

CITY OF BEVERLY, MASSACHUSETTS

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

YEAR ENDED JUNE 30, 2014

CITY OF BEVERLY, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

TABLE OF CONTENTS

Independent Auditor's Report	3
Management's Discussion and Analysis	5
Basic Financial Statements	14
Statement of Net Position	15
Statement of Activities.....	16
Governmental funds – balance sheet	18
Reconciliation of the governmental funds balance sheet total fund balances to the statement of net position ..	19
Governmental funds – statement of revenues, expenditures and changes in fund balances	20
Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities.....	21
Proprietary funds – statement of net position	22
Proprietary funds – statement of revenues, expenses and changes in fund net position	24
Proprietary funds – statement of cash flows	26
Fiduciary funds – statement of fiduciary net position.....	28
Fiduciary funds – statement of changes in fiduciary net position	29
Notes to basic financial statements.....	30
Required Supplementary Information	64
Schedule of revenues, expenditures and changes in fund balance – general fund – budget and actual	66
Retirement System Schedules.....	68
Retirement System Schedule of Funding Progress	69
Retirement System Schedule of Employer Contributions	70
Other postemployment benefit plan schedules.....	71
Other postemployment benefit plan schedule of funding progress and employer contributions	72
Other postemployment benefit plan actuarial methods and assumptions	73
Notes to required supplementary information	74



100 Quannapowitt Parkway
Suite 101
Wakefield, MA 01880
T. 781-914-1700
F. 781-914-1701
www.powersandsullivan.com

Independent Auditor's Report

To the Honorable City Council
City of Beverly, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Beverly, Massachusetts, as of and for the year ended June 30, 2014 (except for the Beverly Contributory Retirement System which is as of and for the year ended December 31, 2013), which collectively comprise the City's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Beverly, Massachusetts, as of June 30, 2014 (except for the Beverly Contributory Retirement System which is as of December 31, 2013), and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2014, on our consideration of the City of Beverly, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



November 21, 2014

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Beverly, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2014. The City complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB).

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

Financial Highlights

- The City's credit rating was upgraded from AA- to AA by Standard & Poor's credit rating agency.
- The City established a general stabilization fund in 2014 to help ensure Beverly's long-term stability by setting aside money for unforeseen or capital needs. The City also adopted a policy requiring, among other provisions, a minimum annual contribution to the fund of no less than 10% of the certified free cash balance. During 2014, the City's general stabilization fund totaled \$751,000 which equaled its initial appropriation into the fund.
- The City also established a Community Preservation fund in 2014 for the purpose of purchasing open space, the preservation of historic resources and the establishment of affordable housing. \$624,000 was raised in community preservation taxes during the year and the fund totaled \$612,000 at year-end.
- The assets and deferred outflows of resources of the City of Beverly exceeded its liabilities at the close of the most recent year by \$136.8 million (net position).
- At the end of the current year, the City's general fund reported an ending fund balance of \$11.3 million, an increase of \$2 million in comparison with the prior year. Total fund balance represents 10% of total general fund expenditures.
- The other postemployment benefit (OPEB) liability increased by \$9.5 million during the current year and the year-end balance totals \$57.6 million.

Overview of the Financial Statements

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

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

The *statement of net position* presents information on all assets and liabilities, and deferred inflows/outflows of resources, with the difference between them reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, community development, human services, culture and recreation and interest. The business-type activities include the activities of the water, sewer, airport, golf and tennis, sanitation, harbor management, recreation and senior citizens funds.

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

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

Governmental funds. The focus of the City of Beverly's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Beverly's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

Proprietary funds. The City maintains two types of propriety 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 its water, sewer, airport, golf and tennis, sanitation, harbor management, recreation and senior citizens activities.

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to employees' health insurance.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for propriety funds.

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City of Beverly's assets and deferred outflows of resources exceeded liabilities by \$136.8 million at the close of 2014.

Net position of \$155.7 million reflects its net investment in capital assets (e.g., land, land improvements, buildings and building improvements, machinery and equipment, vehicles and infrastructure); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the governmental net position, \$6.5 million, represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net position* has a year-end deficit of (\$25.4) million. The primary reason for this deficit balance is the recognition of other postemployment benefit liabilities totaling \$57.6 million.

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

Governmental Activities

The City of Beverly's assets and deferred outflows of resources exceeded liabilities for governmental activities by \$92.4 million at the close of 2014.

	2014	2013
Assets:		
Current assets.....	\$ 43,915,652	\$ 35,054,971
Noncurrent assets (excluding capital).....	10,012,093	10,662,599
Capital assets not being depreciated.....	16,353,202	15,976,728
Capital assets, net of accumulated depreciation.....	155,805,206	155,170,599
Total assets.....	226,086,153	216,864,897
Total deferred outflows of resources.....	915,398	-
Liabilities:		
Current liabilities (excluding debt).....	5,602,747	6,056,948
Noncurrent liabilities (excluding debt).....	58,653,000	48,590,811
Current debt.....	19,641,024	12,927,835
Noncurrent debt.....	50,657,318	54,269,709
Total liabilities.....	134,554,089	121,845,303
Net Position:		
Net investment in capital assets.....	117,040,836	119,394,603
Restricted.....	6,613,116	6,471,172
Unrestricted.....	(31,206,490)	(30,846,181)
Total net position.....	\$ 92,447,462	\$ 95,019,594

	2014	2013
Program Revenues:		
Charges for services.....	\$ 8,333,604	\$ 7,101,132
Operating grants and contributions.....	29,288,887	27,329,943
Capital grants and contributions.....	2,423,926	2,383,836
General Revenues:		
Real estate and personal property taxes, net of tax refunds payable.....	83,306,910	80,218,253
Tax liens.....	1,176,600	1,022,873
Motor vehicle and other excise taxes.....	5,153,334	4,936,704
Community preservation taxes.....	631,004	-
Penalties & interest on taxes.....	391,627	619,539
Payments in lieu of taxes.....	245,715	241,501
Nonrestricted grants.....	5,087,997	4,978,675
Unrestricted investment income.....	677,849	170,979
Other revenues.....	168,020	425,741
Total revenues.....	136,885,473	129,429,176
Expenses:		
General government.....	7,377,755	7,484,943
Community development.....	100,610	189,698
Community preservation.....	11,863	-
Public safety.....	25,399,713	24,505,846
Education.....	87,935,211	85,553,698
Public works.....	8,983,985	9,373,588
Human services.....	2,323,421	2,075,574
Culture and recreation.....	4,878,556	3,590,070
Interest.....	1,763,242	1,807,112
Total expenses.....	138,774,356	134,580,529
Change in net position before transfers.....	(1,888,883)	(5,151,353)
Transfers.....	(683,249)	112,876
Change in net position.....	(2,572,132)	(5,038,477)
Net position at beginning of year.....	95,019,594	100,058,071
Net position at end of year.....	\$ 92,447,462	\$ 95,019,594

The governmental expenses totaled \$138.8 million of which \$40 million (29%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$96.9 million, primarily coming from property taxes, motor vehicle excise taxes and non-restricted state aid.

The governmental net position decreased by \$2.6 million during the current year. This was primarily due to an increase of \$10 million in the OPEB liability that was offset by the recognition of \$2.4 million in capital grants, actual revenues exceeding anticipated revenues by \$2.1 million, a \$1.5 million increase in the internal service fund, \$612,000 was raised for community preservation and a \$941,000 surplus in the nonmajor funds that is due to the timing of grant expenditures and grant drawdowns.

The internal service fund experienced an increase of \$1.5 million that is primarily due to a favorable claims experience and the restructuring of the City's health care plan to a defined benefit plan.

Business-type Activities

For the City's business-type activities, assets exceeded liabilities by \$44.4 million at the close of 2014.

	<u>2014</u>	<u>2013</u>
Assets:		
Current assets.....	\$ 7,802,866	\$ 5,596,251
Capital assets not being depreciated.....	5,577,964	5,577,964
Capital assets, net of accumulated depreciation.....	<u>44,805,714</u>	<u>43,666,805</u>
Total assets.....	<u>58,186,544</u>	<u>54,841,020</u>
Liabilities:		
Current liabilities (excluding debt).....	1,211,668	846,258
Noncurrent liabilities (excluding debt).....	846,000	1,283,000
Current debt.....	2,898,452	802,754
Noncurrent debt.....	<u>8,842,071</u>	<u>9,540,523</u>
Total liabilities.....	<u>13,798,191</u>	<u>12,472,535</u>
Net Position:		
Net investment in capital assets.....	38,643,155	39,539,214
Unrestricted.....	<u>5,745,198</u>	<u>2,829,271</u>
Total net position.....	<u>\$ 44,388,353</u>	<u>\$ 42,368,485</u>
Program Revenues:		
Charges for services.....	\$ 14,537,638	\$ 14,751,748
Capital grants and contributions.....	<u>1,893,264</u>	<u>4,214,530</u>
Total revenues.....	<u>16,430,902</u>	<u>18,966,278</u>
Expenses:		
Water.....	2,992,163	3,574,918
Sewer.....	7,876,644	8,124,506
Airport.....	817,858	722,814
Golf and Tennis.....	282,182	228,432
Sanitation.....	2,333,543	2,236,401
Harbor Management.....	381,082	360,011
Recreation.....	352,342	311,613
Senior Citizens.....	<u>58,469</u>	<u>63,309</u>
Total expenses.....	<u>15,094,283</u>	<u>15,622,004</u>
Change in net position before transfers.....	1,336,619	3,344,274
Transfers.....	<u>683,249</u>	<u>(112,876)</u>
Change in net position.....	\$ 2,019,868	\$ 3,231,398
Net position at beginning of year.....	<u>42,368,485</u>	<u>39,137,087</u>
Net position at end of year.....	<u>\$ 44,388,353</u>	<u>42,368,485</u>

Business-type net position of \$38.6 million (87%) represents the net investment in capital assets while \$5.7 million (13%) is unrestricted. The City's business-type activities net position increased by \$2 million in the current year.

The water operations experienced an increase of \$658,000 in net position. The increase is mainly attributable to a \$255,000 transfer from the general fund that was raised to cover a prior year deficit, \$300,000 of unexpended appropriations that were carried forward to be expended in 2015, and a \$347,000 decrease in OPEB expense that is attributable to health care reform considerations that have been reflected in the current actuarial valuation. These increases were offset by decreases that are due to user fee collections being \$195,000 less than budgeted, and water rates being set to raise revenue to support \$250,000 of debt principal payments and not set to raise revenue to support \$332,000 of non-cash depreciation expense.

The sewer operations experienced a decrease of \$98,000 in net position. The decrease is mainly attributable to current rates being set to raise revenue to support \$403,000 of debt principal payments and not set to raise revenue to support \$1.1 million of non-cash depreciation expense. These decreases were offset by a \$311,000 transfer from the general that was raised to cover a prior year deficit, \$146,000 of unexpended appropriations that were carried forward to be expended in 2015, and a \$92,000 decrease in OPEB expense that is attributable to health care reform considerations that have been reflected in the current actuarial valuation.

The airport operations experienced an increase of \$1.4 million in net position due to the following factors. The increase is mainly attributable to \$2.4 million in grant revenue received through the State and Federal Airport Improvement Program. This increase was offset by decreases that are due to current rates not being set to raise revenue to support non-cash depreciation expense of \$1.1 million.

The golf and tennis operations experienced an increase of \$58,000. The increase is mainly attributable to payments from the management company exceeding the budgeted amount by \$30,000 and unexpended appropriations.

Sanitation operations experienced an increase of \$84,000 which was primarily due to unexpended appropriations for curbside pickup and the incineration contract.

The harbor management operations experienced a decrease of \$115,000 which is primarily due to an appropriation surplus totaling \$234,000 that was offset by rates not being set to raise revenue to support \$312,000 of non-cash depreciation expense.

