grants | Subtotal |
|----------------------|-------------------------|--------------------------|------------------------------|--------------------------|--------------------|-------------------|
| - | - | 19,023,089 | - | - | - | 19,023,089 |
| 6,354,999 | 2,061,709 | - | 57,177 | 2,177,368 | 13,231,112 | 33,894,486 |
| - | - | - | - | - | - | - |
| - | - | 69,342 | - | - | - | 1,055,586 |
| 42,803 | 14,957 | - | 16,000 | 27,583 | 385,837 | 487,180 |
| <u>6,397,802</u> | <u>2,076,666</u> | <u>19,092,431</u> | <u>73,177</u> | <u>2,204,951</u> | <u>13,616,949</u> | <u>54,460,341</u> |
| 96,050 | 14,079 | - | 9,750 | 44,471 | 718,700 | 1,148,454 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | 3,904,900 |
| <u>96,050</u> | <u>14,079</u> | <u>-</u> | <u>9,750</u> | <u>44,471</u> | <u>718,700</u> | <u>5,053,354</u> |
| - | - | 69,342 | - | - | - | 1,055,586 |
| - | - | 69,342 | - | - | - | 1,055,586 |
| - | - | - | - | - | - | - |
| 6,301,752 | 2,062,587 | - | 63,427 | 2,160,480 | 12,898,249 | 29,445,062 |
| - | - | 19,023,089 | - | - | - | 19,023,089 |
| - | - | - | - | - | - | (116,750) |
| <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>6,397,802</u> | <u>2,076,666</u> | <u>19,092,431</u> | <u>73,177</u> | <u>2,204,951</u> | <u>13,616,949</u> | <u>54,460,341</u> |

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2016

| | Capital Projects Funds | | | |
|--|--------------------------------|------------------------------|--------------------------------|-------------------------------|
| | Street and Sidewalk | Capital Equipment | School Construction | Parks Improvements |
| Assets: | | | | |
| Cash and cash equivalents | \$ - | - | - | - |
| Restricted cash and cash equivalents | 9,542,530 | 829,315 | - | 4,824,399 |
| Restricted investments | - | - | - | - |
| Receivables, net | - | - | - | - |
| Intergovernmental receivables | 469,795 | - | 3,321,977 | 270,098 |
| Total assets | \$ 10,012,325 | 829,315 | 3,321,977 | 5,094,497 |
| Liabilities: | | | | |
| Accounts payable | \$ 916,763 | - | 4,560,300 | 284,168 |
| Due to general fund | - | - | 405,123 | - |
| Retainage payable | 837,262 | - | 433,516 | 310,251 |
| Temporary loans | 8,095,000 | 2,494,383 | 4,760,000 | 5,165,000 |
| Other liabilities | - | - | - | - |
| Total liabilities | 9,849,025 | 2,494,383 | 10,158,939 | 5,759,419 |
| Deferred inflows of resources: | | | | |
| Unavailable revenue-other | - | - | - | - |
| Total deferred inflows of resources | - | - | - | - |
| Fund balances: | | | | |
| Nonspendable | - | - | - | - |
| Restricted | 163,300 | - | - | - |
| Committed | - | - | - | - |
| Unassigned | - | (1,665,068) | (6,836,962) | (664,922) |
| Total fund balances | 163,300 | (1,665,068) | (6,836,962) | (664,922) |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 10,012,325 | 829,315 | 3,321,977 | 5,094,497 |

Capital Projects Funds

| Union Station Garage | Other | Subtotal |
|---------------------------------|------------------|--------------------|
| - | - | - |
| 1,028,894 | 2,000,109 | 18,225,247 |
| - | - | - |
| - | - | - |
| - | - | 4,061,870 |
| <u>1,028,894</u> | <u>2,000,109</u> | <u>22,287,117</u> |
| - | - | 5,761,231 |
| - | - | 405,123 |
| - | - | 1,581,029 |
| - | 100,000 | 20,614,383 |
| - | - | - |
| <u>-</u> | <u>100,000</u> | <u>28,361,766</u> |
| - | - | - |
| <u>-</u> | <u>-</u> | <u>-</u> |
| - | - | - |
| 1,028,894 | 1,900,109 | 3,092,303 |
| - | - | - |
| - | - | (9,166,952) |
| <u>1,028,894</u> | <u>1,900,109</u> | <u>(6,074,649)</u> |
| <u>1,028,894</u> | <u>2,000,109</u> | <u>22,287,117</u> |

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2016

| | Permanent Funds | | | | |
|--|--------------------------|------------------------------|------------------|----------------|----------------|
| | Hope Cemetery | Health Department | Libraries | Schools | Parks |
| Assets: | | | | | |
| Cash and cash equivalents | \$ - | - | - | - | - |
| Restricted cash and cash equivalents | 236,318 | 191,685 | 121,728 | 44,195 | 28,718 |
| Restricted investments | 3,670,703 | 2,508,733 | 9,017,584 | 719,810 | 459,498 |
| Receivables, net | - | - | - | - | - |
| Intergovernmental receivables | - | - | - | - | - |
| Total assets | \$ 3,907,021 | 2,700,418 | 9,139,312 | 764,005 | 488,216 |
| Liabilities: | | | | | |
| Accounts payable | \$ - | 445 | - | - | - |
| Due to general fund | - | - | - | - | - |
| Retainage payable | - | - | - | - | - |
| Temporary loans | - | - | - | - | - |
| Other liabilities | - | - | - | - | - |
| Total liabilities | - | 445 | - | - | - |
| Deferred inflows of resources: | | | | | |
| Unavailable revenue-other | - | - | - | - | - |
| Total deferred inflows of resources | - | - | - | - | - |
| Fund balances: | | | | | |
| Nonspendable | 3,374,183 | 2,192,209 | 6,138,572 | 521,558 | 353,455 |
| Restricted | 532,838 | 507,764 | 3,000,740 | 242,447 | 134,761 |
| Committed | - | - | - | - | - |
| Unassigned | - | - | - | - | - |
| Total fund balances | 3,907,021 | 2,699,973 | 9,139,312 | 764,005 | 488,216 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 3,907,021 | 2,700,418 | 9,139,312 | 764,005 | 488,216 |

| Permanent Funds | | | | | Total Nonmajor Governmental Funds |
|------------------------|---------------------|-----------------|----------------|-------------------|--|
| Police | Public Works | Memorial | Welfare | Subtotal | |
| - | - | - | - | - | 19,023,089 |
| 576 | 27,329 | 193,507 | 1,643 | 845,699 | 52,965,432 |
| 9,613 | 367,619 | 297,567 | 6,015 | 17,057,142 | 17,057,142 |
| - | - | - | - | - | 1,055,586 |
| - | - | - | - | - | 4,549,050 |
| <u>10,189</u> | <u>394,948</u> | <u>491,074</u> | <u>7,658</u> | <u>17,902,841</u> | <u>94,650,299</u> |
| - | - | - | - | 445 | 6,910,130 |
| - | - | - | - | - | 405,123 |
| - | - | - | - | - | 1,581,029 |
| - | - | - | - | - | 20,614,383 |
| - | - | - | - | - | 3,904,900 |
| - | - | - | - | 445 | 33,415,565 |
| - | - | - | - | - | 1,055,586 |
| - | - | - | - | - | 1,055,586 |
| 3,271 | 309,488 | 166,329 | 3,043 | 13,062,108 | 13,062,108 |
| 6,918 | 85,460 | 324,745 | 4,615 | 4,840,288 | 37,377,653 |
| - | - | - | - | - | 19,023,089 |
| - | - | - | - | - | (9,283,702) |
| <u>10,189</u> | <u>394,948</u> | <u>491,074</u> | <u>7,658</u> | <u>17,902,396</u> | <u>60,179,148</u> |
| <u>10,189</u> | <u>394,948</u> | <u>491,074</u> | <u>7,658</u> | <u>17,902,841</u> | <u>94,650,299</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, 2016

| | Special Revenue Funds | | | | |
|--|------------------------------|-------------------------|-----------------------------|-------------------------------|---------------------------|
| | DCU Center | School Lunch | Police Auxiliary | Off-Street Parking | City Revolving |
| Revenues: | | | | | |
| Intergovernmental | \$ - | 12,671,789 | - | - | 68,000 |
| Investment earnings | - | - | - | - | - |
| Charges for services | 1,340,484 | 24,714 | 9,443,988 | - | 4,006,050 |
| Donations | - | - | - | - | - |
| Contributions to permanent fund | - | - | - | - | - |
| Miscellaneous | - | - | - | - | - |
| Total revenues | 1,340,484 | 12,696,503 | 9,443,988 | - | 4,074,050 |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | - | - | - | - | 103,609 |
| Public safety | - | - | 9,394,862 | - | 874,685 |
| Health and human services | - | - | - | - | 311,526 |
| Education | - | 14,344,539 | - | - | - |
| Public works | - | - | - | 1,660,888 | 81,004 |
| Culture and recreation | 926,135 | - | - | - | - |
| Community development | - | - | - | - | - |
| Debt service: | | | | | |
| Principal | 360,145 | - | - | 1,390,524 | - |
| Interest | 102,864 | - | - | 433,827 | - |
| Total expenditures | 1,389,144 | 14,344,539 | 9,394,862 | 3,485,239 | 1,370,824 |
| Excess (deficiency) of revenues over expenditures | (48,660) | (1,648,036) | 49,126 | (3,485,239) | 2,703,226 |
| Other financing sources (uses): | | | | | |
| Transfers in | 437,194 | - | 2,247 | 3,910,880 | 949 |
| Transfers (out) | - | - | (79,477) | - | - |
| Premiums on issuance of bonds | - | - | - | - | - |
| Issuance of bonds | - | - | - | - | - |
| Premium on issuance of refunding bonds | - | - | - | - | - |
| Issuance of refunding bonds | - | - | - | - | - |
| Payment to refunded bonds escrow agent | - | - | - | - | - |
| Total other financing sources (uses) | 437,194 | - | (77,230) | 3,910,880 | 949 |
| Net change in fund balances | 388,534 | (1,648,036) | (28,104) | 425,641 | 2,704,175 |
| Fund balances – beginning | (505,284) | 1,827,924 | 28,104 | 225,809 | 2,423,054 |
| Fund balances – ending | \$ <u>(116,750)</u> | <u>179,888</u> | <u>-</u> | <u>651,450</u> | <u>5,127,229</u> |

Special Revenue Funds

| School Grants | School Revolving | Receipts Reserved | Community Development | Workforce Central | City Grants | Subtotal |
|--------------------|------------------|--------------------|-----------------------|-------------------|--------------------|--------------------|
| 38,073,516 | 410,730 | - | 2,671,969 | 6,847,101 | 12,480,284 | 73,223,389 |
| - | - | - | - | - | 57 | 57 |
| 324,578 | 1,283,064 | 5,547,343 | 478,360 | 14,820 | 154,542 | 22,617,943 |
| 160,922 | - | - | - | 184,800 | 4,424,539 | 4,770,261 |
| - | - | - | - | - | - | - |
| - | - | 294,916 | - | - | 69,830 | 364,746 |
| <u>38,559,016</u> | <u>1,693,794</u> | <u>5,842,259</u> | <u>3,150,329</u> | <u>7,046,721</u> | <u>17,129,252</u> | <u>100,976,396</u> |
| - | - | - | - | - | 6,003,149 | 6,106,758 |
| - | - | - | - | - | 5,021,905 | 15,291,452 |
| - | - | - | - | 6,019,774 | 6,270,236 | 12,601,536 |
| 39,584,817 | 988,728 | - | - | - | - | 54,918,084 |
| - | - | - | - | - | 188,356 | 1,930,248 |
| - | - | - | - | - | 1,677,712 | 2,603,847 |
| - | - | - | 6,402,042 | - | - | 6,402,042 |
| - | - | - | 131,000 | - | 372,000 | 2,253,669 |
| - | - | - | 33,796 | - | 121,282 | 691,769 |
| <u>39,584,817</u> | <u>988,728</u> | <u>-</u> | <u>6,566,838</u> | <u>6,019,774</u> | <u>19,654,640</u> | <u>102,799,405</u> |
| <u>(1,025,801)</u> | <u>705,066</u> | <u>5,842,259</u> | <u>(3,416,509)</u> | <u>1,026,947</u> | <u>(2,525,388)</u> | <u>(1,823,009)</u> |
| 355,228 | - | - | 3,439,502 | - | 1,163,400 | 9,309,400 |
| - | - | (12,221,395) | - | - | (364,444) | (12,665,316) |
| - | - | 2,456,004 | - | - | - | 2,456,004 |
| - | - | - | - | - | - | - |
| - | - | 2,314,487 | - | - | - | 2,314,487 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| <u>355,228</u> | <u>-</u> | <u>(7,450,904)</u> | <u>3,439,502</u> | <u>-</u> | <u>798,956</u> | <u>1,414,575</u> |
| (670,573) | 705,066 | (1,608,645) | 22,993 | 1,026,947 | (1,726,432) | (408,434) |
| 6,972,325 | 1,357,521 | 20,631,734 | 40,434 | 1,133,533 | 14,624,681 | 48,759,835 |
| <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> |

(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, 2016

| | Capital Projects Funds | | | |
|--|--------------------------------|------------------------------|--------------------------------|-------------------------------|
| | Street and Sidewalk | Capital Equipment | School Construction | Parks Improvements |
| Revenues: | | | | |
| Intergovernmental | \$ 9,449,559 | - | 17,308,034 | 570,558 |
| Investment earnings | - | - | - | - |
| Charges for services | - | - | - | - |
| Donations | - | - | - | - |
| Contributions to permanent fund | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Total revenues | 9,449,559 | - | 17,308,034 | 570,558 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | - | 692,986 | - | - |
| Public safety | - | 1,163,622 | - | - |
| Health and human services | - | 5,931 | - | - |
| Education | - | 277,202 | 22,936,708 | - |
| Public works | 18,041,926 | 962,221 | - | - |
| Culture and recreation | - | 411,808 | - | 5,366,521 |
| Community development | - | - | - | - |
| Debt service: | | | | |
| Principal | - | - | - | - |
| Interest | - | - | - | - |
| Total expenditures | 18,041,926 | 3,513,770 | 22,936,708 | 5,366,521 |
| Excess (deficiency) of revenues over expenditures | (8,592,367) | (3,513,770) | (5,628,674) | (4,795,963) |
| Other financing sources (uses): | | | | |
| Transfers in | 22,969 | 350,000 | 6,596 | 798,000 |
| Transfers (out) | (873,096) | - | (7,203,954) | - |
| Premiums on issuance of bonds | - | - | - | - |
| Issuance of bonds | 8,440,000 | 2,862,000 | 5,105,000 | 4,420,000 |
| Premium on issuance of refunding bonds | - | - | - | - |
| Issuance of refunding bonds | 60,666 | - | - | 678,367 |
| Payment to refunded bonds escrow agent | (60,666) | - | - | (678,367) |
| Total other financing sources (uses) | 7,589,873 | 3,212,000 | (2,092,358) | 5,218,000 |
| Net change in fund balances | (1,002,494) | (301,770) | (7,721,032) | 422,037 |
| Fund balances – beginning | 1,165,794 | (1,363,298) | 884,070 | (1,086,959) |
| Fund balances – ending | \$ 163,300 | (1,665,068) | (6,836,962) | (664,922) |

Capital Projects Funds

| Union Station Garage | Other | Subtotal |
|---------------------------------|--------------|-----------------|
| - | 58,520 | 27,386,671 |
| - | 15 | 15 |
| - | - | - |
| - | 350,000 | 350,000 |
| - | - | - |
| - | - | - |
| - | 408,535 | 27,736,686 |
| - | - | 692,986 |
| - | - | 1,163,622 |
| - | - | 5,931 |
| - | - | 23,213,910 |
| - | 312,149 | 19,316,296 |
| - | 19,113 | 5,797,442 |
| - | 750,854 | 750,854 |
| - | - | - |
| - | - | - |
| - | 1,082,116 | 50,941,041 |
| - | (673,581) | (23,204,355) |
| - | 688,981 | 1,866,546 |
| (251,000) | (255,201) | (8,583,251) |
| - | - | - |
| - | 200,000 | 21,027,000 |
| - | - | - |
| 1,738,220 | 456,100 | 2,933,353 |
| (1,738,220) | (456,100) | (2,933,353) |
| (251,000) | 633,780 | 14,310,295 |
| (251,000) | (39,801) | (8,894,060) |
| 1,279,894 | 1,939,910 | 2,819,411 |
| 1,028,894 | 1,900,109 | (6,074,649) |

(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, 2016

| | Permanent Funds | | | | |
|--|--------------------------|------------------------------|----------------|-----------------|-----------------|
| | Hope Cemetery | Health Department | Library | Schools | Parks |
| Revenues: | | | | | |
| Intergovernmental | \$ - | - | - | - | - |
| Investment earnings (losses) | (160,879) | (115,551) | 312,499 | (30,336) | (21,079) |
| Charges for services | - | - | - | - | - |
| Donations | - | - | - | - | - |
| Contributions to permanent fund | 73,383 | 5,480 | 21,450 | 3,040 | - |
| Miscellaneous | - | - | - | - | - |
| Total revenues | (87,496) | (110,071) | 333,949 | (27,296) | (21,079) |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | - | - | - | - | - |
| Public safety | - | - | - | - | - |
| Health and human services | - | 6,393 | - | - | - |
| Education | - | - | - | 4,800 | - |
| Public works | - | - | - | - | - |
| Culture and recreation | - | - | 168,878 | - | - |
| Community development | - | - | - | - | - |
| Debt service: | | | | | |
| Principal | - | - | - | - | - |
| Interest | - | - | - | - | - |
| Total expenditures | - | 6,393 | 168,878 | 4,800 | - |
| Excess (deficiency) of revenues over expenditures | (87,496) | (116,464) | 165,071 | (32,096) | (21,079) |
| Other financing sources (uses): | | | | | |
| Transfers in | - | 500 | 79,404 | 26,190 | 5,637 |
| Transfers (out) | - | (500) | (79,404) | (26,190) | (5,637) |
| Premium on issuance of bonds | - | - | - | - | - |
| Issuance of bonds | - | - | - | - | - |
| Premium on issuance of refunding bonds | - | - | - | - | - |
| Issuance of refunding bonds | - | - | - | - | - |
| Payment to refunded bonds escrow agent | - | - | - | - | - |
| Total other financing sources (uses) | - | - | - | - | - |
| Net change in fund balances | (87,496) | (116,464) | 165,071 | (32,096) | (21,079) |
| Fund balances – beginning | 3,994,517 | 2,816,437 | 8,974,241 | 796,101 | 509,295 |
| Fund balances – ending | \$ 3,907,021 | 2,699,973 | 9,139,312 | 764,005 | 488,216 |

| Permanent Funds | | | | | Total Nonmajor Governmental Funds |
|-----------------|--------------|-----------|---------|------------|--|
| Police | Public Works | Memorial | Welfare | Subtotal | |
| - | - | - | - | - | 100,610,060 |
| (446) | (4,901) | (54,746) | (117) | (75,556) | (75,484) |
| - | - | - | - | - | 22,617,943 |
| - | - | - | - | - | 5,120,261 |
| - | - | - | - | 103,353 | 103,353 |
| - | - | - | - | - | 364,746 |
| (446) | (4,901) | (54,746) | (117) | 27,797 | 128,740,879 |
| - | - | - | - | - | 6,799,744 |
| - | - | - | - | - | 16,455,074 |
| - | - | - | - | 6,393 | 12,613,860 |
| - | - | - | - | 4,800 | 78,136,794 |
| - | 10,770 | - | - | 10,770 | 21,257,314 |
| - | - | 128,776 | - | 297,654 | 8,698,943 |
| - | - | - | - | - | 7,152,896 |
| - | - | - | - | - | 2,253,669 |
| - | - | - | - | - | 691,769 |
| - | 10,770 | 128,776 | - | 319,617 | 154,060,063 |
| (446) | (15,671) | (183,522) | (117) | (291,820) | (25,319,184) |
| - | 483 | 299,599 | 2,700 | 414,513 | 11,590,459 |
| - | (483) | (290,382) | (2,700) | (405,296) | (21,653,863) |
| - | - | - | - | - | 2,456,004 |
| - | - | - | - | - | 21,027,000 |
| - | - | - | - | - | 2,314,487 |
| - | - | - | - | - | 2,933,353 |
| - | - | - | - | - | (2,933,353) |
| - | - | 9,217 | - | 9,217 | 15,734,087 |
| (446) | (15,671) | (174,305) | (117) | (282,603) | (9,585,097) |
| 10,635 | 410,619 | 665,379 | 7,775 | 18,184,999 | 69,764,245 |
| 10,189 | 394,948 | 491,074 | 7,658 | 17,902,396 | 60,179,148 |