The recreation operations experienced an increase of \$44,000 which is primarily due to better than expected revenues from the Lynch Park carriage house rentals. This can be attributed to the improvements that were completed in recent years.

The senior citizens operations experienced a decrease of \$22,000 which is primarily due to the use of \$64,000 of retained earnings that was appropriated to fund the operating budget that offset by \$47,000 of unexpended appropriations.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, governmental funds reported combined ending fund balances of \$15.2 million of which \$11.3 million is for the general fund; \$612,000 is for the community preservation fund, a deficit of \$4 million

is for the high school renovation and reconstruction fund, a deficit of \$2.6 million is for the municipal building improvements fund and \$9.9 million is for the nonmajor governmental funds. Cumulatively there was an increase of \$811,000 in fund balances from the prior year.

All governmental activities report positive balances with the exception of the high school renovation and reconstruction fund and the municipal building improvements fund as indicated above.

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund was \$8.6 million, while total fund balance was \$11.3 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and the total fund balance to total fund expenditures. Unassigned fund balance represents 7% of the total general fund expenditures, while total fund balance represents 10% of that same amount. \$1,000,000 of fund balance is committed for debt service stabilization and \$1.6 million of fund balance is assigned for encumbrances that have been carried forward to the next year.

In 2014, the City's general fund increased by \$2 million. This increase is primarily due to \$2.1 million of better than anticipated revenue collections and \$313,000 of unexpended appropriations. These increases were offset by decreases that relate to GAAP adjustments such as accrued payroll, tax refunds payable and 60 day receipts.

The community preservation fund is attributable to the City's acceptance of the Community Preservation Act, which allows the City to impose up to a 1% surcharge on property taxes and to receive matching State grant funds for specified uses related to the acquisition, creation, preservation and support of open space, historical resources, land for recreational use and community housing. As of June 30, 2014, the fund balance totaled \$612,000 which is attributable to community preservation taxes collected during the year. The state matching funds are funded by a 2015 state appropriation and accordingly the City will recognize the revenue next year.

The high school renovation and reconstruction fund is used to account for the high school renovation and reconstruction project activities. At the end of the current year, the fund had a deficit balance totaling \$4 million. The City has temporarily funded the project with a bond anticipation note totaling \$7.3 million. The project has been substantially completed as of June 30, 2014.

The municipal building improvement fund is used to account for the renovation and reconstruction of City hall and the police station. At the end of the current year, the fund had a deficit balance totaling \$2.6 million. The City has temporarily funded the project with a bond anticipation note totaling \$4 million and plans to issue long-term debt to permanently finance the project upon completion.

General Fund Budgetary Highlights

During 2014, the Council approved supplemental appropriations totaling \$3 million, which primarily consisted of increases in state and county charges, public safety and transfers to other funds totaling \$425,000, \$640,000 and \$1.3 million.

Capital Asset and Debt Administration

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

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts to \$222.5 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and building improvements, machinery and equipment, vehicles and infrastructure.

The total additions to the governmental activities investment in capital assets for the current year were \$8.5 million and total retirements were \$505,000. Major capital asset events during the current year consisted of city hall and police station renovations, building improvements, construction of streets, sidewalks, and the purchase of vehicles and machinery and equipment.

The \$3.5 million in additions to the business-type activities are attributable to infrastructure improvements, land improvements, building improvements, vehicles, and machinery and equipment.

Debt Administration. Outstanding long-term debt of the general government, as of June 30, 2014, totaled \$55.2 million.

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 2014, \$955,000 of such assistance was received and \$7.6 million will be received in future years. Of this amount, \$1.5 million represents reimbursement of long-term interest costs, and \$6.2 million represents reimbursement of approved construction costs. Accordingly, a \$6.2 million intergovernmental receivable and corresponding deferred inflow of resources have been reported in the governmental fund financial statements. The deferred inflow of resources has been recognized as revenue in the conversion to the government-wide financial statements.

In 2005, the Commonwealth enacted legislation that changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the City. Through the end of 2014, the City has received \$41.6 million of capital grant reimbursements from the MSBA which is equal to 56.42% of approved construction costs incurred to date for the new high school. The City received \$2.9 million of reimbursements in 2014 and anticipates receiving the final reimbursement in 2015.

At year end, the water, sewer, and golf and tennis enterprise funds have \$1.7 million, \$6.3 million and \$1.5 million, respectively, of outstanding long-term debt, which is fully supported by rates and does not rely on a general fund subsidy.

Short-term debt outstanding at year-end for the general government totaled \$14 million for the high school renovation and construction project, the acquisition of fire trucks, police radio equipment, repairs to the library, city hall, and police station buildings, and a feasibility study for the middle school.

The Sewer and Beverly Golf and Tennis funds have \$2.2 million of short term debt outstanding at year end. This debt was used to finance sewer drainage, and improvements at the Beverly golf and tennis club.

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

Requests for Information

This financial report is designed to provide a general overview of the City of Beverly's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Accountant, City Hall, 191 Cabot Street, Beverly, Massachusetts, 01915.

Basic Financial Statements

STATEMENT OF NET POSITION

JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 32,641,479	\$ 2,168,311	\$ 34,809,790
Investments.....	761,524	-	761,524
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	778,601	-	778,601
Tax liens.....	3,281,648	-	3,281,648
Community preservation.....	7,345	-	7,345
Motor vehicle and other excise taxes.....	740,041	-	740,041
User fees.....	-	3,707,314	3,707,314
Departmental and other.....	220,649	654,566	875,215
Intergovernmental.....	5,482,193	555,096	6,037,289
Loans.....	2,172	-	2,172
Investment in joint venture.....	-	717,579	717,579
NONCURRENT:			
Investments.....	4,181,217	-	4,181,217
Receivables, net of allowance for uncollectibles:			
Real estate tax deferrals.....	282,805	-	282,805
Intergovernmental.....	5,538,673	-	5,538,673
Loans.....	9,398	-	9,398
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	16,353,202	5,577,964	21,931,166
Depreciable.....	155,805,206	44,805,714	200,610,920
TOTAL ASSETS.....	226,086,153	58,186,544	284,272,697
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding.....	915,398	-	915,398
LIABILITIES			
CURRENT:			
Warrants payable.....	1,277,879	988,243	2,266,122
Accrued liabilities.....	487,232	-	487,232
Health claims payable.....	1,019,000	-	1,019,000
Tax refunds payable.....	268,706	-	268,706
Accrued interest.....	731,574	127,025	858,599
Other liabilities.....	261,804	-	261,804
Customer deposits payable.....	124,552	4,400	128,952
Capital lease obligations.....	570,506	-	570,506
Compensated absences.....	1,210,000	92,000	1,302,000
Workers' compensation.....	222,000	-	222,000
Notes payable.....	14,011,000	2,200,000	16,211,000
Bonds payable.....	5,059,518	698,452	5,757,970
NONCURRENT:			
Capital lease obligations.....	531,729	-	531,729
Compensated absences.....	819,000	39,000	858,000
Workers' compensation.....	1,030,000	-	1,030,000
Other postemployment benefits.....	56,804,000	807,000	57,611,000
Bonds payable.....	50,125,589	8,842,071	58,967,660
TOTAL LIABILITIES.....	134,554,089	13,798,191	148,352,280
NET POSITION			
Net investment in capital assets.....	117,040,836	38,643,155	155,683,991
Restricted for:			
Loans.....	11,570	-	11,570
Permanent funds:			
Expendable.....	849,790	-	849,790
Nonexpendable.....	1,982,056	-	1,982,056
Gifts and grants.....	3,769,700	-	3,769,700
Unrestricted.....	(31,206,490)	5,745,198	(25,461,292)
TOTAL NET POSITION.....	\$ 92,447,462	\$ 44,388,353	\$ 136,835,815

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 7,377,755	\$ 925,372	\$ 486,958	\$ -	\$ (5,965,425)
Community development.....	100,610	-	28,017	-	(72,593)
Community preservation.....	11,863	-	461	-	(11,402)
Public safety.....	25,399,713	3,012,769	2,129,478	283,132	(19,974,334)
Education.....	87,935,211	3,513,800	25,222,895	176,967	(59,021,549)
Public works.....	8,983,985	306,618	558,324	1,963,827	(6,155,216)
Human services.....	2,323,421	89,766	399,376	-	(1,834,279)
Culture and recreation.....	4,878,556	485,279	108,800	-	(4,284,477)
Interest.....	1,763,242	-	354,578	-	(1,408,664)
Total Governmental Activities.....	138,774,356	8,333,604	29,288,887	2,423,926	(98,727,939)
<i>Business-Type Activities:</i>					
Water.....	2,992,163	3,793,819	-	-	801,656
Sewer.....	7,876,644	8,034,420	-	-	157,776
Airport.....	817,858	387,175	-	1,891,764	1,461,081
Golf and tennis.....	282,182	370,000	-	-	87,818
Sanitation.....	2,333,543	1,378,484	-	1,500	(953,559)
Harbor management.....	381,082	131,139	-	-	(249,943)
Recreation.....	352,342	401,437	-	-	49,095
Senior citizens.....	58,469	41,164	-	-	(17,305)
Total Business-Type Activities.....	15,094,283	14,537,638	-	1,893,264	1,336,619
Total Primary Government.....	\$ 153,868,639	\$ 22,871,242	\$ 29,288,887	\$ 4,317,190	\$ (97,391,320)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

YEAR ENDED JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ (98,727,939)	\$ 1,336,619	\$ (97,391,320)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	83,306,910	-	83,306,910
Tax liens.....	1,176,600	-	1,176,600
Motor vehicle and other excise taxes.....	5,153,334	-	5,153,334
Community preservation taxes.....	631,004	-	631,004
Penalties and interest on taxes.....	391,627	-	391,627
Payments in lieu of taxes.....	245,715	-	245,715
Grants and contributions not restricted to specific programs.....	5,087,997	-	5,087,997
Unrestricted investment income.....	677,849	-	677,849
Miscellaneous.....	168,020	-	168,020
<i>Transfers, net</i>	(683,249)	683,249	-
Total general revenues and transfers.....	96,155,807	683,249	96,839,056
Change in net position.....	(2,572,132)	2,019,868	(552,264)
<i>Net Position:</i>			
Beginning of year.....	95,019,594	42,368,485	137,388,079
End of year.....	\$ 92,447,462	\$ 44,388,353	\$ 136,835,815

(Concluded)

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2014

	General	Community Preservation	High School Renovation & Reconstruction	Municipal Building Improvements	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents.....	\$ 12,524,394	\$ 612,257	\$ -	\$ 2,037,836	\$ 7,807,996	\$ 22,982,483
Investments.....	-	-	-	-	4,942,741	4,942,741
Receivables, net of uncollectibles:						
Real estate and personal property taxes.....	778,601	-	-	-	-	778,601
Real estate tax deferrals.....	282,805	-	-	-	-	282,805
Tax liens.....	3,281,648	-	-	-	-	3,281,648
Community preservation.....	-	7,345	-	-	-	7,345
Motor vehicle and other excise taxes.....	740,041	-	-	-	-	740,041
Departmental and other.....	15,863	-	-	-	155,615	171,478
Intergovernmental.....	6,175,928	-	3,212,438	-	1,632,500	11,020,866
Loans.....	-	-	-	-	11,570	11,570
TOTAL ASSETS.....	\$ 23,799,280	\$ 619,602	\$ 3,212,438	\$ 2,037,836	\$ 14,550,422	\$ 44,219,578
LIABILITIES						
Warrants payable.....	\$ 573,579	-	-	\$ 595,299	109,001	\$ 1,277,879
Accrued liabilities.....	487,232	-	-	-	-	487,232
Tax refunds payable.....	268,706	-	-	-	-	268,706
Liabilities due depositors.....	-	-	-	-	124,552	124,552
Other liabilities.....	247,041	-	-	-	14,763	261,804
Notes payable.....	-	-	7,261,000	4,000,000	2,750,000	14,011,000
TOTAL LIABILITIES.....	1,576,558	-	7,261,000	4,595,299	2,998,316	16,431,173
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues.....	10,952,085	7,345	-	-	1,645,558	12,604,988
FUND BALANCES (DEFICITS)						
Nonspendable.....	-	-	-	-	1,982,056	1,982,056
Restricted.....	-	612,257	-	-	9,064,328	9,676,585
Committed.....	1,000,000	-	-	-	-	1,000,000
Assigned.....	1,637,020	-	-	-	-	1,637,020
Unassigned.....	8,633,617	-	(4,048,562)	(2,557,463)	(1,139,836)	887,756
TOTAL FUND BALANCES.....	11,270,637	612,257	(4,048,562)	(2,557,463)	9,906,548	15,183,417
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)....	\$ 23,799,280	\$ 619,602	\$ 3,212,438	\$ 2,037,836	\$ 14,550,422	\$ 44,219,578

See notes to basic financial statements.