(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, 2016

| | <u>Original budget</u> | <u>Final budget</u> | <u>Actual</u> | <u>Variance with final budget positive (negative)</u> |
|--|----------------------------|-------------------------|------------------|---|
| Revenues: | | | | |
| Fees | \$ 1,191,365 | 1,191,365 | 1,181,514 | (9,851) |
| Miscellaneous | 39,500 | 39,500 | 24,653 | (14,847) |
| Total revenues | <u>1,230,865</u> | <u>1,230,865</u> | <u>1,206,167</u> | <u>(24,698)</u> |
| Expenditures: | | | | |
| Salaries and benefits | 326,929 | 342,345 | 342,345 | - |
| Ordinary maintenance | 778,513 | 777,828 | 777,828 | - |
| Debt service | 225,196 | 223,302 | 223,302 | - |
| Indirect costs | 30,600 | 30,600 | 30,600 | - |
| Total expenditures | <u>1,361,238</u> | <u>1,374,075</u> | <u>1,374,075</u> | <u>-</u> |
| Excess (deficiency) of revenues over expenditures | <u>(130,373)</u> | <u>(143,210)</u> | <u>(167,908)</u> | <u>(24,698)</u> |
| Other financing sources (uses): | | | | |
| Transfers in | 150,000 | 187,535 | 187,535 | - |
| Transfers (out) for pension bond assessment | (19,627) | (19,627) | (19,627) | - |
| Total other financing sources (uses) | <u>130,373</u> | <u>167,908</u> | <u>167,908</u> | <u>-</u> |
| Net changes in fund balance | - | 24,698 | - | (24,698) |
| Budgetary fund balance – beginning | - | - | - | - |
| Budgetary fund balance – ending | <u>\$ -</u> | <u>24,698</u> | <u>-</u> | <u>(24,698)</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 | \$ 1,374,075 | 167,908 | - |
| Net change in net pension liability | 18,703 | - | (18,703) |
| Net change in OPEB liability | 28,419 | - | (28,419) |
| Net change in compensated absences | 554 | - | (554) |
| Capital projects expenses | 183 | - | (183) |
| Debt service principal | (166,888) | - | 166,888 |
| Refunded bonds redeemed transfers | - | 16,160 | 16,160 |
| Net change in accrued interest | (95) | - | 95 |
| Depreciation | <u>130,773</u> | <u>-</u> | <u>(130,773)</u> |
| As reported on a GAAP basis | <u>1,385,724</u> | <u>184,068</u> | <u>4,511</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, 2016

| | <u>Original budget</u> | <u>Final budget</u> | <u>Actual</u> | <u>Variance with final budget positive (negative)</u> |
|--|----------------------------|-------------------------|-------------------|---|
| Revenues: | | | | |
| Charges for services | \$ 40,025,832 | 40,025,832 | 39,465,730 | (560,102) |
| Miscellaneous | 711,000 | 711,000 | 868,798 | 157,798 |
| Total revenues | <u>40,736,832</u> | <u>40,736,832</u> | <u>40,334,528</u> | <u>(402,304)</u> |
| Expenditures: | | | | |
| Salaries and benefits | 6,142,241 | 6,450,137 | 5,933,430 | 516,707 |
| Ordinary maintenance | 21,867,449 | 21,559,553 | 21,133,881 | 425,672 |
| Capital | 24,500 | 414,500 | 345,569 | 68,931 |
| Debt service | 8,594,615 | 8,594,615 | 8,453,559 | 141,056 |
| Indirect costs | <u>3,551,718</u> | <u>3,551,718</u> | <u>3,551,718</u> | <u>-</u> |
| Total expenditures | <u>40,180,523</u> | <u>40,570,523</u> | <u>39,418,157</u> | <u>1,152,366</u> |
| Excess of revenues over expenditures | <u>556,309</u> | <u>166,309</u> | <u>916,371</u> | <u>750,062</u> |
| Other financing sources (uses): | | | | |
| Transfers in | - | 390,000 | 390,000 | - |
| Transfers (out) for pension bond assessment | <u>(556,309)</u> | <u>(556,309)</u> | <u>(556,309)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>(556,309)</u> | <u>(166,309)</u> | <u>(166,309)</u> | <u>-</u> |
| Net changes in fund balance | <u>-</u> | <u>-</u> | <u>750,062</u> | <u>750,062</u> |
| Budgetary fund balance – beginning | <u>2,818,055</u> | <u>2,818,055</u> | <u>2,818,055</u> | <u>-</u> |
| Budgetary fund balance – ending | <u>\$ 2,818,055</u> | <u>2,818,055</u> | <u>3,568,117</u> | <u>750,062</u> |

Reconciliation to GAAP-basis:

| | <u>Revenues</u> | <u>Expenses</u> | <u>Transfers (Net)</u> | <u>Net Change in Fund Balance/ Net Position</u> |
|-------------------------------------|-------------------|-------------------|------------------------|---|
| As reported on a budgetary basis | 40,334,528 | 39,418,157 | (166,309) | 750,062 |
| Net change in accrued receivables | 215,526 | - | - | 215,526 |
| Net change in net pension liability | - | 378,144 | - | (378,144) |
| Net change in OPEB liability | - | 261,346 | - | (261,346) |
| Net change in compensated absences | - | 4,873 | - | (4,873) |
| Net change in claims and judgments | - | (1,148,075) | - | 1,148,075 |
| Capital grants | 329,481 | - | - | 329,481 |
| Capital projects expenses | - | 74,598 | - | (74,598) |
| Capital projects transfers | - | - | 272,358 | 272,358 |
| Debt service principal | - | (5,151,038) | - | 5,151,038 |
| Refunded bonds redeemed transfers | - | - | 503,238 | 503,238 |
| Net change in accrued interest | - | 11,129 | - | (11,129) |
| Depreciation | <u>-</u> | <u>8,169,012</u> | <u>-</u> | <u>(8,169,012)</u> |
| As reported on a GAAP basis | <u>40,879,535</u> | <u>42,018,146</u> | <u>609,287</u> | <u>(529,324)</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, 2016

| | <u>Original budget</u> | <u>Final budget</u> | <u>Actual</u> | <u>Variance with final budget positive (negative)</u> |
|--|----------------------------|-------------------------|-------------------|---|
| Revenues: | | | | |
| Charges for services | \$ 28,165,781 | 28,165,781 | 28,578,224 | 412,443 |
| Miscellaneous | 1,260,600 | 1,260,600 | 1,347,382 | 86,782 |
| Total revenues | <u>29,426,381</u> | <u>29,426,381</u> | <u>29,925,606</u> | <u>499,225</u> |
| Expenditures: | | | | |
| Salaries and benefits | 11,020,151 | 11,020,151 | 10,265,026 | 755,125 |
| Ordinary maintenance | 3,626,023 | 3,626,023 | 3,622,927 | 3,096 |
| Capital | 25,000 | 99,100 | 25,167 | 73,933 |
| Debt service | 11,762,190 | 11,762,190 | 11,677,468 | 84,722 |
| Indirect costs | 2,236,383 | 2,236,383 | 2,236,383 | - |
| Total expenditures | <u>28,669,747</u> | <u>28,743,847</u> | <u>27,826,971</u> | <u>916,876</u> |
| Excess of revenues over expenditures | <u>756,634</u> | <u>682,534</u> | <u>2,098,635</u> | <u>1,416,101</u> |
| Other financing sources (uses): | | | | |
| Transfers (out) for pension bond assessment | (756,634) | (756,634) | (756,634) | - |
| Total other financing sources (uses) | <u>(756,634)</u> | <u>(756,634)</u> | <u>(756,634)</u> | <u>-</u> |
| Net changes in fund balance | - | (74,100) | 1,342,001 | 1,416,101 |
| Budgetary fund balance – beginning | <u>3,737,505</u> | <u>3,737,505</u> | <u>3,737,505</u> | <u>-</u> |
| Budgetary fund balance – ending | <u>\$ 3,737,505</u> | <u>3,663,405</u> | <u>5,079,506</u> | <u>1,416,101</u> |

Reconciliation to GAAP-basis:

| | <u>Revenues</u> | <u>Expenses</u> | <u>Transfers (Net)</u> | <u>Net Change in Fund Balance/ Net Position</u> |
|-------------------------------------|-------------------|-------------------|------------------------|---|
| As reported on a budgetary basis | 29,925,606 | 27,826,971 | (756,634) | 1,342,001 |
| Net change in accrued receivables | (647,617) | - | - | (647,617) |
| Net change in net pension liability | - | 706,851 | - | (706,851) |
| Net change in OPEB liability | - | 487,733 | - | (487,733) |
| Net change in compensated absences | - | 308 | - | (308) |
| Net change in claims and judgments | - | (230,498) | - | 230,498 |
| Capital projects expenses | - | 331,612 | - | (331,612) |
| Capital projects transfers | - | - | - | - |
| Debt service principal | - | (9,286,171) | - | 9,286,171 |
| Refunded bonds redeemed transfers | - | - | 473,337 | 473,337 |
| Net change in accrued interest | - | (75,606) | - | 75,606 |
| Depreciation | - | 7,023,735 | - | (7,023,735) |
| As reported on a GAAP basis | <u>29,277,989</u> | <u>26,784,935</u> | <u>(283,297)</u> | <u>2,209,757</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, 2016

| <u>Function and activity</u> | <u>Land</u> | <u>Buildings</u> | <u>Improvements other than buildings</u> |
|---|----------------------|--------------------|--|
| General government: | | | |
| Manager | \$ 7,805,131 | 4,375,552 | - |
| Elections | - | - | - |
| Technical Services | - | 1,632,884 | - |
| Total general government | <u>7,805,131</u> | <u>6,008,436</u> | <u>-</u> |
| Public safety: | | | |
| Police | 514,500 | 1,811,115 | 187,083 |
| Fire | 1,074,600 | 11,243,827 | - |
| Inspectional Services | 209,905 | 597,022 | - |
| Communications | - | 760,876 | - |
| Total public safety | <u>1,799,005</u> | <u>14,412,840</u> | <u>187,083</u> |
| Health and human services: | | | |
| Health | - | 49,846 | - |
| Workforce investment board | - | - | - |
| Elder Affairs | - | 1,628,318 | 21,594 |
| Total health and human services | <u>-</u> | <u>1,678,164</u> | <u>21,594</u> |
| Public works | <u>3,489,339</u> | <u>36,371,791</u> | <u>81,708,242</u> |
| Education | <u>3,358,537</u> | <u>250,217,948</u> | <u>6,366,965</u> |
| Community development | <u>-</u> | <u>104,947</u> | <u>-</u> |
| Culture and recreation: | | | |
| Library | 305,000 | 13,227,920 | - |
| Auditorium | 150,000 | 1,281,833 | - |
| DCU Center | 263,000 | 55,656,620 | - |
| Hope Cemetery | 290,000 | 1,172,514 | - |
| Parks | 5,162,756 | 4,845,338 | 44,350,175 |
| Total culture and recreation | <u>6,170,756</u> | <u>76,184,225</u> | <u>44,350,175</u> |
| Total governmental activities capital assets | <u>\$ 22,622,768</u> | <u>384,978,351</u> | <u>132,634,059</u> |

| Rolling equipment | Equipment and other | Infrastructure | Construction in progress | Total |
|------------------------------|--------------------------------|-----------------------|-------------------------------------|--------------|
| - | 75,387 | - | 14,901,772 | 27,157,842 |
| - | 249,588 | - | - | 249,588 |
| - | 292,091 | - | - | 1,924,975 |
| - | 617,066 | - | 14,901,772 | 29,332,405 |
| 27,000 | 199,052 | - | - | 2,738,750 |
| 3,430,398 | 247,549 | 653,363 | - | 16,649,737 |
| - | - | - | - | 806,927 |
| - | 7,480,020 | - | 3,818,480 | 12,059,376 |
| 3,457,398 | 7,926,621 | 653,363 | 3,818,480 | 32,254,790 |
| - | - | - | - | 49,846 |
| - | 121,114 | - | - | 121,114 |
| - | 50,041 | - | - | 1,699,953 |
| - | 171,155 | - | - | 1,870,913 |
| 1,997,852 | 501,749 | 139,232,367 | 39,034,745 | 302,336,085 |
| 381,223 | 3,442,934 | - | 15,651,917 | 279,419,524 |
| - | 135,881 | - | - | 240,828 |
| - | 469,617 | - | - | 14,002,537 |
| - | - | - | - | 1,431,833 |
| - | 423,381 | - | - | 56,343,001 |
| - | - | - | - | 1,462,514 |
| 415,680 | 175,856 | 1,222,469 | - | 56,172,274 |
| 415,680 | 1,068,854 | 1,222,469 | - | 129,412,159 |
| 6,252,153 | 13,864,260 | 141,108,199 | 73,406,914 | 774,866,704 |