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

JUNE 30, 2014

Total governmental fund balances.....	\$	15,183,417
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		172,158,408
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds....		12,604,988
Internal service funds are used by management to account for retirees' health insurance and workers' compensation activities:		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.....		8,689,167
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(731,574)
Long-term liabilities, including bonds payable and similar items, are not due and payable in the current period and, therefore, are not reported in the governmental funds.....		
Bonds payable.....	(55,185,107)	
Workers' compensation claims.....	(1,252,000)	
Compensated absences.....	(2,029,000)	
Other postemployment benefits.....	(56,804,000)	
Capital lease obligations.....	<u>(1,102,235)</u>	
Net effect of reporting long-term liabilities.....		<u>(116,372,342)</u>
In the statement of activities, deferred charges are reported for refundings of debt, which are amortized over the shorter of the remaining life of the refunding bonds or refunded bonds. In governmental funds, defeasances of debt are expensed when the refunding bonds are issued.....		<u>915,398</u>
Net position of governmental activities.....	\$	<u><u>92,447,462</u></u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2014

	General	Community Preservation	High School Renovation & Reconstruction	Municipal Building Improvements	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:						
Real estate and personal property taxes, net of tax refunds.....	\$ 83,832,389	\$ -	\$ -	\$ -	\$ -	\$ 83,832,389
Tax liens.....	654,407	-	-	-	-	654,407
Motor vehicle and other excise taxes.....	5,237,614	-	-	-	-	5,237,614
Community preservation taxes.....	-	623,659	-	-	-	623,659
Charges for services.....	-	-	-	-	10,924	10,924
Intergovernmental.....	26,691,361	-	-	50,000	9,374,016	36,115,377
Departmental and other.....	3,260,955	-	-	-	6,284,216	9,545,171
Contributions.....	-	-	-	-	56,901	56,901
Investment income.....	21,289	461	-	-	756,203	777,953
TOTAL REVENUES.....	119,698,015	624,120	-	50,000	16,482,260	136,854,395
EXPENDITURES:						
Current:						
General government.....	4,995,262	-	-	1,547,682	90,515	6,633,459
Public safety.....	13,555,005	-	-	-	5,010,020	18,565,025
Education.....	50,386,044	-	185,537	-	8,976,233	59,547,814
Public works.....	5,473,373	-	-	-	2,174,838	7,648,211
Community development.....	-	-	-	-	100,610	100,610
Community preservation.....	-	11,863	-	-	-	11,863
Human services.....	1,517,063	-	-	-	83,962	1,601,025
Culture and recreation.....	2,084,360	-	-	1,075,141	506,032	3,665,533
Pension benefits.....	20,493,154	-	-	-	-	20,493,154
Employee benefits.....	9,679,022	-	-	-	-	9,679,022
State and county charges.....	1,497,972	-	-	-	-	1,497,972
Debt service:						
Principal.....	4,720,000	-	-	-	-	4,720,000
Interest.....	2,114,372	-	-	-	43,224	2,157,596
TOTAL EXPENDITURES.....	116,515,627	11,863	185,537	2,622,823	16,985,434	136,321,284
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	3,182,388	612,257	(185,537)	(2,572,823)	(503,174)	533,111
OTHER FINANCING SOURCES (USES):						
Premium from issuance of notes payable.....	-	-	-	-	158,876	158,876
Capital lease financing.....	-	-	-	-	802,101	802,101
Transfers in.....	1,858,074	-	-	-	1,325,116	3,183,190
Transfers out.....	(3,089,914)	-	-	-	(776,525)	(3,866,439)
TOTAL OTHER FINANCING SOURCES (USES).....	(1,231,840)	-	-	-	1,509,568	277,728
NET CHANGE IN FUND BALANCES.....	1,950,548	612,257	(185,537)	(2,572,823)	1,006,394	810,839
FUND BALANCES AT BEGINNING OF YEAR.....	9,320,089	-	(3,863,025)	15,360	8,900,154	14,372,578
FUND BALANCES AT END OF YEAR.....	\$ 11,270,637	\$ 612,257	\$ (4,048,562)	\$ (2,557,463)	\$ 9,906,548	\$ 15,183,417

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2014

Net change in fund balances - total governmental funds.....	\$	810,839
<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.</p>		
Capital outlay.....	8,466,046	
Depreciation expense.....	<u>(7,454,965)</u>	
Net effect of reporting capital assets.....		1,011,081
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		31,077
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Capital lease financing.....	(802,101)	
Capital lease payments.....	543,778	
Debt service principal payments.....	<u>4,720,000</u>	
Net effect of reporting long-term debt.....		4,461,677
<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 the governmental funds.</p>		
Net change in compensated absences accrual.....	(3,000)	
Net change in workers' compensation accrual.....	(648,000)	
Net change in other postemployment benefits accrual.....	(9,966,000)	
Net change in accrued interest on long-term debt.....	27,644	
Amortization of premium from issuance of bonds and notes payable.....	413,595	
Amortization of deferred charges on refunding.....	<u>(205,760)</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		(10,381,521)
<p>Internal service funds are used by management to account for health insurance and workers' compensation activities.</p>		
The net activity of internal service funds is reported with Governmental Activities.....		<u>1,494,715</u>
Change in net position of governmental activities.....	\$	<u><u>(2,572,132)</u></u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Airport
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 655,133	\$ -	\$ 672,294
Receivables, net of allowance for uncollectibles:			
User fees.....	1,041,348	2,495,051	-
Departmental and other.....	-	-	31,997
Intergovernmental.....	-	-	555,096
Due from other funds.....	346,748	-	-
Investment in joint venture.....	-	717,579	-
	2,043,229	3,212,630	1,259,387
NONCURRENT:			
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	3,272,613	227,792	2,331,668
Depreciable.....	7,076,732	17,168,733	12,287,131
	10,349,345	17,396,525	14,618,799
TOTAL ASSETS.....	12,392,574	20,609,155	15,878,186
LIABILITIES			
CURRENT:			
Warrants payable.....	40,391	35,637	783,350
Health claims payable.....	-	-	-
Accrued interest.....	24,744	88,063	-
Customer deposits payable.....	-	-	4,400
Due to other funds.....	-	346,748	-
Compensated absences.....	10,000	35,000	15,000
Notes payable.....	-	1,700,000	-
Bonds payable.....	198,882	354,570	-
	274,017	2,560,018	802,750
NONCURRENT:			
Compensated absences.....	5,000	17,000	4,000
Other postemployment benefits.....	226,000	388,000	158,000
Bonds and notes payable.....	1,550,090	5,960,981	-
	1,781,090	6,365,981	162,000
TOTAL LIABILITIES.....	2,055,107	8,925,999	964,750
NET POSITION			
Net investment in capital assets.....	8,600,373	9,380,974	14,618,799
Unrestricted.....	1,737,094	2,302,182	294,637
TOTAL NET POSITION.....	\$ 10,337,467	\$ 11,683,156	\$ 14,913,436

See notes to basic financial statements.

	Golf and Tennis	Sanitation	Harbor Management	Recreation	Senior Citizens	Total	Governmental Activities - Internal Service Funds
\$	141,524	\$ 238,512	\$ 129,678	\$ 275,238	\$ 55,932	\$ 2,168,311	\$ 9,658,996
	-	170,915	-	-	-	3,707,314	-
	583,000	-	39,569	-	-	654,566	49,171
	-	-	-	-	-	555,096	-
	-	-	-	-	-	346,748	-
	-	-	-	-	-	717,579	-
	<u>724,524</u>	<u>409,427</u>	<u>169,247</u>	<u>275,238</u>	<u>55,932</u>	<u>8,149,614</u>	<u>9,708,167</u>
	89,897	-	211,089	-	-	6,133,059	-
	<u>2,288,500</u>	<u>-</u>	<u>5,393,441</u>	<u>-</u>	<u>36,082</u>	<u>44,250,619</u>	<u>-</u>
	<u>2,378,397</u>	<u>-</u>	<u>5,604,530</u>	<u>-</u>	<u>36,082</u>	<u>50,383,678</u>	<u>-</u>
	<u>3,102,921</u>	<u>409,427</u>	<u>5,773,777</u>	<u>275,238</u>	<u>92,014</u>	<u>58,533,292</u>	<u>9,708,167</u>
	1,977	118,943	85	4,191	3,669	988,243	-
	-	-	-	-	-	-	1,019,000
	14,218	-	-	-	-	127,025	-
	-	-	-	-	-	4,400	-
	-	-	-	-	-	346,748	-
	-	-	8,000	24,000	-	92,000	-
	500,000	-	-	-	-	2,200,000	-
	145,000	-	-	-	-	698,452	-
	<u>661,195</u>	<u>118,943</u>	<u>8,085</u>	<u>28,191</u>	<u>3,669</u>	<u>4,456,868</u>	<u>1,019,000</u>
	-	-	6,000	7,000	-	39,000	-
	-	-	35,000	-	-	807,000	-
	<u>1,331,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,842,071</u>	<u>-</u>
	<u>1,331,000</u>	<u>-</u>	<u>41,000</u>	<u>7,000</u>	<u>-</u>	<u>9,688,071</u>	<u>-</u>
	<u>1,992,195</u>	<u>118,943</u>	<u>49,085</u>	<u>35,191</u>	<u>3,669</u>	<u>14,144,939</u>	<u>1,019,000</u>
	402,397	-	5,604,530	-	36,082	38,643,155	-
	<u>708,329</u>	<u>290,484</u>	<u>120,162</u>	<u>240,047</u>	<u>52,263</u>	<u>5,745,198</u>	<u>8,689,167</u>
\$	<u>1,110,726</u>	<u>290,484</u>	<u>5,724,692</u>	<u>240,047</u>	<u>88,345</u>	<u>44,388,353</u>	<u>8,689,167</u>

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

YEAR ENDED JUNE 30, 2014

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Airport
OPERATING REVENUES:			
Employee contributions.....	\$ -	\$ -	\$ -
Employer contributions.....	-	-	-
Charges for services.....	3,793,819	8,034,420	387,175
TOTAL OPERATING REVENUES	3,793,819	8,034,420	387,175
OPERATING EXPENSES:			
Cost of services and administration.....	2,593,408	6,566,757	368,048
Depreciation.....	332,366	1,079,391	449,810
Employee benefits.....	-	-	-
TOTAL OPERATING EXPENSES	2,925,774	7,646,148	817,858
OPERATING INCOME (LOSS).....	868,045	388,272	(430,683)
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	-	-	-
Interest expense.....	(66,389)	(230,496)	-
Intergovernmental.....	-	-	1,891,764
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(66,389)	(230,496)	1,891,764
INCOME (LOSS) BEFORE TRANSFERS.....	801,656	157,776	1,461,081
TRANSFERS:			
Transfers in.....	415,664	311,134	-
Transfers out.....	(558,944)	(567,308)	(50,297)
TOTAL TRANSFERS.....	(143,280)	(256,174)	(50,297)
CHANGE IN NET POSITION.....	658,376	(98,398)	1,410,784
NET POSITION AT BEGINNING OF YEAR.....	9,679,091	11,781,554	13,502,652
NET POSITION AT END OF YEAR.....	\$ 10,337,467	\$ 11,683,156	\$ 14,913,436

See notes to basic financial statements.

Golf and Tennis	Sanitation	Harbor Management	Recreation	Senior Citizens	Total	Governmental Activities - Internal Service Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,053,079
-	-	-	-	-	-	15,506,320
<u>370,000</u>	<u>1,378,484</u>	<u>131,139</u>	<u>401,356</u>	<u>41,159</u>	<u>14,537,552</u>	<u>-</u>
<u>370,000</u>	<u>1,378,484</u>	<u>131,139</u>	<u>401,356</u>	<u>41,159</u>	<u>14,537,552</u>	<u>19,559,399</u>
93,736	2,333,543	69,309	352,342	53,873	12,431,016	-
144,033	-	311,773	-	4,596	2,321,969	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,094,768</u>
<u>237,769</u>	<u>2,333,543</u>	<u>381,082</u>	<u>352,342</u>	<u>58,469</u>	<u>14,752,985</u>	<u>18,094,768</u>
<u>132,231</u>	<u>(955,059)</u>	<u>(249,943)</u>	<u>49,014</u>	<u>(17,310)</u>	<u>(215,433)</u>	<u>1,464,631</u>
-	-	-	81	5	86	30,084
(44,413)	-	-	-	-	(341,298)	-
<u>-</u>	<u>1,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,893,264</u>	<u>-</u>
<u>(44,413)</u>	<u>1,500</u>	<u>-</u>	<u>81</u>	<u>5</u>	<u>1,552,052</u>	<u>30,084</u>
<u>87,818</u>	<u>(953,559)</u>	<u>(249,943)</u>	<u>49,095</u>	<u>(17,305)</u>	<u>1,336,619</u>	<u>1,494,715</u>
-	1,038,000	145,000	-	-	1,909,798	-
(30,000)	-	(10,000)	(5,000)	(5,000)	(1,226,549)	-
<u>(30,000)</u>	<u>1,038,000</u>	<u>135,000</u>	<u>(5,000)</u>	<u>(5,000)</u>	<u>683,249</u>	<u>-</u>
57,818	84,441	(114,943)	44,095	(22,305)	2,019,868	1,494,715
<u>1,052,908</u>	<u>206,043</u>	<u>5,839,635</u>	<u>195,952</u>	<u>110,650</u>	<u>42,368,485</u>	<u>7,194,452</u>
\$ <u><u>1,110,726</u></u>	\$ <u><u>290,484</u></u>	\$ <u><u>5,724,692</u></u>	\$ <u><u>240,047</u></u>	\$ <u><u>88,345</u></u>	\$ <u><u>44,388,353</u></u>	\$ <u><u>8,689,167</u></u>

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Airport
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users.....	\$ 3,902,591	\$ 8,048,762	\$ 385,810
Receipts from interfund services provided.....	-	-	-
Payments to vendors.....	(2,732,920)	(6,171,183)	(414,354)
Payments to employees.....	(242,961)	(434,935)	(194,043)
Payments for interfund services used.....	-	-	-
NET CASH FROM OPERATING ACTIVITIES.....	<u>926,710</u>	<u>1,442,644</u>	<u>(222,587)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in.....	415,664	311,134	-
Transfers out.....	(558,944)	(567,308)	(50,297)
Change in advances to/from other funds.....	<u>(346,748)</u>	<u>(1,379,596)</u>	<u>-</u>
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	<u>(490,028)</u>	<u>(1,635,770)</u>	<u>(50,297)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the issuance of bonds and notes.....	-	1,700,000	-
Capital grants.....	-	-	1,336,668
Acquisition and construction of capital assets.....	(101,536)	(869,483)	(1,317,278)
Principal payments on bonds and notes.....	(249,882)	(402,872)	-
Interest expense.....	<u>(68,349)</u>	<u>(234,519)</u>	<u>-</u>
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(419,767)</u>	<u>193,126</u>	<u>19,390</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income.....	-	-	-
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....	16,915	-	(253,494)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	<u>638,218</u>	<u>-</u>	<u>925,788</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 655,133</u>	<u>\$ -</u>	<u>\$ 672,294</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH			
Operating income (loss).....	\$ 868,045	\$ 388,272	\$ (430,683)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	332,366	1,079,391	449,810
Changes in assets and liabilities:			
User fees.....	108,772	14,342	-
Departmental and other.....	-	-	(1,365)
Investment in Joint Venture.....	-	(4,949)	-
Warrants payable.....	(39,473)	25,588	(198,349)
Health claims payable.....	-	-	-
Other postemployment benefits.....	(347,000)	(92,000)	(40,000)
Accrued compensated absences.....	4,000	32,000	(2,000)
Total adjustments.....	<u>58,665</u>	<u>1,054,372</u>	<u>208,096</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 926,710</u>	<u>\$ 1,442,644</u>	<u>\$ (222,587)</u>

See notes to basic financial statements.

						Governmental Activities - Internal Service Funds
<u>Golf and Tennis</u>	<u>Sanitation</u>	<u>Harbor Management</u>	<u>Recreation</u>	<u>Senior Citizens</u>	<u>Total</u>	
\$ 370,000	\$ 1,377,672	\$ 137,981	\$ 401,356	\$ 41,159	\$ 14,665,331	\$ -
-	-	-	-	-	-	19,559,399
(98,046)	(2,324,537)	(15,439)	(48,234)	(32,871)	(11,837,584)	-
-	-	(29,404)	(297,309)	(19,789)	(1,218,441)	-
-	-	-	-	-	-	(17,619,691)
<u>271,954</u>	<u>(946,865)</u>	<u>93,138</u>	<u>55,813</u>	<u>(11,501)</u>	<u>1,609,306</u>	<u>1,939,708</u>
-	1,038,000	145,000	-	-	1,909,798	-
(30,000)	-	(10,000)	(5,000)	(5,000)	(1,226,549)	-
(252,137)	-	(271,934)	-	-	(2,250,415)	-
<u>(282,137)</u>	<u>1,038,000</u>	<u>(136,934)</u>	<u>(5,000)</u>	<u>(5,000)</u>	<u>(1,567,166)</u>	<u>-</u>
500,000	-	-	-	-	2,200,000	-
-	1,500	637,722	-	-	1,975,890	-
(153,238)	-	(464,248)	-	-	(2,905,783)	-
(150,000)	-	-	-	-	(802,754)	-
(45,055)	-	-	-	-	(347,923)	-
<u>151,707</u>	<u>1,500</u>	<u>173,474</u>	<u>-</u>	<u>-</u>	<u>119,430</u>	<u>-</u>
-	-	-	81	5	86	30,084
141,524	92,635	129,678	50,894	(16,496)	161,656	1,969,792
-	145,877	-	224,344	72,428	2,006,655	7,689,204
<u>\$ 141,524</u>	<u>\$ 238,512</u>	<u>\$ 129,678</u>	<u>\$ 275,238</u>	<u>\$ 55,932</u>	<u>\$ 2,168,311</u>	<u>\$ 9,658,996</u>
\$ 132,231	\$ (955,059)	\$ (249,943)	\$ 49,014	\$ (17,310)	\$ (215,433)	\$ 1,464,631
144,033	-	311,773	-	4,596	2,321,969	-
-	(812)	-	-	-	122,302	-
-	-	6,842	-	-	5,477	497,830
-	-	-	-	-	(4,949)	-
(4,310)	9,006	(534)	799	1,213	(206,060)	(5,753)
-	-	-	-	-	-	(17,000)
-	-	21,000	-	-	(458,000)	-
-	-	4,000	6,000	-	44,000	-
<u>139,723</u>	<u>8,194</u>	<u>343,081</u>	<u>6,799</u>	<u>5,809</u>	<u>1,824,739</u>	<u>475,077</u>
<u>\$ 271,954</u>	<u>\$ (946,865)</u>	<u>\$ 93,138</u>	<u>\$ 55,813</u>	<u>\$ (11,501)</u>	<u>\$ 1,609,306</u>	<u>\$ 1,939,708</u>

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

	Pension Trust Fund (as of December 31, 2013)	Private Purpose Trust Funds	Agency Funds
ASSETS			
Cash and cash equivalents.....	\$ 2,543,576	\$ 37,747	\$ 174,184
Investments.....	91,197,183	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	2,914,368	-	3,880
Intergovernmental.....	86,996	-	-
TOTAL ASSETS.....	<u>96,742,123</u>	<u>37,747</u>	<u>178,064</u>
LIABILITIES			
Warrants payable.....	-	-	1,335
Liabilities due depositors.....	-	-	176,729
TOTAL LIABILITIES.....	<u>-</u>	<u>-</u>	<u>178,064</u>
NET POSITION			
Held in trust for pension benefits and other purposes.....	<u>\$ 96,742,123</u>	<u>\$ 37,747</u>	<u>\$ -</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2014

	Pension Trust Fund (as of December 31, 2013)	Private Purpose Trust Funds
<u>ADDITIONS:</u>		
Contributions:		
Employer.....	\$ 8,813,151	\$ -
Employee.....	2,501,063	-
Total contributions.....	11,314,214	-
Net investment income (loss):		
Net change in fair value of investments.....	9,859,660	-
Interest and dividends.....	2,512,675	901
Total investment income (loss).....	12,372,335	901
Less: investment expense.....	(496,261)	-
Net investment income (loss).....	11,876,074	901
Intergovernmental.....	182,227	-
Transfers from other systems.....	401,708	-
TOTAL ADDITIONS.....	23,774,223	901
<u>DEDUCTIONS:</u>		
Administration.....	140,273	-
Transfers to other systems.....	313,527	-
Retirement benefits and refunds.....	11,352,510	-
Educational scholarships.....	-	196
TOTAL DEDUCTIONS.....	11,806,310	196
CHANGE IN NET ASSETS.....	11,967,913	705
NET POSITION AT BEGINNING OF YEAR.....	84,774,210	37,042
NET POSITION AT END OF YEAR.....	\$ 96,742,123	\$ 37,747

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The City is a municipal corporation that is governed by an elected Mayor and an elected City Council.

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

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

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

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 191 Cabot Street, Beverly, Massachusetts 01915.

Blended Component Unit – Blended component units are entities that are legally separate from the City, but are so related that they are, in substance, the same as the City or entities providing services entirely or almost entirely for the benefit of the City. The following joint venture is blended within the primary government.

Building a Better Beverly, Inc. was established for all charitable, educational, scientific, community services and other allowable purposes contemplated within the provisions of Section 501 (c) (3) of the Internal Revenue Code of 1986, and any successor provision thereof, including but not limited to the enhancement of the quality of public education in Beverly, Massachusetts. Building a Better Beverly, Inc. is governed by a twelve member board. It is presented using the modified accrual basis of accounting and is reported as a special revenue fund and blended within the nonmajor governmental funds of the primary government. Building a Better Beverly, Inc. did not issue a separate audited financial statement. Complete financial information for Building a Better Beverly, Inc. can be obtained by contacting City Hall at 191 Cabot Street, Beverly, Massachusetts 01915.