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, 2016

| <u>Function and activity</u> | <u>Governmental activities capital assets July 1, 2015</u> | <u>Additions</u> | <u>Deductions</u> | <u>Governmental activities capital assets June 30, 2016</u> |
|--|--|--------------------|--------------------|---|
| General government: | | | | |
| Manager | \$ 41,271,519 | 34,293,142 | 48,406,819 | 27,157,842 |
| Elections | - | 277,320 | 27,732 | 249,588 |
| Information Services | 1,771,548 | 245,387 | 91,960 | 1,924,975 |
| Total general government | <u>43,043,067</u> | <u>34,815,849</u> | <u>48,526,511</u> | <u>29,332,405</u> |
| Public safety: | | | | |
| Police | 2,346,681 | 742,174 | 350,105 | 2,738,750 |
| Fire | 16,250,152 | 1,635,472 | 1,235,887 | 16,649,737 |
| Inspectional Services | 425,789 | 412,156 | 31,018 | 806,927 |
| Communications | 665,625 | 11,681,368 | 287,617 | 12,059,376 |
| Total public safety | <u>19,688,247</u> | <u>14,471,170</u> | <u>1,904,627</u> | <u>32,254,790</u> |
| Health and human services: | | | | |
| Health | - | 51,124 | 1,278 | 49,846 |
| Workforce investment board | - | 134,571 | 13,457 | 121,114 |
| Elder Affairs | 1,130,160 | 817,131 | 247,338 | 1,699,953 |
| Total health and human svc | <u>1,130,160</u> | <u>1,002,826</u> | <u>262,073</u> | <u>1,870,913</u> |
| Public works | <u>270,246,528</u> | <u>182,655,158</u> | <u>150,565,601</u> | <u>302,336,085</u> |
| Education | <u>246,587,286</u> | <u>54,036,454</u> | <u>21,204,216</u> | <u>279,419,524</u> |
| Community development | <u>-</u> | <u>258,617</u> | <u>17,789</u> | <u>240,828</u> |
| Culture and recreation: | | | | |
| Library | 14,425,334 | 208,603 | 631,400 | 14,002,537 |
| Auditorium | 1,506,388 | 122,925 | 197,480 | 1,431,833 |
| DCU Center | 59,004,086 | 1,246,456 | 3,907,541 | 56,343,001 |
| Hope Cemetery | 1,032,638 | 470,444 | 40,568 | 1,462,514 |
| Parks | 52,273,466 | 17,010,923 | 13,112,115 | 56,172,274 |
| Total culture and recreation | <u>128,241,912</u> | <u>19,059,351</u> | <u>17,889,104</u> | <u>129,412,159</u> |
| Total governmental activities capital assets | <u>\$ 708,937,200</u> | <u>306,299,425</u> | <u>240,369,921</u> | <u>774,866,704</u> |

CITY OF WORCESTER, MASSACHUSETTS
 Agency Fund
 Statement of Changes in Assets and Liabilities
 For the Fiscal Year Ended June 30, 2016

| | <u>Balance</u> <u>July 1, 2015</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>June 30, 2016</u> |
|---------------------------------------|---------------------------------------|------------------|-------------------|--|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 433,460 | 470,524 | (480,457) | 423,527 |
| LIABILITIES | | | | |
| Accounts payable and accrued expenses | \$ 12,218 | 5,989 | (12,218) | 5,989 |
| Due to student groups | 421,242 | 470,524 | (474,228) | 417,538 |
| Total liabilities | \$ 433,460 | 476,513 | (486,446) | 423,527 |

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STATISTICAL SECTION

STATISTICAL SECTION

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

Table of Contents

| | Page |
|---|-------------|
| Financial Trends | 157 |
| 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 | 170 |
| These tables contain information to help the reader assess the City’s most significant local revenue source, the property tax. | |
| Debt Capacity | 175 |
| 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 | 178 |
| 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 | 181 |
| 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)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 (2) | 2015 | 2016 |
|--|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Governmental activities: | | | | | | | | | | |
| Net investment in capital assets (1) | \$ 175,962 | 187,454 | 201,247 | 236,864 | 280,669 | 288,776 | 310,299 | 333,718 | 361,677 | 402,433 |
| Restricted | 45,711 | 65,072 | 42,371 | 29,804 | 42,290 | 40,376 | 43,534 | 54,995 | 56,178 | 56,244 |
| Unrestricted | (114,663) | (163,105) | (175,323) | (208,915) | (230,791) | (232,785) | (254,054) | (608,267) | (640,192) | (693,216) |
| Total governmental activities net position | \$ 107,010 | 89,421 | 68,295 | 57,753 | 92,168 | 96,367 | 99,779 | (219,554) | (222,337) | (234,539) |
| Business-type activities: | | | | | | | | | | |
| Net investment in capital assets (1) | \$ 99,181 | 110,861 | 121,480 | 120,990 | 87,708 | 87,856 | 86,123 | 86,648 | 88,675 | 90,920 |
| Restricted | - | - | - | - | 1,601 | - | - | - | - | - |
| Unrestricted | 24,749 | 11,716 | 10,026 | 7,978 | 8,344 | 10,776 | 11,024 | (10,304) | (12,425) | (12,985) |
| Total business-type net position | \$ 123,930 | 122,577 | 131,506 | 128,968 | 97,653 | 98,632 | 97,147 | 76,344 | 76,250 | 77,935 |
| Primary government: | | | | | | | | | | |
| Net investment in capital assets (1) | \$ 275,143 | 298,315 | 322,727 | 357,854 | 368,377 | 376,632 | 396,422 | 420,366 | 450,352 | 493,353 |
| Restricted | 45,711 | 65,072 | 42,371 | 29,804 | 43,891 | 40,376 | 43,534 | 54,995 | 56,178 | 56,244 |
| Unrestricted | (89,914) | (151,389) | (165,297) | (200,937) | (222,447) | (222,009) | (243,030) | (618,571) | (652,617) | (706,201) |
| Total primary government net position | \$ 230,940 | 211,998 | 199,801 | 186,721 | 189,821 | 194,999 | 196,926 | (143,210) | (146,087) | (156,604) |

(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 (2)

Last Ten Fiscal Years

(accrual basis of accounting)

(amounts expressed in thousands)

| | 2007 | 2008 (1) | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 (3) | 2015 (4) | 2016 |
|---|------------|----------|---------|---------|---------|---------|---------|-----------|----------|---------|
| Expenses | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| General government | \$ 19,583 | 22,268 | 23,416 | 20,862 | 21,026 | 21,552 | 24,652 | 49,096 | 23,721 | 29,353 |
| Public safety | 115,321 | 132,411 | 130,554 | 126,546 | 123,114 | 126,488 | 129,490 | 302,717 | 160,408 | 156,918 |
| Health and human services | 19,873 | 23,366 | 21,229 | 23,994 | 25,033 | 20,597 | 18,396 | 32,756 | 16,650 | 19,262 |
| Education | 366,311 | 406,208 | 421,160 | 425,765 | 432,824 | 435,526 | 451,582 | 548,011 | 424,350 | 480,201 |
| Public works | 26,954 | 34,727 | 41,457 | 33,387 | 37,435 | 39,584 | 40,387 | 57,769 | 47,280 | 41,955 |
| Culture and recreation | 18,621 | 19,895 | 16,475 | 20,018 | 17,528 | 21,535 | 21,756 | 35,211 | 27,461 | 26,351 |
| Community development | 3,873 | 4,764 | 4,942 | 6,118 | 7,926 | 4,399 | 1,820 | 4,256 | 4,063 | 6,562 |
| Redevelopment | - | - | - | - | - | - | - | - | - | - |
| Interest on debt | 25,283 | 25,366 | 24,534 | 25,351 | 22,573 | 23,968 | 25,873 | 26,555 | 21,806 | 20,883 |
| Total governmental activities expenses | 595,819 | 669,005 | 683,767 | 682,041 | 687,459 | 693,649 | 713,956 | 1,056,371 | 725,739 | 781,485 |
| Business-type activities: | | | | | | | | | | |
| Water | 24,727 | 25,213 | 25,669 | 25,638 | 24,911 | 24,388 | 25,734 | 39,096 | 27,391 | 26,785 |
| Sewer | 28,309 | 29,258 | 31,134 | 32,742 | 33,737 | 35,284 | 37,991 | 45,563 | 39,972 | 42,018 |
| Airport | 4,360 | 4,703 | 5,082 | 5,047 | 1,417 | - | - | - | - | - |
| Golf course (nonmajor) | 1,180 | 1,227 | 1,148 | 1,122 | 1,238 | 1,246 | 1,293 | 1,713 | 1,429 | 1,386 |
| Total business-type expenses | 58,576 | 60,401 | 63,033 | 64,549 | 61,303 | 60,918 | 65,018 | 86,372 | 68,792 | 70,189 |
| Total primary government expenses | \$ 654,395 | 729,406 | 746,800 | 746,590 | 748,762 | 754,567 | 778,974 | 1,142,743 | 794,531 | 851,674 |
| Program Revenues | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Public safety | \$ 13,925 | 13,580 | 11,813 | 13,536 | 13,775 | 15,935 | 14,969 | 16,118 | 17,444 | 20,844 |
| Public works | 8,005 | 9,160 | 11,078 | 10,970 | 10,986 | 11,917 | 9,920 | 11,356 | 8,823 | 9,369 |
| Other activities | 7,780 | 7,641 | 7,383 | 8,443 | 9,738 | 8,823 | 8,752 | 8,770 | 8,623 | 8,579 |
| Operating grants and contributions | 315,692 | 326,260 | 345,103 | 348,563 | 368,157 | 363,538 | 365,227 | 374,157 | 342,932 | 363,557 |
| Capital grants and contributions | 65,551 | 28,979 | 23,187 | 28,084 | 32,916 | 10,691 | 23,252 | 15,562 | 24,528 | 29,007 |
| Total governmental activities program revenues | 410,953 | 385,620 | 398,564 | 409,596 | 435,572 | 410,904 | 422,120 | 425,963 | 402,350 | 431,356 |
| Business-type activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Water | 24,623 | 24,251 | 24,993 | 24,102 | 25,946 | 27,002 | 26,838 | 28,243 | 28,360 | 29,278 |
| Sewer | 25,670 | 26,928 | 28,939 | 29,247 | 31,320 | 34,443 | 34,066 | 36,262 | 38,951 | 40,550 |
| Airport | 844 | 802 | 862 | 1,015 | 152 | - | - | - | - | - |
| Golf course (nonmajor) | 1,088 | 1,127 | 1,048 | 987 | 1,035 | 1,127 | 1,058 | 1,096 | 1,090 | 1,206 |
| Operating grants and contributions | 593 | 1,174 | 1,395 | 1,413 | 1,282 | - | 385 | - | - | - |
| Capital grants and contributions | 2,255 | 4,226 | 14,821 | 3,514 | 641 | 2,691 | 2,106 | 386 | - | 330 |
| Total business-type activities program revenues | 55,073 | 58,508 | 72,058 | 60,278 | 60,376 | 65,263 | 64,453 | 65,987 | 68,401 | 71,364 |
| Total primary government program revenues | \$ 466,026 | 444,128 | 470,622 | 469,874 | 495,948 | 476,167 | 486,573 | 491,950 | 470,751 | 502,720 |