Joint Ventures

The City is a member of the South Essex Sewerage District (the District), a joint venture with the Cities of Salem and Peabody and the Towns of Danvers and Marblehead, for the operation of a septage disposal facility. The members share in overseeing the operations of the District. Each member is responsible for its proportionate share of the operational costs of the District, which are paid in the form of assessments. At June 30, 2014, the City has an equity unassigned and undesignated interest in the operation of the District totaling \$717,579. The equity unassigned and undesignated interest related to operations is recorded in the sewer enterprise fund. Complete financial information for the District can be obtained by contacting them at P.O. Box 989, 50 Fort Avenue, Salem, Massachusetts 01970.

The City is a member of the Salem-Beverly Water Supply Board (Water Board), a joint venture with the City of Salem for the operation of a water distribution system. The City does not have an equity interest in the Salem-Beverly Water Board. The annual assessment from the Water Board for the year ended June 30, 2014, totaled approximately \$1,739,000. Complete financial information for the Water Board can be obtained by contacting them at 50 Arlington Avenue, Beverly, MA 01915.

The City is a member of the Essex County Regional Emergency Communications Center (the RECC), a joint venture with the Towns of Amesbury, Essex, Middleton, Topsfield and Wenham for the purpose of providing for a regional public safety communication operations center to meet their joint and respective communications needs, which shall include, but not be limited to providing emergency medical dispatch services and expediting timely and efficient responses by police, fire resources of the participating governmental units and expediting timely responses by other first responders providing emergency services on behalf of the parties. Each member is responsible for its proportionate share of the operational and capital costs of the RECC, which are paid in the form of assessments. The City does not have an equity interest in the Center. No financial obligations shall commence until the "Start-Up and Operations Transfer Plan and Budget" has been accepted by its executive authority, after a public hearing, and sufficient funds have been appropriated to meet the financial obligation then due. The financial liability shall not exceed its share of initial start-up costs and annual operating costs. Complete financial information for the RECC can be obtained by contacting them at 20 Manning Avenue, Middleton, MA 01949. The City anticipates that its first assessment from the RECC will be received in 2015.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

Major Fund Criteria

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

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

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

Internal service funds and fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation*Government-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

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

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions are charges between the general fund and enterprise funds. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

The *community preservation fund* is attributable to the City's acceptance of the Community Preservation Act, which allows the City to impose up to a 1% surcharge on property taxes and to receive matching State grant funds for specified uses related to the acquisition, creation, preservation and support of open space, historical resources, land for recreational use and community housing.

The *high school renovation and reconstruction fund* is used to account for the high school renovation and reconstruction project activities.

The *municipal building improvement fund* is used to account for the renovation and reconstruction of City hall and the police station.

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:

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

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

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

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

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

The following major proprietary funds are reported:

The *water enterprise fund* is used to account for water activities.

The *sewer enterprise fund* is used to account for sewer activities.

The *airport enterprise fund* is used to account for airport activities.

The *golf and tennis enterprise fund* is used to account for golf and tennis club activities.

The *sanitation enterprise fund* is used to account for sanitation activities.

The *harbor management enterprise fund* is used to account for harbor management activities.

The *recreation enterprise fund* is used to account for recreational activities.

The *senior citizens enterprise fund* is used to account for senior citizen activities.

Additionally, the following proprietary fund type is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to employees' health insurance.

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

The following fiduciary fund types are reported:

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

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

The *agency fund* is used to account for assets held in a purely custodial capacity and is accounted for using the full accrual method but does not have a measurement focus.

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes and Tax Liens

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

Real estate tax liens are processed during the fourth quarter of every year on delinquent properties and are recorded as receivables in the year they are processed.

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

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

Motor Vehicle and Other Excise Taxes

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

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

Water and Sewer User Fees

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

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

Sanitation User Fees

User fees are levied quarterly at a rate of \$25 per residential unit. Commercial properties are levied quarterly at rates ranging from \$75 to \$225 per quarter, based on usage. Trash liens are processed in December of every

year and included as a lien on the property owner's tax bill. Trash charges and liens are recorded as receivables in the year of the levy.

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

Departmental and Other

Departmental and other receivables consist primarily of police details, airport fees and golf and tennis lease payments, which are recorded as receivables in the year accrued. The golf and tennis receivable is due from the management company that currently operates the course because no lease payments were received for the current year. The golf and tennis receivable is considered to be 100% collectible because the City has a mortgage agreement to secure its interest in the lease. The police details and airport fees allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

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

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

Loans

The Department of Community Development administers loan programs that provide housing assistance to residents and capital needs assistance for small businesses. Upon issuance, a receivable is recorded for the principal amount of the loan.

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

F. Inventories

Government-Wide and Fund Financial Statements

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

G. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

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

All purchases and construction costs in excess of \$15,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

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

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	5-50
Buildings and building improvements.....	5-50
Machinery and equipment.....	3-20
Vehicles.....	5-10
Infrastructure.....	5-50

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

Governmental Fund Financial Statements

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

H. Deferred Outflows/Inflows of Resources

Government-Wide and Fund Financial Statements

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City currently has no liabilities that qualify as a deferred inflow of resources.

Governmental Fund Financial Statements

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

I. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

J. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

K. Net Position and Fund Equity

Government-Wide Financial Statements (Net Position)

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

Net position has been "restricted for" the following:

"Loans" represents community development outstanding loan receivable balances.

"Permanent funds - expendable" represents the amount of realized and unrealized investment earnings on donor restricted trusts. The restrictions and trustee policies only allow the trustees to approve spending of the realized investment earnings.

"Permanent funds - nonexpendable" represents the endowment portion of donor restricted trusts that support governmental programs.

"Gifts and grants" represents assets that have restrictions placed on them from outside parties.

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

Fund Financial Statements (Fund Balances)

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

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

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

"Committed" fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal vote by the City Council and Mayor approval.

"Assigned" fund balance includes amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed.

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

Sometimes the City will fund outlays for a particular purpose from different components of fund balance. In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balances in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. When different components of fund balance can be used for the same purpose, it is the City's policy to consider restricted fund balance to have been depleted first, followed by committed fund balance, and assigned fund balance. Unassigned fund balance is applied last.

L. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

M. Investment Income

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

N. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

O. Use of Estimates*Government-Wide and Fund Financial Statements*

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the year. Actual results could vary from estimates that were used.

P. 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.

Q. Fund Deficits

Several individual fund deficits exist, under the budgetary basis of accounting, at June 30, 2014 in the special revenue funds, and the governmental capital project funds. These deficits will be funded by grants, bond proceeds, departmental revenues and available fund balance.

NOTE 2 - CASH AND INVESTMENTS

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

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

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

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

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial risk. At year-end, the carrying amount of deposits totaled \$34,626,256 and the bank balance totaled \$36,695,257. Of the bank balance, \$1,756,689 was covered by Federal Depository Insurance, \$2,721,016 was covered by Depository Insurance Fund, \$8,039,824 was covered by the Share Insurance Fund and \$24,177,728 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2013, the carrying amount of deposits for the System totaled \$2,543,576 and the bank balance of \$2,648,625 was covered by Federal Depository Insurance.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the government will not be able to recover the value of its investments or collateral security that are in the possession of an outside party.

Of the City's total investments of \$5,338,206, there was custodial credit risk exposure of \$3,558,982 which is equal to the investments in government sponsored enterprises of \$332,159, corporate bonds in the amount of \$333,524, and equity securities of \$2,893,299 because the related securities are uninsured, unregistered and held by the counterparty. The City has not adopted an investment policy for custodial credit risk.

At December 31, 2013, the System was not exposed to custodial credit risk of investments because the System did not have investments in securities subject to custodial credit risk. The System has not adopted an investment policy for custodial credit risk.

Interest Rate Risk

The City has not adopted a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The Systems investments are managed by PRIT and are not subject to interest rate risk.

As of December 31, 2013, the Retirement System had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
<u>Other Investments</u>	
PRIT.....	\$ <u>91,197,183</u>

As of June 30, 2014, the government had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
		<u>Under 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>
<u>Debt Securities</u>				
Government Sponsored Enterprises....	\$ 332,159	\$ 202,291	\$ 129,868	\$ -
Corporate Bonds.....	333,524	51,564	176,396	105,564
Bond Mutual Funds.....	507,669	507,669	-	-
Total Debt Securities.....	1,173,352	\$ <u>761,524</u>	\$ <u>306,264</u>	\$ <u>105,564</u>
<u>Other Investments</u>				
Equity Securities.....	2,893,299			
Equity Mutual Funds.....	876,090			
Money Market Mutual Funds.....	267,005			
MMDT.....	128,460			
Total Investments.....	\$ <u>5,338,206</u>			

The City participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 3 months.

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .25 to 10.78 years.

Credit Risk

The government has not adopted a formal policy related to Credit Risk. Standard & Poor's rated \$332,159 of government sponsored enterprises AAA; \$51,564 of corporate bonds AA, \$281,960 A, \$100,178 of bond mutual funds A, and \$407,491 are unrated.

The Systems investments are managed by PRIT and are not subject to credit risk.

Concentration of Credit Risk

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

The Systems investments are managed by PRIT and are not subject to concentration of credit risk.

NOTE 3 - RECEIVABLES

At June 30, 2014, receivables for the individual major and non-major governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 785,946	\$ -	\$ 785,946
Real estate tax deferrals.....	282,805	-	282,805
Tax liens.....	3,281,648	-	3,281,648
Motor vehicle and other excise taxes.....	740,041	-	740,041
Departmental and other.....	256,649	(36,000)	220,649
Intergovernmental.....	11,020,866	-	11,020,866
Loans.....	11,570	-	11,570
Total.....	<u>\$ 16,379,525</u>	<u>\$ (36,000)</u>	<u>\$ 16,343,525</u>

At June 30, 2014, receivables for the water, sewer, sanitation, airport, golf and tennis, and harbor enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
User fees - water.....	\$ 1,041,348	\$ -	\$ 1,041,348
User fees - sewer.....	2,495,051	-	2,495,051
User fees - sanitation.....	170,915	-	170,915
Departmental and other - airport.....	31,997	-	31,997
Departmental and other - golf and tennis.....	583,000	-	583,000
Departmental and other - harbor.....	39,569	-	39,569
Total.....	<u>\$ 4,361,880</u>	<u>\$ -</u>	<u>\$ 4,361,880</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. At the end of the current year, the various components of unavailable revenues reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes.....	\$ 738,605	\$ 7,345	\$ 745,950
Tax liens.....	3,281,648	-	3,281,648
Motor vehicle and other excise taxes.....	740,041	-	740,041
Departmental and other.....	15,863	155,615	171,478
Intergovernmental.....	6,175,928	1,478,373	7,654,301
Loans.....	-	11,570	11,570
Total.....	<u>\$ 10,952,085</u>	<u>\$ 1,652,903</u>	<u>\$ 12,604,988</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land.....	\$ 14,523,507	\$ -	\$ -	\$ 14,523,507
Construction in progress.....	1,453,221	376,474	-	1,829,695
Total capital assets not being depreciated.....	<u>15,976,728</u>	<u>376,474</u>	<u>-</u>	<u>16,353,202</u>
Capital assets being depreciated:				
Land improvements.....	4,483,884	870,319	-	5,354,203
Buildings and building improvements.....	158,210,855	3,548,148	-	161,759,003
Machinery and equipment.....	9,077,047	1,715,263	-	10,792,310
Vehicles.....	5,694,251	1,175,282	(505,202)	6,364,331
Infrastructure.....	93,876,784	780,560	-	94,657,344
Total capital assets being depreciated.....	<u>271,342,821</u>	<u>8,089,572</u>	<u>(505,202)</u>	<u>278,927,191</u>
Less accumulated depreciation for:				
Land improvements.....	(1,158,754)	(181,034)	-	(1,339,788)
Buildings and building improvements.....	(45,309,635)	(4,398,864)	-	(49,708,499)
Machinery and equipment.....	(5,910,761)	(790,580)	-	(6,701,341)
Vehicles.....	(4,990,227)	(374,960)	505,202	(4,859,985)
Infrastructure.....	(58,802,845)	(1,709,527)	-	(60,512,372)
Total accumulated depreciation.....	<u>(116,172,222)</u>	<u>(7,454,965)</u>	<u>505,202</u>	<u>(123,121,985)</u>
Total capital assets being depreciated, net.....	<u>155,170,599</u>	<u>634,607</u>	<u>-</u>	<u>155,805,206</u>
Total governmental activities capital assets, net.....	<u>\$ 171,147,327</u>	<u>\$ 1,011,081</u>	<u>\$ -</u>	<u>\$ 172,158,408</u>

Water Activities

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 3,272,613	\$ -	\$ -	\$ 3,272,613
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	252,038	-	-	252,038
Vehicles.....	416,978	-	-	416,978
Infrastructure.....	15,540,423	49,341	-	15,589,764
Machinery and equipment.....	11,950	52,195	-	64,145
Total capital assets being depreciated.....	16,221,389	101,536	-	16,322,925
<u>Less accumulated depreciation for:</u>				
Buildings and building improvements.....	(217,382)	(6,300)	-	(223,682)
Vehicles.....	(328,209)	(26,105)	-	(354,314)
Infrastructure.....	(8,366,344)	(294,851)	-	(8,661,195)
Machinery and equipment.....	(1,892)	(5,110)	-	(7,002)
Total accumulated depreciation.....	(8,913,827)	(332,366)	-	(9,246,193)
Total capital assets being depreciated, net.....	7,307,562	(230,830)	-	7,076,732
Total water activities capital assets, net.....	\$ 10,580,175	\$ (230,830)	\$ -	\$ 10,349,345

Sewer Activities

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 227,792	\$ -	\$ -	\$ 227,792
<u>Capital assets being depreciated:</u>				
Land improvements.....	19,863	-	-	19,863
Machinery and equipment.....	75,463	22,708	-	98,171
Vehicles.....	50,642	-	-	50,642
Infrastructure.....	49,493,377	846,775	-	50,340,152
Total capital assets being depreciated.....	49,639,345	869,483	-	50,508,828
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(910)	(994)	-	(1,904)
Machinery and equipment.....	(38,138)	(7,749)	-	(45,887)
Vehicles.....	(50,640)	-	-	(50,640)
Infrastructure.....	(32,171,016)	(1,070,648)	-	(33,241,664)
Total accumulated depreciation.....	(32,260,704)	(1,079,391)	-	(33,340,095)
Total capital assets being depreciated, net.....	17,378,641	(209,908)	-	17,168,733
Total sewer activities capital assets, net.....	\$ 17,606,433	\$ (209,908)	\$ -	\$ 17,396,525

Airport Activities

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 1,776,573	\$ -	\$ -	\$ 1,776,573
Construction in progress.....	-	555,095	-	555,095
Total capital assets not being depreciated.....	1,776,573	555,095	-	2,331,668
<u>Capital assets being depreciated:</u>				
Land improvements.....	1,712,439	-	-	1,712,439
Buildings and building improvements.....	680,511	-	-	680,511
Machinery and equipment.....	235,475	105,717	-	341,192
Vehicles.....	221,477	55,065	(18,942)	257,600
Infrastructure.....	12,420,484	1,156,496	-	13,576,980
Total capital assets being depreciated.....	15,270,386	1,317,278	(18,942)	16,568,722
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(1,214,739)	(71,860)	-	(1,286,599)
Buildings and building improvements.....	(574,274)	(9,655)	-	(583,929)
Machinery and equipment.....	(195,645)	(16,238)	-	(211,883)
Vehicles.....	(221,477)	(10,095)	18,942	(212,630)
Infrastructure.....	(1,644,588)	(341,962)	-	(1,986,550)
Total accumulated depreciation.....	(3,850,723)	(449,810)	18,942	(4,281,591)
Total capital assets being depreciated, net.....	11,419,663	867,468	-	12,287,131
Total airport activities capital assets, net.....	\$ 13,196,236	\$ 1,422,563	\$ -	\$ 14,618,799

Golf and Tennis Activities

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 89,897	\$ -	\$ -	\$ 89,897
<u>Capital assets being depreciated:</u>				
Land improvements.....	1,089,547	-	-	1,089,547
Buildings and building improvements.....	2,229,512	153,238	-	2,382,750
Vehicles.....	22,150	-	-	22,150
Total capital assets being depreciated.....	3,341,209	153,238	-	3,494,447
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(553,326)	(29,344)	-	(582,670)
Buildings and building improvements.....	(486,438)	(114,689)	-	(601,127)
Vehicles.....	(22,150)	-	-	(22,150)
Total accumulated depreciation.....	(1,061,914)	(144,033)	-	(1,205,947)
Total capital assets being depreciated, net.....	2,279,295	9,205	-	2,288,500
Total golf and tennis activities capital assets, net.....	\$ 2,369,192	\$ 9,205	\$ -	\$ 2,378,397

Harbor Management Activities

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 211,089	\$ -	\$ -	\$ 211,089
<u>Capital assets being depreciated:</u>				
Land improvements.....	3,718,017	464,248	-	4,182,265
Buildings and building improvements.....	329,770	-	-	329,770
Machinery and equipment.....	180,389	-	-	180,389
Vehicles.....	77,300	-	-	77,300
Infrastructure.....	6,064,623	-	-	6,064,623
Total capital assets being depreciated.....	10,370,099	464,248	-	10,834,347
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(245,474)	(131,993)	-	(377,467)
Buildings and building improvements.....	(256,571)	(7,705)	-	(264,276)
Machinery and equipment.....	(60,803)	(18,039)	-	(78,842)
Vehicles.....	(77,300)	-	-	(77,300)
Infrastructure.....	(4,488,985)	(154,036)	-	(4,643,021)
Total accumulated depreciation.....	(5,129,133)	(311,773)	-	(5,440,906)
Total capital assets being depreciated, net.....	5,240,966	152,475	-	5,393,441
Total harbor activities capital assets, net.....	\$ 5,452,055	\$ 152,475	\$ -	\$ 5,604,530

Senior Citizen Activities

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets being depreciated:</u>				
Machinery and equipment.....	\$ 23,632	\$ -	\$ -	\$ 23,632
Vehicles.....	22,329	-	-	22,329
Total capital assets being depreciated.....	45,961	-	-	45,961
<u>Less accumulated depreciation for:</u>				
Machinery and equipment.....	(1,969)	(2,363)	-	(4,332)
Vehicles.....	(3,314)	(2,233)	-	(5,547)
Total accumulated depreciation.....	(5,283)	(4,596)	-	(9,879)
Total senior citizens activities capital assets, net.....	\$ 40,678	\$ (4,596)	\$ -	\$ 36,082

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

Governmental Activities:

General government.....	\$ 66,317
Public safety.....	510,166
Education.....	4,709,882
Public works.....	1,901,007
Human services.....	51,089
Culture and recreation.....	<u>216,504</u>

Total depreciation expense - governmental activities..... \$ 7,454,965

Business-Type Activities:

Water.....	\$ 332,366
Sewer.....	1,079,391
Airport.....	449,810
Golf and tennis.....	144,033
Harbor management.....	311,773
Senior citizen.....	<u>4,596</u>

Total depreciation expense - business-type activities..... \$ 2,321,969

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables for the year ended June 30, 2014 total \$346,748. The water enterprise fund has temporarily funded the sewer enterprise fund cash deficit totaling \$346,748. This funding has been recorded as interfund receivables and payables as of June 30, 2014.

Interfund transfers for the year ended June 30, 2014, are summarized as follows:

Transfers Out:	Transfers In:						Total
	General Fund	Nonmajor Governmental Funds	Water Enterprise Fund	Sewer Enterprise Fund	Harbor Management Enterprise Fund	Sanitation Enterprise Funds	
General Fund.....	\$ -	\$ 1,325,116	\$ 415,664	\$ 311,134	\$ -	\$ 1,038,000	\$ 3,089,914 (1)
Nonmajor Governmental Funds.....	631,525	-	-	-	145,000	-	776,525 (2)
Water Enterprise Fund.....	558,944	-	-	-	-	-	558,944 (3)
Sewer Enterprise Fund.....	567,308	-	-	-	-	-	567,308 (3)
Airport Enterprise Fund.....	50,297	-	-	-	-	-	50,297 (3)
Golf and Tennis Enterprise Fund.....	30,000	-	-	-	-	-	30,000 (4)
Harbor Management Enterprise Fund..	10,000	-	-	-	-	-	10,000 (3)
Recreation Enterprise Fund.....	5,000	-	-	-	-	-	5,000 (3)
Senior Citizens Enterprise Fund.....	5,000	-	-	-	-	-	5,000 (3)
Total.....	<u>\$ 1,858,074</u>	<u>\$ 1,325,116</u>	<u>\$ 415,664</u>	<u>\$ 311,134</u>	<u>\$ 145,000</u>	<u>\$ 1,038,000</u>	<u>\$ 5,092,988</u>

- (1) Includes the transfer of amounts raised to fund capital projects and prior year deficits in the water and sewer enterprise funds and the sanitation subsidy.
- (2) Includes budgeted transfers to support general fund operations from other available funds and a transfer of boat excise taxes to the harbor management fund for waterway improvements.
- (3) Represents transfers from enterprise funds to reimburse the general fund for indirect costs.
- (4) Represents a budgeted transfer of current year golf course revenue.

NOTE 6 – CAPITAL AND OTHER LEASES

The City has entered into lease agreements, as lessee, to finance the acquisition of school busses, vans and notebook computers.

The notebook computers are being used for the High School's 1 to 1 computer initiative. Under this program, parents are required to sign an agreement with the school where an annual fee is paid for the right to use a notebook computer. The agreements have various payment options and a buyout provision at the end of the term. For students that do not participate in the lease program, the School provides computers at no cost that must remain on school property.

The lease agreements qualify as capital leases, for accounting purposes, and therefore have been recorded at the present value of their future minimum lease payments as of the inception date of the lease agreement.