(continued)

Table 2

CITY OF WORCESTER, MASSACHUSETTS
Changes in Net Position (2)
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

| | 2007 | 2008 (1) | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 (3) | 2015 (4) | 2016 |
|--|--------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Net (expense)/revenue | | | | | | | | | | |
| Governmental activities | \$ (184,866) | (283,385) | (285,203) | (272,445) | (251,887) | (282,745) | (291,836) | (630,408) | (323,389) | (350,129) |
| Business-type activities | (3,503) | (1,893) | 9,025 | (4,271) | (927) | 4,345 | (565) | (20,385) | (391) | 1,175 |
| Total primary government net (expense)/ revenue | \$ (188,369) | (285,278) | (276,178) | (276,716) | (252,814) | (278,400) | (292,401) | (650,793) | (323,780) | (348,954) |
| General Revenues and Other Changes in Net Position | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Property taxes | \$ 179,130 | 188,930 | 197,472 | 205,558 | 215,511 | 225,460 | 233,206 | 247,313 | 257,423 | 271,801 |
| Motor vehicle excise taxes | 11,893 | 12,932 | 11,393 | 11,050 | 11,519 | 11,866 | 12,720 | 13,075 | 14,305 | 15,554 |
| Intergovernmental | 53,813 | 54,561 | 48,493 | 37,476 | 36,220 | 36,298 | 36,039 | 36,974 | 37,844 | 39,096 |
| Other | 10,060 | 9,000 | 6,269 | 9,505 | 12,809 | 9,886 | 11,730 | 13,227 | 11,244 | 11,883 |
| Transfers (net) | (2,291) | (540) | 96 | (1,733) | 13,250 | 3,366 | 920 | 418 | (297) | (510) |
| Gain on sale of capital assets | - | 622 | 296 | - | - | - | 564 | - | - | - |
| Donations | 159 | 291 | 58 | 47 | 48 | 68 | 69 | 68 | 87 | 103 |
| Extraordinary item - transfer of airport debt to governmental activities | - | - | - | - | (3,055) | - | - | - | - | - |
| Total governmental activities | 252,764 | 265,796 | 264,077 | 261,903 | 286,302 | 286,944 | 295,248 | 311,075 | 320,606 | 337,927 |
| Business-type activities | | | | | | | | | | |
| Transfers (net) | 2,291 | 540 | (96) | 1,733 | (13,250) | (3,366) | (920) | (418) | 297 | 510 |
| Loss on airport disposal | - | - | - | - | (20,193) | - | - | - | - | - |
| Extraordinary item - transfer of airport debt to governmental activities | - | - | - | - | 3,055 | - | - | - | - | - |
| Total business-type activities | 2,291 | 540 | (96) | 1,733 | (30,388) | (3,366) | (920) | (418) | 297 | 510 |
| Total primary government | \$ 255,055 | 266,336 | 263,981 | 263,636 | 255,914 | 283,578 | 294,328 | 310,657 | 320,903 | 338,437 |
| Changes in Net Position | | | | | | | | | | |
| Governmental activities | \$ 67,898 | (17,589) | (21,126) | (10,542) | 34,415 | 4,199 | 3,412 | (319,333) | (2,783) | (12,202) |
| Business-type activities | (1,212) | (1,353) | 8,929 | (2,538) | (31,315) | 979 | (1,485) | (20,803) | (94) | 1,685 |
| Total primary government | \$ 66,686 | (18,942) | (12,197) | (13,080) | 3,100 | 5,178 | 1,927 | (340,136) | (2,877) | (10,517) |

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

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

(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 |
|----------------|-----------------|--------------------------------|--------------------|-----------|-----------|--------------------------------|---------|
| 2007 | \$ 179,130 | 11,893 | 845 | - | - | - | 191,868 |
| 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 |

(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)

| | 2007 | 2008 | 2009 | 2010 | 2011 (2) | 2012 | 2013 | 2014 | 2015 | 2016 |
|------------------------------------|------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| General fund: | | | | | | | | | | |
| Reserved | \$ - | - | - | - | - | - | - | - | - | - |
| Unreserved | 10,025 | 11,906 | 6,107 | 12,029 | - | - | - | - | - | - |
| Restricted | - | - | - | - | 1,070 | 1,444 | 2,652 | 7,020 | 8,425 | 8,896 |
| Unassigned | - | - | - | - | 17,758 | 25,520 | 27,869 | 27,870 | 26,823 | 34,652 |
| Total general fund | \$ <u>10,025</u> | <u>11,906</u> | <u>6,107</u> | <u>12,029</u> | <u>18,828</u> | <u>26,964</u> | <u>30,521</u> | <u>34,890</u> | <u>35,248</u> | <u>43,548</u> |
| All other governmental funds: | | | | | | | | | | |
| Reserved | \$ 34,323 | 30,418 | 34,077 | 24,963 | - | - | - | - | - | - |
| Unreserved, reported in: | | | | | | | | | | |
| Special revenue funds | 11,171 | 13,438 | 17,974 | 18,098 | - | - | - | - | - | - |
| Capital projects funds (1) | 11,196 | 34,529 | 8,215 | 4,752 | - | - | - | - | - | - |
| Permanent funds | 191 | 125 | 79 | 89 | - | - | - | - | - | - |
| Nonspendable | - | - | - | - | 14,215 | 13,918 | 15,579 | 11,961 | 12,935 | 13,062 |
| Restricted | - | - | - | - | 37,287 | 31,849 | 32,228 | 38,863 | 39,153 | 37,378 |
| Committed | - | - | - | - | 22,673 | 29,057 | 35,896 | 39,734 | 40,025 | 38,925 |
| Unassigned | - | - | - | - | (11,518) | (35,686) | (38,492) | (41,479) | (36,088) | (53,372) |
| Total all other governmental funds | \$ <u>56,881</u> | <u>78,510</u> | <u>60,345</u> | <u>47,902</u> | <u>62,657</u> | <u>39,138</u> | <u>45,211</u> | <u>49,079</u> | <u>56,025</u> | <u>35,993</u> |

(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)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| REVENUES | | | | | | | | | | |
| Property taxes | \$ 177,781 | 189,419 | 197,777 | 204,832 | 216,370 | 225,501 | 233,327 | 246,742 | 256,652 | 271,977 |
| Motor vehicle excise taxes | 12,545 | 12,677 | 11,370 | 11,551 | 11,311 | 11,888 | 12,843 | 13,281 | 14,265 | 15,346 |
| Other taxes and in-lieu payments | 2,188 | 3,684 | 4,941 | 5,539 | 6,365 | 6,015 | 6,064 | 6,559 | 6,872 | 7,303 |
| Penalties and interest on taxes | 2,520 | 2,414 | 2,605 | 2,272 | 2,285 | 2,872 | 2,532 | 2,440 | 2,107 | 2,530 |
| Licenses and permits | 4,354 | 4,726 | 4,402 | 4,890 | 4,865 | 5,210 | 4,992 | 5,274 | 5,795 | 6,388 |
| Intergovernmental (2) | 407,873 | 405,755 | 411,424 | 423,208 | 445,106 | 417,838 | 425,047 | 434,696 | 380,721 | 392,272 |
| Charges for services | 19,920 | 21,107 | 21,055 | 22,847 | 23,539 | 24,988 | 24,106 | 24,123 | 24,137 | 28,418 |
| Fines and forfeitures | 3,148 | 3,308 | 3,137 | 3,190 | 2,806 | 2,845 | 2,594 | 3,151 | 3,097 | 2,584 |
| Investment earnings (losses) | 4,292 | 2,766 | (929) | 1,598 | 2,543 | (35) | 2,116 | 3,107 | 567 | 930 |
| Donations | 3,793 | 4,951 | 2,468 | 3,633 | 5,528 | 4,677 | 11,396 | 5,997 | 5,059 | 5,120 |
| Contributions to permanent funds | 159 | 291 | 58 | 47 | 48 | 68 | 69 | 69 | 87 | 103 |
| Miscellaneous | 1,295 | 1,013 | 1,246 | 1,621 | 89 | 1,723 | 1,452 | 1,845 | 2,259 | 1,733 |
| Total revenues | 639,868 | 652,111 | 659,554 | 685,228 | 720,855 | 703,590 | 726,538 | 747,284 | 701,618 | 734,704 |
| EXPENDITURES | | | | | | | | | | |
| General government | 15,720 | 17,957 | 16,644 | 15,308 | 15,936 | 28,650 | 31,911 | 25,559 | 24,574 | 39,609 |
| Public safety (3) | 87,316 | 93,942 | 92,323 | 89,308 | 90,395 | 94,006 | 93,314 | 96,604 | 97,773 | 114,414 |
| Health and human services | 16,470 | 19,649 | 18,172 | 21,118 | 22,499 | 17,788 | 15,547 | 14,872 | 13,619 | 15,810 |
| Education (1) | 257,076 | 261,869 | 285,359 | 297,701 | 302,392 | 299,134 | 296,957 | 316,669 | 313,239 | 337,664 |
| Public works | 44,611 | 49,363 | 39,126 | 39,087 | 53,773 | 55,072 | 61,137 | 53,607 | 61,059 | 62,248 |
| Culture and recreation | 14,203 | 14,766 | 16,753 | 20,952 | 17,402 | 16,758 | 26,590 | 35,534 | 22,027 | 19,826 |
| Fringe benefits (2) | 130,746 | 136,213 | 124,318 | 138,899 | 147,319 | 143,722 | 148,073 | 157,319 | 103,581 | 105,732 |
| Community development | 3,873 | 4,764 | 4,942 | 6,118 | 7,926 | 4,399 | 1,820 | 4,256 | 4,064 | 7,153 |
| State & regional charges | 20,551 | 23,914 | 26,102 | 26,865 | 28,255 | 29,526 | 31,243 | 30,627 | 30,659 | 31,166 |
| Debt service: | | | | | | | | | | |
| Principal | 32,886 | 32,774 | 34,761 | 36,637 | 38,813 | 36,747 | 36,746 | 37,922 | 54,979 | 46,974 |
| Interest | 26,020 | 25,829 | 26,098 | 24,827 | 24,023 | 26,890 | 27,269 | 27,964 | 23,825 | 23,583 |
| Total expenditures | 649,472 | 681,040 | 684,598 | 716,820 | 748,733 | 752,692 | 770,607 | 800,933 | 749,399 | 804,179 |
| Excess of revenues (under) expenditures | (9,604) | (28,929) | (25,044) | (31,592) | (27,878) | (49,102) | (44,069) | (53,649) | (47,781) | (69,475) |

(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)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|------------------|---------------|-----------------|----------------|---------------|-----------------|---------------|---------------|---------------|-----------------|
| OTHER FINANCING SOURCES (USES) | | | | | | | | | | |
| Transfers in | \$ 13,968 | 21,296 | 23,452 | 21,954 | 51,549 | 27,305 | 27,117 | 25,473 | 33,917 | 41,360 |
| Transfers (out) | (16,259) | (20,713) | (23,356) | (23,686) | (38,299) | (23,832) | (26,197) | (25,055) | (34,215) | (41,870) |
| Premium on issuance of bonds and notes | 464 | 423 | 651 | 820 | 804 | 479 | 3,789 | 3,366 | 4,081 | 3,988 |
| Sale of capital assets | - | 1,366 | 325 | 29 | 478 | - | 840 | - | - | - |
| Premium from issuance of refunding bonds | - | - | - | - | - | - | 300 | - | 2,305 | 2,314 |
| Issuance of refunding bonds | - | - | 542 | - | - | 7,422 | 3,015 | - | 7,407 | 9,439 |
| Issuance of bonds and notes | 33,775 | 50,067 | - | 25,955 | 34,900 | 29,867 | 48,150 | 52,492 | 41,589 | 44,280 |
| Payment to refunded bond escrow agent | - | - | (535) | - | - | (7,521) | (3,315) | - | - | (9,439) |
| Capital lease | - | - | - | - | - | - | - | 5,609 | - | 7,671 |
| Total other financing sources (uses), net | <u>31,948</u> | <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> |
| Net change in fund balances | \$ <u>22,344</u> | <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> |
| Debt service as a percentage of noncapital expenditures | 9.6% | 9.2% | 9.3% | 9.3% | 9.2% | 9.2% | 9.1% | 9.1% | 11.4% | 11.3% |

(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 |
|----------------|-----------------|--------------------------------|--------------------|-----------|-----------|--------------------------------|----------------------------|---------|
| 2007 | \$177,781 | 12,545 | 845 | - | - | - | - | 191,171 |
| 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 |

(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, 2016

Graph 1

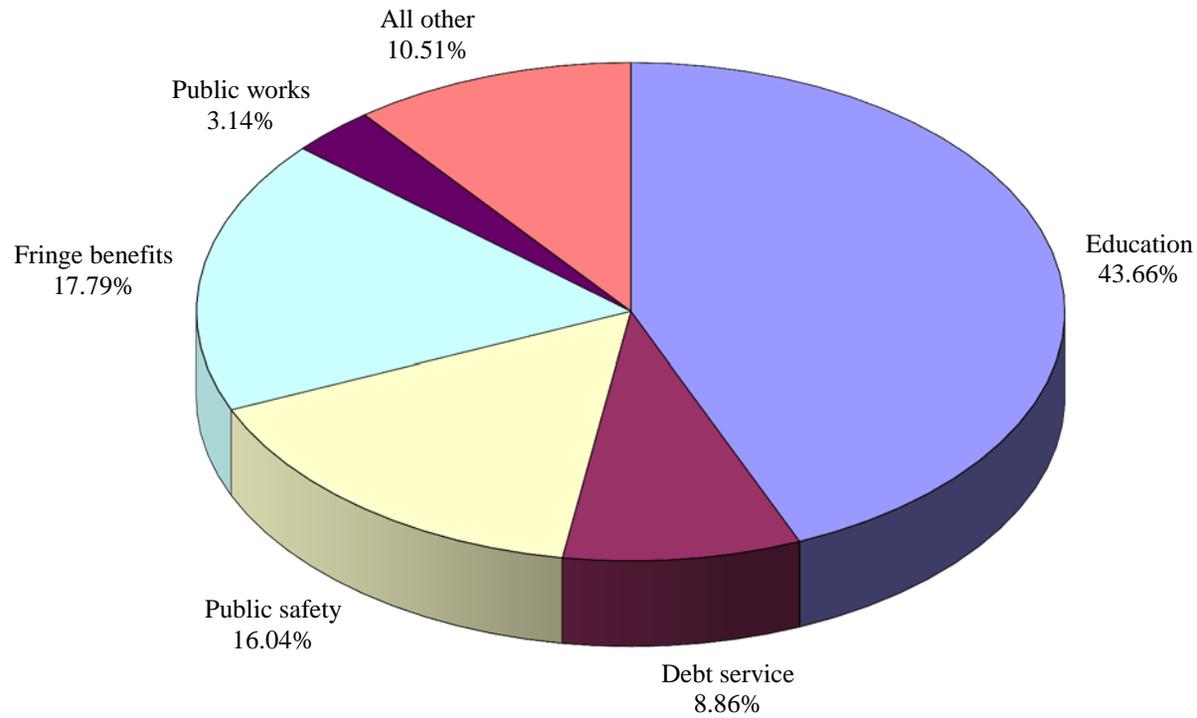


Table 7

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

| | <u>2007</u> | <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> |
|-------------------------------|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| General government | \$ 13,316 | 13,785 | 13,981 | 12,749 | 13,730 | 14,598 | 15,570 | 16,809 | 17,930 | 18,396 |
| Public safety (3) | 74,813 | 78,576 | 79,656 | 76,689 | 74,931 | 77,812 | 80,413 | 82,546 | 83,930 | 95,321 |
| Health and human services (2) | 3,832 | 3,776 | 2,639 | 575 | 675 | 764 | 926 | 730 | 860 | 3,196 |
| Education | 191,976 | 197,241 | 199,840 | 198,001 | 205,918 | 222,923 | 235,106 | 250,819 | 247,223 | 259,527 |
| Public works | 16,610 | 20,121 | 22,491 | 18,096 | 18,255 | 18,030 | 18,995 | 19,740 | 20,758 | 18,673 |
| Culture and recreation | 8,441 | 8,400 | 9,016 | 7,955 | 7,807 | 8,123 | 8,467 | 8,951 | 9,385 | 9,714 |
| Fringe benefits (1) | 130,746 | 136,213 | 124,318 | 138,899 | 147,319 | 143,722 | 148,073 | 157,319 | 103,581 | 105,732 |
| State and regional charges | 20,550 | 23,914 | 26,102 | 26,865 | 28,254 | 29,526 | 31,243 | 30,627 | 30,659 | 31,166 |
| Debt service | <u>45,466</u> | <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> |
| Totals | \$ <u>505,750</u> | <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> |

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

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

(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.

CITY OF WORCESTER, MASSACHUSETTS
General Fund Revenues – Modified Accrual Basis of Accounting
Year ended June 30, 2016

Graph 2

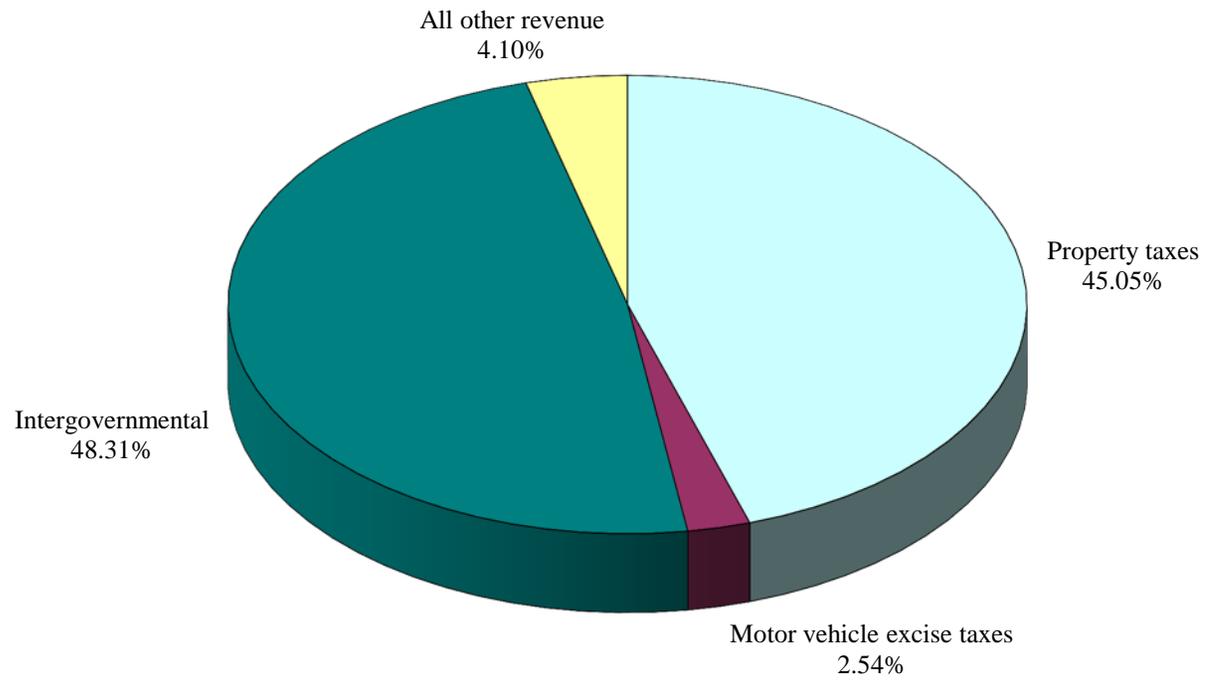


Table 8

CITY OF WORCESTER, MASSACHUSETTS

General Fund Revenues – Modified Accrual Basis of Accounting

Last Ten Fiscal Years

(Amounts expressed in thousands)

| | <u>2007</u> | <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> |
|----------------------------------|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Property taxes | \$ 177,781 | 189,419 | 197,777 | 204,832 | 216,370 | 225,501 | 233,328 | 246,742 | 256,652 | 271,977 |
| Motor vehicle excise taxes | 12,545 | 12,677 | 11,370 | 11,550 | 11,311 | 11,888 | 12,843 | 13,281 | 14,265 | 15,346 |
| Other taxes and in-lieu payments | 2,188 | 2,556 | 2,529 | 3,208 | 4,934 | 4,440 | 4,413 | 4,804 | 4,777 | 5,083 |
| Penalties and interest on taxes | 2,520 | 2,414 | 2,605 | 2,272 | 2,285 | 2,872 | 2,532 | 2,440 | 2,107 | 2,530 |
| Licenses and permits | 4,355 | 4,726 | 4,402 | 4,890 | 4,865 | 5,210 | 4,992 | 5,274 | 5,795 | 6,388 |
| Intergovernmental (1) | 295,983 | 311,475 | 295,327 | 303,512 | 306,267 | 321,719 | 332,726 | 342,950 | 278,742 | 291,662 |
| Charges for services | 5,684 | 6,232 | 5,918 | 5,909 | 5,939 | 5,814 | 5,746 | 5,683 | 5,566 | 5,800 |
| Fines and forfeitures | 3,148 | 3,308 | 3,137 | 3,190 | 2,806 | 2,845 | 2,594 | 3,151 | 3,097 | 2,584 |
| Investment earnings | 2,349 | 1,806 | 462 | 105 | 68 | 100 | 318 | 484 | 554 | 1,005 |
| Miscellaneous | 1,093 | 773 | 790 | 1,438 | 1,429 | 1,318 | 1,112 | 1,246 | 1,727 | 1,368 |
| Totals | \$ <u>507,646</u> | <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> |

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

CITY OF WORCESTER, MASSACHUSETTS

Assessed Valuation
Last Ten Fiscal Years
(Amounts expressed in millions)