The assets acquired through capital leases are as follows:

<u>Asset:</u>	<u>Governmental Activities</u>
Machinery and equipment.....	\$ 2,877,924
Less: accumulated depreciation.....	<u>(1,127,143)</u>
 Total.....	 \$ <u>1,750,781</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, were as follows:

<u>Years Ending June 30</u>	<u>Governmental Activities</u>
2015.....	\$ 593,002
2016.....	244,513
2017.....	185,057
2018.....	103,154
2019.....	<u>15,693</u>
 Total minimum lease payments.....	 1,141,419
Less: amounts representing interest.....	<u>(39,184)</u>
 Present value of minimum lease payments.....	 \$ <u>1,102,235</u>

NOTE 7 – SHORT-TERM FINANCING

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

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

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

Details related to the short-term debt activity for the year ended June 30, 2014, are as follows:

Type	Purpose	Rate (%)	Due Date	Beginning Balance	Renewed/ Issued	Retired/ Redeemed	Ending Balance
Governmental Short-Term Notes Payable							
BAN	High School.....	1.0	12/12/13	\$ 8,000,000	\$ -	\$ 8,000,000	\$ -
BAN	High School.....	1.0	04/23/14	-	8,000,000	8,000,000	-
BAN	High School.....	1.0	04/23/15	-	7,261,000	-	7,261,000
BAN	Fire trucks.....	1.0	04/23/15	-	1,000,000	-	1,000,000
BAN	Police communications.....	1.0	04/23/15	-	1,000,000	-	1,000,000
BAN	City Hall and Police Station repairs.....	1.0	04/23/15	-	1,600,000	-	1,600,000
BAN	Library repairs.....	1.0	04/23/15	-	2,400,000	-	2,400,000
BAN	School feasibility study.....	1.0	04/23/15	-	750,000	-	750,000
	Sub-total.....			<u>8,000,000</u>	<u>22,011,000</u>	<u>16,000,000</u>	<u>14,011,000</u>
Business-Type Short-Term Notes Payable							
BAN	Sewer drainage.....	1.0	04/23/15	-	1,700,000	-	1,700,000
BAN	Golf and Tennis Club improvements...	1.0	04/23/15	-	500,000	-	500,000
	Sub-total.....			<u>-</u>	<u>2,200,000</u>	<u>-</u>	<u>2,200,000</u>
	Total short-term notes payable.....			<u>\$ 8,000,000</u>	<u>\$ 24,211,000</u>	<u>\$ 16,000,000</u>	<u>16,211,000</u>

NOTE 8 - LONG-TERM DEBT

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

Details related to the outstanding indebtedness at June 30, 2014, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Beginning Balance	Issued	Redeemed	Ending Balance
Municipal Purpose Bonds of 2003.....	2024	\$ 32,209,000	4.02-4.08	\$ 1,715,000	\$ -	\$ 1,715,000	\$ -
Municipal Purpose Refunding Bonds of 2010....	2020	11,360,350	3.00-5.00	7,738,000	-	1,231,000	6,507,000
Municipal Purpose Bonds of 2010.....	2035	21,320,000	3.00-5.00	18,650,000	-	885,000	17,765,000
High School Construction Bond of 2010.....	2035	10,000,000	2.00-4.00	9,200,000	-	400,000	8,800,000
Municipal Purpose Bonds of 2013.....	2027	2,130,000	2.00-4.00	2,130,000	-	180,000	1,950,000
Municipal Purpose Refunding Bonds of 2013....	2024	18,638,500	2.00-4.00	<u>18,638,500</u>	<u>-</u>	<u>309,000</u>	<u>18,329,500</u>
Sub-total.....				58,071,500	-	4,720,000	53,351,500
Add: unamortized premium.....				<u>2,247,202</u>	<u>-</u>	<u>413,595</u>	<u>1,833,607</u>
Total governmental bonds payable.....				<u>\$ 60,318,702</u>	<u>\$ -</u>	<u>\$ 5,133,595</u>	<u>\$ 55,185,107</u>

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

Year	Principal	Interest	Total
2015.....	\$ 4,672,000	\$ 1,911,416	\$ 6,583,416
2016.....	4,732,000	1,771,784	6,503,784
2017.....	4,812,000	1,601,196	6,413,196
2018.....	4,888,000	1,431,419	6,319,419
2019.....	4,958,000	1,271,827	6,229,827
2020.....	3,950,000	1,120,245	5,070,245
2021.....	3,995,000	971,982	4,966,982
2022.....	3,804,500	809,142	4,613,642
2023.....	1,895,000	689,352	2,584,352
2024.....	1,615,000	624,114	2,239,114
2025.....	1,330,000	568,701	1,898,701
2026.....	1,330,000	516,738	1,846,738
2027.....	1,330,000	464,550	1,794,550
2028.....	1,240,000	413,600	1,653,600
2029.....	1,200,000	364,000	1,564,000
2030.....	1,200,000	315,000	1,515,000
2031.....	1,200,000	265,000	1,465,000
2032.....	1,200,000	215,000	1,415,000
2033.....	1,200,000	164,000	1,364,000
2034.....	1,200,000	112,000	1,312,000
2035.....	1,200,000	60,000	1,260,000
2036.....	400,000	8,000	408,000
Total.....	\$ <u>53,351,500</u>	\$ <u>15,669,066</u>	\$ <u>69,020,566</u>

Bonds and Notes Payable Schedule – Water Enterprise Fund

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Beginning Balance	Issued	Redeemed	Ending Balance
Water.....	2014	\$ 1,013,500	2.90-3.10	\$ 50,000	\$ -	\$ 50,000	\$ -
Water refunding.....	2018	437,725	3.00-5.00	287,000	-	49,000	238,000
Water - Hale and West Street.....	2030	892,500	3.88	762,354	-	45,882	716,472
Municipal Purpose Refunding Bonds of 2013.....	2024	899,500	2.00-4.00	899,500	-	105,000	794,500
Total.....				\$ <u>1,998,854</u>	\$ <u>-</u>	\$ <u>249,882</u>	\$ <u>1,748,972</u>

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

Year	Principal	Interest	Total
2015.....	\$ 198,882	\$ 61,505	\$ 260,387
2016.....	198,882	55,517	254,399
2017.....	198,882	48,304	247,186
2018.....	192,882	41,453	234,335
2019.....	192,882	35,151	228,033
2020.....	145,882	29,366	175,248
2021.....	139,118	23,974	163,092
2022.....	128,618	18,178	146,796
2023.....	44,118	14,284	58,402
2024.....	44,118	12,518	56,636
2025.....	44,118	10,754	54,872
2026.....	44,118	8,988	53,106
2027.....	44,118	7,224	51,342
2028.....	44,118	5,460	49,578
2029.....	44,118	3,694	47,812
2030.....	44,118	1,878	45,996
Total.....	\$ <u>1,748,972</u>	\$ <u>378,248</u>	\$ <u>2,127,220</u>

Bonds and Notes Payable Schedule – Sewer Enterprise Fund

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Beginning Balance	Issued	Redeemed	Ending Balance
Sewer.....	2014	\$ 1,013,500	2.90-3.10	\$ 50,000	\$ -	\$ 50,000	\$ -
Sewer - MCWT (CW-02-15A).....	2023	64,771	1.99	44,454	-	3,649	40,805
Sewer - MCWT (CW-02-15).....	2023	592,114	5.04	406,323	-	30,105	376,218
Sewer - Hale and West Street.....	2030	1,657,500	3.88	1,397,646	-	84,118	1,313,528
Sewer - Drainage.....	2030	1,670,000	3.73	1,415,000	-	85,000	1,330,000
Sewer Infrastructure.....	2035	3,708,000	2.00-4.00	3,405,000	-	150,000	3,255,000
Total.....				\$ <u>6,718,423</u>	\$ <u>-</u>	\$ <u>402,872</u>	\$ <u>6,315,551</u>

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

Year	Principal	Interest	Total
2015.....	\$ 354,570	\$ 233,836	\$ 588,406
2016.....	354,645	225,634	580,279
2017.....	359,255	214,909	574,164
2018.....	359,333	203,028	562,361
2019.....	359,413	189,643	549,056
2020.....	359,495	177,969	537,464
2021.....	360,875	165,962	526,837
2022.....	360,960	150,417	511,377
2023.....	361,046	133,986	495,032
2024.....	365,667	119,039	484,706
2025.....	315,882	106,360	422,242
2026.....	315,882	93,724	409,606
2027.....	315,882	81,088	396,970
2028.....	310,882	68,554	379,436
2029.....	310,882	56,118	367,000
2030.....	280,882	43,471	324,353
2031.....	145,000	31,900	176,900
2032.....	145,000	26,100	171,100
2033.....	145,000	20,300	165,300
2034.....	145,000	14,500	159,500
2035.....	145,000	8,700	153,700
2036.....	145,000	2,900	147,900
Total.....	\$ <u>6,315,551</u>	\$ <u>2,368,138</u>	\$ <u>8,683,689</u>

Bonds and Notes Payable Schedule – Beverly Golf and Tennis Enterprise Fund

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Beginning Balance	Issued	Redeemed	Ending Balance
Golf and Tennis.....	2023	\$ 715,000	3.99	\$ 40,000	\$ -	\$ 40,000	\$ -
Golf and Tennis improvements.....	2024	1,500,000	2.00-4.00	1,280,000	-	110,000	1,170,000
Municipal Purpose Refunding Bonds of 2013.....	2024	306,000	2.00-4.00	306,000	-	-	306,000
Total.....				\$ <u>1,626,000</u>	\$ <u>-</u>	\$ <u>150,000</u>	\$ <u>1,476,000</u>

Debt service requirements for principal and interest for the Beverly golf and tennis enterprise fund bonds and notes payable in future years are as follows:

Year	Principal	Interest	Total
2015.....	\$ 145,000	\$ 45,665	\$ 190,665
2016.....	145,000	42,415	187,415
2017.....	145,000	38,440	183,440
2018.....	140,000	34,165	174,165
2019.....	140,000	30,140	170,140
2020.....	140,000	25,765	165,765
2021.....	140,000	21,215	161,215
2022.....	136,000	16,220	152,220
2023.....	135,000	10,950	145,950
2024.....	105,000	6,300	111,300
2025.....	105,000	2,100	107,100
Total.....	\$ <u>1,476,000</u>	\$ <u>273,375</u>	\$ <u>1,749,375</u>

The City is scheduled to be subsidized by the Massachusetts Clean Water Trust (MCWT) on a periodic basis for principal in the amount of \$7,058 and interest costs for \$55,307. Net MCWT loan repayments, including interest, are schedule to be \$403,472. Since the City is legally obligated for the total amount of the debt, such amounts have been recorded in the accompanying basic financial statements. The first principal subsidy is scheduled to be received in 2021. The 2014 interest subsidy totaled \$8,987.

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 2014, \$954,791 of such assistance was received and \$7,638,324 will be received in future years. Of this amount, \$1,462,395 represents reimbursement of long-term interest costs, and \$6,175,929 represents reimbursement of approved construction costs. Accordingly, a \$6,175,929 intergovernmental receivable and corresponding deferred inflow of resources have been reported in the governmental fund financial statements. The deferred inflow of resources has been recognized as revenue in the conversion to the government-wide financial statements.

In 2005, the Commonwealth enacted legislation that changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the City. Through the end of 2014, the City has received \$41,624,915 of capital grant reimbursements from the MSBA which is equal to 56.42% of approved construction costs incurred to date for the new high school. The City received \$2,877,494 of reimbursements in 2014 and anticipates receiving the final reimbursement in 2015.

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2014, the City had the following authorized and unissued debt:

Purpose	Amount
Public safety facility.....	\$ 405,129
Land acquisition bond.....	173,647
Boyles street/cross lane sewer.....	1,300,000
Beverly Farms library.....	1,005,000
North Bass river.....	268,000
Water main project.....	596
Measure and list project.....	74,416
Innocenti remediation.....	487,717
Fire engine.....	70,000
Chubbs brook drainage.....	130,000
High school renovations.....	7,815,278
North Beverly and Chubbs brook drainage.....	300
Golf and tennis club handicap accessibility.....	500,000
Chubbs brook sewer drainage.....	1,700,000
Fire trucks.....	1,000,000
Police communications and fiber optics.....	1,000,000
City hall and police station repairs.....	2,600,000
Library repairs.....	2,600,000
Middle school design and feasibility.....	750,000
Rantoul Street sewer system.....	1,350,000
Cove area sewer system.....	1,350,000
Standley Street water main.....	800,000
Beverly Farms water main.....	2,900,000
Total.....	\$ 28,280,083

Changes in Long-term Liabilities

During the year ended June 30, 2014, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Governmental Activities:					
Long-term bonds and notes.....	\$ 58,071,500	\$ -	\$ (4,720,000)	\$ 53,351,500	\$ 4,672,000
Add: unamortized premium.....	2,247,202	-	(413,595)	1,833,607	387,518
Total bonds payable.....	60,318,702	-	(5,133,595)	55,185,107	5,059,518
Compensated absences.....	2,026,000	1,244,000	(1,241,000)	2,029,000	1,210,000
Workers' compensation.....	604,000	741,000	(93,000)	1,252,000	222,000
Capital lease obligations.....	843,912	802,101	(543,778)	1,102,235	570,506
Other postemployment benefits.....	46,838,000	14,641,000	(4,675,000)	56,804,000	-
Total governmental activity long-term liabilities.....	\$ 110,630,614	\$ 17,428,101	\$ (11,686,373)	\$ 116,372,342	\$ 7,062,024
Business-Type Activities:					
Long-term bonds and notes.....	\$ 10,343,277	\$ -	\$ (802,754)	\$ 9,540,523	\$ 698,452
Other postemployment benefits.....	1,265,000	208,000	(666,000)	807,000	-
Compensated absences.....	87,000	113,000	(69,000)	131,000	92,000
Total business type activity long-term liabilities.....	\$ 11,695,277	\$ 321,000	\$ (1,537,754)	\$ 10,478,523	\$ 790,452

NOTE 9 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The City has reported principal portions of endowment funds as nonspendable.