Graph 3

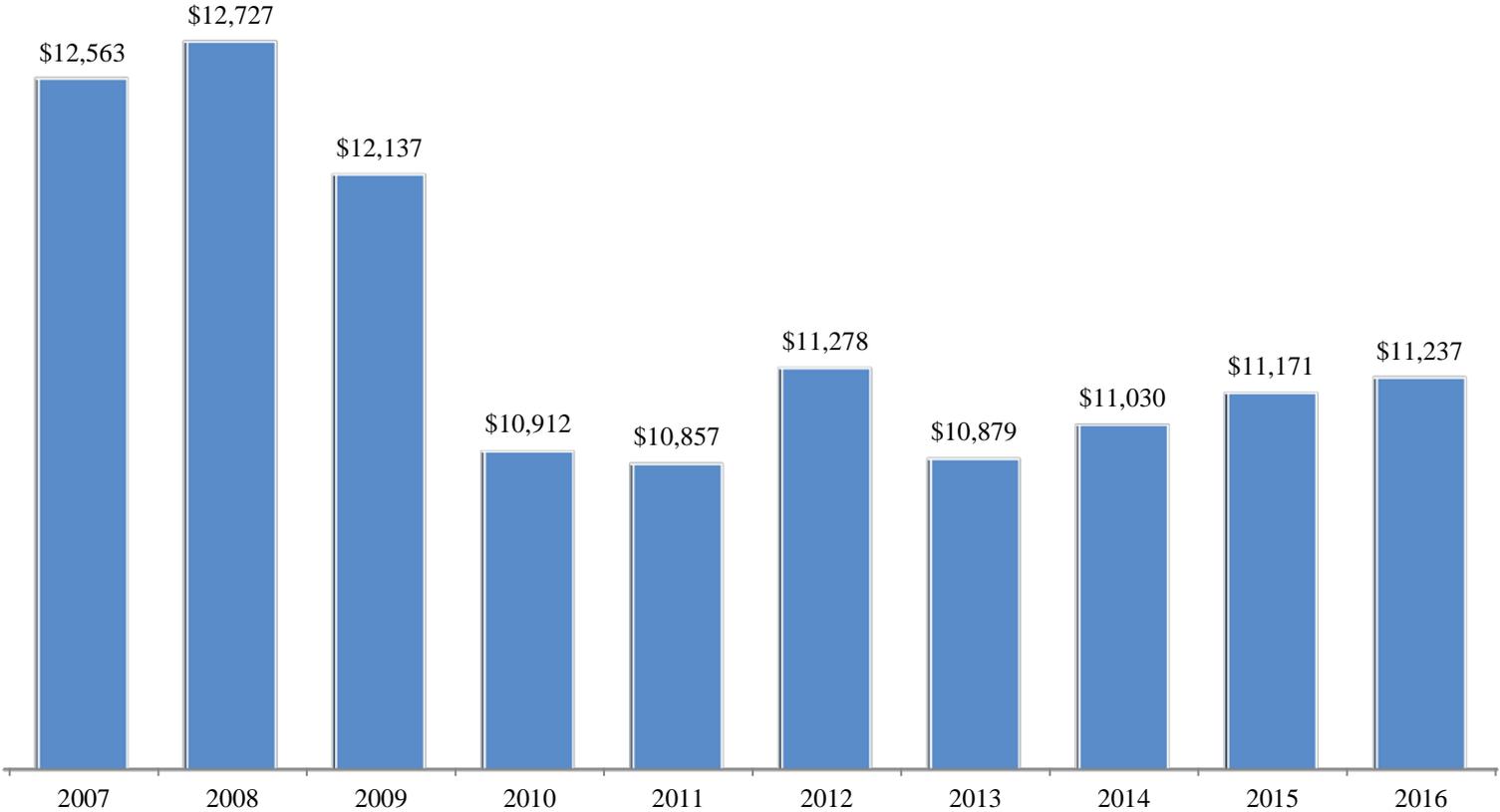


Table 9

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 taxable 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 | | | | | | | | |
| 2007 | \$ 10,312,441 | 1,914,173 | 336,437 | | 12,563,051 | 14.47 | 12,654,572 | 99.28 | \$ 2,768,326 | 15,331,377 | 18.06 % |
| 2008 | 10,462,845 | 1,915,408 | 348,741 | | 12,726,994 | 14.97 | 12,654,572 | 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 | 13,827,180 | 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 | 11,928,304 | 94.55 | 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 | 12,173,645 | 90.61 | 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 | 12,196,575 (2) | 92.13 | 4,948,796 | 16,185,677 | 30.58 |

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

(2) Proposed by state as of July 20, 2016

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) |
|------------------------|--------------------------------------|--|------------------------------|-----------------------------|
| 2007 | \$ 12.10 | 25.32 | 25.32 | 14.47 |
| 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 |

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, 2016
(Amounts expressed in thousands)

| Taxpayer | Type of business | 2016 | | | | 2007 | | | |
|--|------------------------|---------------------|------|----------------------|------------------------|--------------------|------|----------------------|------------------------|
| | | Assessed valuation | Rank | Fiscal 2016 tax bill | Percentage of tax levy | Assessed valuation | Rank | Fiscal 2007 tax bill | Percentage of tax levy |
| Massachusetts Electric Co. | Electric utility | \$ 344,007 | 1 | \$ 11,689 | 4.25 % | \$ 127,138 | 1 | \$ 3,219 | 1.77 % |
| Nstar Gas Co | Gas utility | 245,770 | 2 | 8,351 | 3.04 | 53,407 | 3 | 1,352 | 0.74 |
| VHS Acquisition Subsidiary (St Vincent Hospital) | Medical care | 148,687 | 3 | 5,052 | 1.84 | 37,833 | 9 | 1,018 | 0.56 |
| New England Power Co | Electric utility | 69,558 | 4 | 2,364 | 0.86 | N/A | N/A | N/A | N/A |
| V3B SA LLC (Lincoln Plaza) | Shopping plaza | 61,194 | 5 | 2,079 | 0.76 | 64,441 | 2 | 1,632 | 0.90 |
| Worcester Renaissance LLC (CitySquare) | Office/Shopping mall | 60,670 | 6 | 2,062 | 0.75 | 34,965 | 10 | 875 | 0.45 |
| 440 Lincoln St Holding (Hanover/Allmerica) | Insurance | 56,277 | 7 | 1,912 | 0.70 | 50,406 | 5 | 1,276 | 0.70 |
| Verizon New England | Communications | 48,556 | 8 | 1,650 | 0.60 | 42,952 | 7 | 1,087 | 0.60 |
| Worcester TC LLC (Abbott Bioresearch) | Biotechnology park | 44,455 | 9 | 1,511 | 0.55 | 42,479 | 8 | 1,076 | 0.59 |
| St. Gobain Abrasives Inc. (Norton Company) | Abrasives manufacturer | 44,435 | 10 | 1,510 | 0.55 | N/A | N/A | N/A | N/A |
| Greendale Mall (Mayflower Greendale LLP) | Shopping mall | N/A | N/A | N/A | N/A | 45,053 | 6 | 1,141 | 0.63 |
| Alexandria Real Estate Equities | Biotechnology park | N/A | N/A | N/A | N/A | 50,567 | 4 | 1,280 | 0.70 |
| Totals | | \$ <u>1,123,609</u> | | \$ <u>38,180</u> | <u>13.90</u> % | \$ <u>549,241</u> | | \$ <u>13,956</u> | <u>7.64</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 |
| 2007 | \$ 179,473 | 173,398 | 96.62 % | \$ 6,075 | 179,473 | 100.00% |
| 2008 | 188,626 | 182,941 | 96.99 | 5,685 | 188,626 | 100.00 |
| 2009 | 196,851 | 191,590 | 97.33 | 5,262 | 196,851 | 100.00 |
| 2010 | 205,164 | 199,535 | 97.26 | 5,629 | 205,164 | 100.00 |
| 2011 | 215,790 | 210,277 | 97.45 | 5,385 | 215,662 | 99.94 |
| 2012 | 223,966 | 220,352 | 98.39 | 2,770 | 223,122 | 99.62 |
| 2013 | 236,849 | 230,540 | 97.34 | 4,699 | 235,239 | 99.32 |
| 2014 | 247,569 | 241,606 | 97.59 | 4,432 | 246,038 | 99.38 |
| 2015 | 258,626 | 252,256 | 97.54 | 4,836 | 257,092 | 99.41 |
| 2016 | 273,255 | 267,287 | 97.82 | - | 267,287 | 97.82 |

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 | | | |
| 2007 | \$ 493,498 | 5,800 | - | 112,785 | 949 | 613,032 | 15.91% | \$ 3,531 |
| 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 | 14.70 | 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) |
|--------------------|---|---|---------------------------------|
| 2007 | \$ 606,283 | 4.8% | \$ 3,492 |
| 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 | 3,416 |

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)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Debt Limit | \$ 632,729 | 632,729 | 691,359 | 691,359 | 596,415 | 596,415 | 608,682 | 608,682 | 580,797 | 609,829 |
| Total net debt applicable to limit | <u>268,676</u> | <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> |
| Legal debt margin | \$ <u>364,053</u> | <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> |
| Total net debt applicable to the limit as a percentage of debt limit | 42.46% | 42.45% | 40.57% | 38.17% | 57.45% | 53.81% | 55.96% | 73.51% | 92.46% | 95.06% |

Legal Debt Margin Calculation for Fiscal Year 2016

| | | |
|---|------------------|----------------------|
| Equalized valuation - real estate and personal property (January 1, 2016) * | \$ 12,196,575 | |
| Debt limit - 5% of equalized valuation | | 609,829 |
| Total bonded debt (including authorized and unissued of \$607,459) | \$ 1,222,140 | |
| Less bonded debt not included in computation of legal debt margin as defined by Massachusetts statutes | (400,877) | |
| Less bonded debt authorized but not yet issued which is outside the debt limit | <u>(241,577)</u> | <u>579,686</u> |
| Legal debt margin | \$ | <u><u>30,143</u></u> |

* Equalized value is proposed by state as of July 20, 2016.

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> |
|--------------------|-----------------------|---|-----------------------------------|-----------------------|-------------------------------------|------------------------------|
| 2007 | 173,599 | \$ 3,852,044 | 22,189 | 34.2 | 23,682 | 6.3% |
| 2008 | 163,006 | 3,853,888 | 23,643 | 35.1 | 22,844 | 5.7 |
| 2009 | 182,892 | 4,005,468 | 21,901 | 33.6 | 23,126 | 9.3 |
| 2010 | 181,045 (3) | 4,001,567 | 22,103 | 33.4 (3) | 23,281 | 9.6 |
| 2011 | 181,641 | 4,029,111 | 22,182 | 33.8 | 23,490 | 10.0 |
| 2012 | 182,680 | 4,013,313 | 21,969 | 32.7 | 24,360 | 9.3 |
| 2013 | 182,538 | 4,103,841 | 22,482 | 32.7 | 24,740 | 9.8 |
| 2014 | 183,033 | 4,039,704 | 22,071 | 33.0 | 24,562 | 7.5 |
| 2015 | 184,806 | 4,401,590 | 23,817 | 34.9 | 25,254 | 6.2 |
| 2016 | 184,806 (6) | 4,401,590 (6) | 23,817 (6) | 34.9 (6) | 25,076 | 5.4 |

- (1) Source: U.S. Census Bureau: American Community Survey estimates
- (2) Source: US Census; American Community Survey: (total household income) 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>2007</u> | <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> |
|---------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| General government | 200 | 201 | 175 | 176 | 167 | 175 | 181 | 194 | 189 | 195 |
| Public safety | | | | | | | | | | |
| Police | | | | | | | | | | |
| Officers | 465 | 448 | 438 | 415 | 409 | 418 | 426 | 441 | 427 | 441 |
| Civilians | 54 | 51 | 49 | 49 | 49 | 49 | 49 | 51 | 52 | 50 |
| Fire | | | | | | | | | | |
| Officers | 402 | 403 | 384 | 385 | 399 | 413 | 393 | 407 | 386 | 391 |
| Civilians | 11 | 11 | 9 | 8 | 8 | 10 | 9 | 10 | 10 | 10 |
| Other public safety | 89 | 97 | 116 | 110 | 105 | 110 | 112 | 114 | 111 | 113 |
| Health and human services | 96 | 94 | 56 | 53 | 54 | 55 | 56 | 57 | 53 | 63 |
| Education | 3,506 | 3,384 | 3,433 | 3,446 | 3,478 | 3,456 | 3,499 | 3,552 | 3,565 | 3,637 |
| Public works | 185 | 189 | 189 | 174 | 163 | 158 | 168 | 171 | 172 | 169 |
| Culture and recreation | 129 | 135 | 129 | 125 | 117 | 115 | 122 | 130 | 135 | 134 |
| Water | 106 | 105 | 111 | 109 | 102 | 100 | 107 | 109 | 111 | 102 |
| Sewer | 55 | 54 | 58 | 59 | 52 | 50 | 51 | 53 | 51 | 47 |
| Airport | 17 | 16 | 16 | 17 | 20 | — | — | — | — | — |
| Golf course (nonmajor) | 3 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Totals | <u>5,318</u> | <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> |

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 | 2016 | | | 2007 | | |
|-----------------------------------|---------------------------|-----------|------|-------------------------------------|-----------|------|-------------------------------------|
| | | Employees | Rank | Percentage of total City Employment | Employees | Rank | Percentage of total City Employment |
| UMass Memorial Health Care, Inc. | Health care | 13,473 | 1 | 13.35% | 12,261 | 1 | 15.62% |
| City of Worcester | Government and education | 5,354 | 2 | 5.30 | 5,318 | 2 | 6.78 |
| Umass Medical School | Education | 4,741 | 3 | 4.70 | N/A | N/A | N/A |
| Reliant Medical Group | Health care | 2,600 | 4 | 2.58 | N/A | N/A | N/A |
| Saint Vincent Hospital | Health care | 2,269 | 5 | 2.25 | 2,000 | 3 | 2.55 |
| The Hanover Insurance Group, Inc. | Insurance | 1,850 | 6 | 1.83 | 1,872 | 5 | 2.38 |
| Saint Gobain Abrasives, Inc. | Abrasives manufacturer | 1,599 | 7 | 1.58 | 1,907 | 4 | 2.43 |
| Seven Hills Foundation, Inc. | Health and human services | 1,419 | 8 | 1.41 | N/A | N/A | N/A |
| College of the Holy Cross | Education | 1,142 | 9 | 1.13 | 1,110 | 7 | 1.41 |
| Worcester Polytechnic School | Education | 1100 | 10 | N/A | 823 | 10 | 1.05 |
| Fallon Health, Inc. | Health care | N/A | N/A | N/A | 1,734 | 6 | 2.21 |
| Clark University | Education | N/A | N/A | N/A | 944 | 8 | 1.20 |
| Polar Beverages | Bottling company | N/A | N/A | N/A | 898 | 9 | 1.14 |

Sources: 2016 - Worcester Business Journal
2007 - Worcester Area Chamber of Commerce

Table 19

CITY OF WORCESTER, MASSACHUSETTS

Operating Indicators by Function
Last Ten Fiscal/Calendar Years

| Function | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|--------|--------|--------|-----------|--------|--------|--------|--------|--------|--------|
| Police (1) | | | | | | | | | | |
| Total arrests | 8,581 | 9,360 | 8,658 | 7,584 | 7,174 | 6,785 | 7,385 | 8,124 | 6,254 | N/A |
| Different individuals arrested | 6,671 | 7,082 | 6,584 | 5,837 | 5,591 | 5,204 | 5,627 | 5,935 | 4,847 | N/A |
| Arrests for selected charges | | | | | | | | | | |
| Drug-related | 2,668 | 2,574 | 2,582 | 844 (2) | 705 | 719 | 850 | 762 | 655 | N/A |
| Assault and battery | 571 | 679 | 704 | 1,465 (2) | 1,409 | 1,309 | 1,327 | 1,266 | 952 | N/A |
| Disorderly conduct, disturbing peace | 1,201 | 1,291 | 1,210 | 1,222 | 1,054 | 920 | 916 | 888 | 672 | N/A |
| Prostitution and related | 178 | 214 | 223 | 133 | 156 | 121 | 181 | 160 | 86 | N/A |
| Sexual assault, including rape | 29 | 41 | 39 | 38 | 20 | 28 | 28 | 23 | 22 | N/A |
| Armed robbery | 66 | 70 | 43 | 59 | 70 | 47 | 64 | 48 | 38 | N/A |
| Murder/manslaughter, attempted murder | 14 | 6 | 12 | 10 | 15 | 15 | 7 | 11 | 3 | N/A |
| Fire (1) (source: WFD) | | | | | | | | | | |
| Total Incidents | 22,498 | 24,735 | 29,002 | 27,605 | 27,782 | 28,348 | 28,333 | 30,099 | 31,933 | N/A |
| Selected incidents | | | | | | | | | | |
| EMS | 15,654 | 15,086 | 18,167 | 20,285 | 19,654 | 20,472 | 20,307 | 21,707 | 22,779 | N/A |
| Structure fires | 681 | 663 | 828 | 732 | 728 | 845 | 779 | 799 | 828 | N/A |
| Arson fires | 28 | 29 | 37 | 25 | 30 | 43 | 29 | 18 | 19 | N/A |
| Vehicle fires | 139 | 132 | 120 | 96 | 123 | 102 | 82 | 78 | 91 | N/A |
| Good intent | 1,514 | 1,452 | 1,665 | 1,571 | 1,621 | 1,819 | 2,137 | 2,127 | 2,165 | N/A |
| False alarm | 2,971 | 3,134 | 3,849 | 2,926 | 3,177 | 2,871 | 3,017 | 3,070 | 3,214 | N/A |
| Highways and streets (source: DPW) | | | | | | | | | | |
| Streets and resurfacing (1) | 15 | 15 | 14 | 11 | 11 | 16 | 21 | 12 | 12 | 19 |
| Potholes repaired | 11,489 | 13,088 | 12,030 | 14,932 | 12,954 | 9,392 | 9,264 | 12,320 | 18,095 | 27,706 |
| Sanitation | | | | | | | | | | |
| Refuse collected (tons/day) | 100.30 | 91.06 | 88.65 | 82.30 | 81.83 | 81.71 | 79.30 | 79.22 | 80.97 | 83.93 |
| Recyclable collected (tons/day) | 34.77 | 36.07 | 33.97 | 34.71 | 36.1 | 35.42 | 36.4 | 37.13 | 37.91 | 39.58 |
| Water | | | | | | | | | | |
| New connections | 271 | 239 | 188 | 48 | 95 | 104 | 97 | 98 | 109 | 103 |
| Water main breaks | 56 | 55 | 72 | 52 | 74 | 29 | 55 | 42 | 80 | 48 |
| Average daily consumption (thousands of gallons) | 22,187 | 22,960 | 22,264 | 21,225 | 22,099 | 22,539 | 22,110 | 21,700 | 22,682 | 22,945 |
| Wastewater | | | | | | | | | | |
| Average daily sewage treatment (thousands of gallons) | 33,200 | 31,700 | 34,600 | 31,160 | 26,550 | 33,000 | 25,200 | 22,300 | 25,060 | 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 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Public safety | | | | | | | | | | |
| Police stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Fire stations | 11 | 11 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| Education: | | | | | | | | | | |
| Schools | 45 | 46 | 46 | 45 | 46 | 46 | 46 | 46 | 46 | 46 |
| Libraries | 3 | 3 | 3 | 3 | 3 | 4 | 4 | 4 | 4 | 4 |
| Public works | | | | | | | | | | |
| Streets: | | | | | | | | | | |
| Streets (miles) | 418 | 420 | 423 | 424 | 425 | 430 | 431 | 431 | 435 | 435 |
| Sidewalks (miles) | 480 | 483 | 487 | 487 | 489 | 488 | 488 | 487 | 487 | 488 |
| Streetlights | 13,275 | 13,321 | 13,321 | 13,759 | 13,759 | 13,759 | 13,759 | 13,763 | 13,783 | 13,783 |
| Water: | | | | | | | | | | |
| Main pipes (miles) (1) | 582 | 582 | 584 | 585 | 586 | 585 | 585 | 597 | 597 | 625 |
| Fire hydrants (2) | 5,658 | 5,675 | 5,680 | 5,726 | 5,748 | 5,762 | 5,770 | 5,805 | 5,827 | 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) | 392 | 393 | 396 | 396 | 397 | 397 | 398 | 398 | 398 | 399 |
| Combined sewers (miles) | 65 | 61 | 61 | 61 | 61 | 61 | 61 | 61 | 61 | 61 |
| Surface sewers (miles) | 364 | 368 | 370 | 371 | 371 | 371 | 372 | 371 | 371 | 372 |
| Municipal parking garages: | | | | | | | | | | |
| Capacity - cars | | | | | | | | | | |
| Pearl Elm | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 819 |
| Federal Plaza | 511 | 511 | 511 | 511 | 511 | 511 | 511 | 511 | 511 | 511 |
| Major Taylor Boulevard (3) | 981 | 981 | 981 | 981 | 981 | 981 | 981 | 981 | 984 | 983 |
| Union Station (3) | N/A | N/A | N/A | 500 | 500 | 500 | 500 | 500 | 500 | 500 |
| Worcester Common | 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 | 1,316 | 1,328 | 1,328 | 1,328 | 1,328 | 1,326 | 1,326 |
| DCU Center | | | | | | | | | | |
| Seating capacities | | | | | | | | | | |
| Center stage | 14,639 | 14,639 | 14,639 | 14,639 | 14,639 | 14,800 | 14,606 | 14,596 | 14,595 | 14,595 |
| End stage | 14,751 | 14,751 | 14,751 | 14,751 | 14,751 | 14,751 | 14,587 | 14,587 | 14,581 | 14,581 |
| Basketball | 13,500 | 13,500 | 13,500 | 13,500 | 13,500 | 13,500 | 13,342 | 13,342 | 13,347 | 13,347 |
| Hockey with open curtain | 12,239 | 12,239 | 12,239 | 12,239 | 12,239 | 12,239 | 12,118 | 12,118 | 12,118 | 12,118 |
| Hockey with closed curtain (3) | 6,880 | 6,880 | 6,880 | 7,230 | 7,230 | 7,230 | 7,304 | 7,304 | 7,304 | 7,304 |
| Ice show | 12,297 | 12,297 | 12,297 | 12,297 | 12,297 | 12,297 | 12,198 | 12,198 | 12,198 | 12,198 |
| Municipal cemeteries | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |

Source: Various government departments

- (1) Beginning in fiscal year 2007, service laterals, hydrant laterals and fire pipes were not included in the miles of water mains.
- (2) Beginning in fiscal year 2007, private hydrants were not included in the number of fire hydrants.
- (3) N/A is being reported because the Major Taylor Boulevard and Union Station garages did not open until 2007 and 2010, respectively.
N/A is also being reported because hockey with closed curtain did not begin until 2007.