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

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

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

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

At year end, the balance of the Debt Service Stabilization Fund is \$1 million and is reported as committed fund balance within the General Fund.

The City established a general stabilization fund in 2014 to help ensure Beverly's long-term stability by setting aside money for unforeseen or capital needs. The City also adopted a policy that includes, but is not limited to, a minimum annual contribution to the fund of no less than 10% of the certified free cash balance. At year-end, the City's general stabilization fund totaled \$750,928 which equaled its initial appropriation for the fund.

The City has classified its fund balances with the following hierarchy:

	GOVERNMENTAL FUNDS					Total Governmental Funds
	General	Community Preservation Fund	High School Renovation & Reconstruction	Municipal Improvements Fund	Nonmajor Governmental Funds	
FUND BALANCES						
Nonspendable:						
Permanent fund principal.....\$	-	\$ -	\$ -	\$ -	\$ 1,982,056	\$ 1,982,056
Restricted for:						
Community preservation funds.....	-	612,257	-	-	-	612,257
City federal and state grant funds.....	-	-	-	-	378,423	378,423
School revolving funds.....	-	-	-	-	31,317	31,317
School federal and state grant funds.....	-	-	-	-	407,867	407,867
School other funds.....	-	-	-	-	2,067,287	2,067,287
Receipts reserved for appropriations.....	-	-	-	-	658,045	658,045
Special revenue trust funds.....	-	-	-	-	1,690,907	1,690,907
Highway construction.....	-	-	-	-	309,962	309,962
Other special revenue.....	-	-	-	-	2,546,158	2,546,158
School capital projects.....	-	-	-	-	93,285	93,285
Waterway projects.....	-	-	-	-	19,486	19,486
Library renovations.....	-	-	-	-	11,801	11,801
Permanent trust funds.....	-	-	-	-	849,790	849,790
Committed to:						
Stabilization - debt service.....	1,000,000	-	-	-	-	1,000,000
Assigned to:						
General government.....	347,208	-	-	-	-	347,208
Public safety.....	40,412	-	-	-	-	40,412
Education.....	499,592	-	-	-	-	499,592
Public works.....	717,191	-	-	-	-	717,191
Human services.....	1,614	-	-	-	-	1,614
Culture and recreation.....	30,040	-	-	-	-	30,040
Employee benefits.....	963	-	-	-	-	963
Unassigned to:						
Operating fund.....	7,882,689	-	-	-	-	7,882,689
Stabilization - general purpose.....	750,928	-	-	-	-	750,928
Other funds.....	-	-	(4,048,562)	(2,557,463)	(1,139,836)	(7,745,861)
TOTAL FUND BALANCES (DEFICIT).....\$	<u>11,270,637</u>	<u>612,257</u>	<u>(4,048,562)</u>	<u>(2,557,463)</u>	<u>9,906,548</u>	<u>15,183,417</u>

NOTE 10 - RISK FINANCING

The City is self-insured for its workers' compensation and its health insurance activities. The health insurance activities are accounted for in the internal service fund and the workers' compensation activities are accounted for in the general fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). The result of the process to estimate the claims liability is not an exact amount as it depends on many factors. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claims settlement trends, and other economic and social factors. The City estimates the liability to be in the range of \$1,019,000 to \$1,747,000.

Health Insurance

The estimate of IBNR claims is based on a historical trend analysis and recent trends. The City purchases individual stop loss insurance for claims in excess of the \$150,000 coverage. Settled claims have not exceeded this third party insurance coverage in any of the previous past three years. Changes in the reported liability since July 1, 2012, are as follows:

	Balance at Beginning of Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Year-End
Year 2013.....	\$ 1,235,000	\$ 10,680,000	\$ (10,879,000)	\$ 1,036,000
Year 2014.....	1,036,000	15,771,000	(15,788,000)	1,019,000

Workers' Compensation

Worker's compensation claims are administered by the City's Personnel Department and is funded on a pay-as-you-go basis from annual appropriations. The estimated future workers' compensation liability is based on history and injury type. Changes in the reported liability since July 1, 2012, are as follows:

	Balance at Beginning of Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Year-End
Year 2013.....	\$ 414,000	\$ 391,000	\$ (201,000)	\$ 604,000
Year 2014.....	604,000	741,000	(93,000)	1,252,000

NOTE 11 - PENSION PLAN

Plan Description - The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Beverly Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$11,997,390 for the year ended June 30, 2014, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Beverly Contributory Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 191 Cabot Street, Beverly, Massachusetts, 01915.

At December 31, 2013, the System's membership consists of the following:

Active members.....	506
Inactive members.....	165
Disabled members.....	60
Retirees and beneficiaries currently receiving benefits.....	<u>400</u>
Total.....	<u>1,131</u>

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The apportionment of the annual pension cost between the two employers required the City to contribute 96%, 96% and 97% for the current and previous two years, respectively. Chapter 32 of the MGL governs the contributions of plan members and the City.

Annual Pension Cost - The City's contributions to the System for the years ended June 30, 2014, 2013, and 2012 were \$8,504,986, \$8,132,593, and \$7,774,053, respectively, which equaled its required contribution for each year. At June 30, 2014, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2012, actuarial valuation using the individual entry age normal actuarial cost method. The actuarial assumptions included an 8% investment rate of return and projected salary increases of 4.75% to 5.25% per year. The actuarial value of the System's assets was determined using the actuarial value (5-year smoothing) of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls. The remaining amortization period at January 1, 2012, was 18 years.

**Schedule of Funding Progress
(Dollar amounts in thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/14	\$ 91,610	\$ 177,506	\$ 85,896	51.6%	\$ 25,707	334.1%
1/1/12	82,615	161,554	78,939	51.1%	\$ 24,016	328.7%
1/1/10	79,867	156,112	76,245	51.2%	24,877	306.5%
1/1/08	86,938	143,368	56,430	60.6%	22,692	248.7%
1/1/06	74,635	132,914	58,279	56.2%	21,116	276.0%
1/1/04	66,993	122,032	55,039	54.9%	19,748	278.7%

Funding progress is reported based on the biennial actuarial valuation performed by the System, and is being accumulated on a biennial basis. The City is responsible for approximately 96% of the unfunded liability. The actuarial valuation dated 1/1/14 was not adopted by the System as of the date of this report.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – The City of Beverly administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the City's group health insurance plan, which covers both active and retired members. Chapter 32B of

the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the City and the unions representing City employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy – Contribution requirements are also negotiated between the City and union representatives. The required contribution is based on a pay-as-you-go financing requirement. Depending on the healthcare plan, the City contributes between 75 to 90 percent of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 10 to 25 percent of their premium costs. For life insurance, the City contributes 50 percent of the cost of current year premiums and plan members contribute the remaining 50%. For 2014, the City contributed \$5.3 million to the plan.

Annual OPEB Cost and Net OPEB Obligation – The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$ 14,593,000
Interest on net OPEB obligation.....	1,924,000
Adjustments to annual required contribution.....	<u>(1,668,000)</u>
Annual OPEB cost (expense).....	14,849,000
Contributions made.....	<u>(5,341,000)</u>
Increase in net OPEB obligation.....	9,508,000
Net OPEB obligation--beginning of year.....	<u>48,103,000</u>
Net OPEB obligation--end of year.....	<u>\$ 57,611,000</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 was as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2014	\$ 14,849,000	36%	\$ 57,611,000
6/30/2013	19,182,000	38%	48,103,000
6/30/2012	18,205,000	37%	36,205,000

Funded Status and Funding Progress – As of June 30, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$202.7 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$45.3 million, and the ratio of the UAAL to the covered payroll was 447 percent.

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 multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the June 30, 2013, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 4% investment return assumption, which is based on the expected yield on the assets of the City, calculated based on the funded level of the plan at the valuation date, and an annual medical care inflation rate of 9% initially, graded to 5% over 14 years. The UAAL is being amortized over a 30 year period, open basis, with amortization payments increasing at 4% per year. The remaining amortization period at June 30, 2014 is 25 years.

NOTE 13 - COMMITMENTS

City Hall and Police Station Repairs

The City Council appropriated \$2.6 million to repair/replace exterior and interior walls, roofing systems and windows at City Hall and the attached Police Station. The City has entered into contracts totaling approximately \$2.2 million and has expended \$1.3 million as of June 30, 2014.

Library Repairs

The City is in the mid stages of renovation work on the main library building. The project was authorized for \$2.6 million to repair both the interior and exterior of the building. This work will include sealing of the building, a new roof, windows, doors and entrance ways. As of June 30th, 2014 the City has expended \$1.25 million of the authorization.

Middle School Feasibility Study

The Massachusetts School Building Authority has invited the City to enter into a design and feasibility study for the construction or renovation of a new middle school. This process will result in a thorough cost benefit analysis of the options currently before the City regarding the construction of a new or renovated middle school. Authorized to expend \$1.5 million on this study and design, the City has not incurred any costs yet but anticipates doing so very shortly. The MSBA will be reimbursing the City for all eligible costs up to 51.42%.

Fiber and Communications Project

The fiber and communications project was originally appropriated for \$1 million. During 2014, change orders pushed the appropriation to \$1.1 million. This project will lay fiber optic cabling throughout the City to enhance our current communications infrastructure. As of June 30, 2014, \$531,000 has been expended of the total appropriation.

Beverly Municipal Airport Improvements

The City has been involved in a layered ramp improvement effort at its municipal airport. The current phase involves improvements to the airport's west ramp and has been authorized for a total project budget of \$2.6 million of which 90% will be reimbursed from the Federal Aviation Administration and 7.5% will be reimbursed from the Massachusetts Department of Transportation. As of June 30, 2014, the City has incurred \$1.1 million. The remaining \$1.5 million is expected to be expended in 2015.

Water Main Projects

Prior to the close of the year, the City Council authorized the appropriation of two water main projects. The Beverly Farms water main was appropriated at \$2.9 million and the Standley street water main was appropriated at \$800,000. Both projects are expected to begin construction during the current construction season.

Sewer Rehabilitation Projects

Prior to the close of the year, the City Council authorized the appropriation of two sewer improvement projects. The Rantoul Street area sewer will undergo an inspection, cleaning and where appropriate a relining. The appropriation for this project is \$1.4 million. The Cove Area sewer system will also undergo some infiltration and inflow reduction work which was also appropriated for \$1.4 million. Both projects are expected to begin during 2015.

NOTE 14 - CONTINGENCIES

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2014, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2014, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2014.

NOTE 15 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2014, the following GASB pronouncements were implemented:

- GASB Statement #65, *Items Previously Reported as Assets and Liabilities*. The implementation of this pronouncement required certain items previously reported as assets and liabilities to be reported as deferred inflows and deferred outflows of financial resources.
- GASB Statement #66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future years:

- GASB Statement #67, *Financial Reporting for Pension Plans*, which is required to be implemented in 2015.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions*, which is required to be implemented in 2015.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in 2015.
- The GASB issued Statement #71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement #25*, which is required to be implemented in 2015.

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

Required Supplementary Information

This page intentionally left blank.

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

YEAR ENDED JUNE 30, 2014

	Budgeted Amounts			
	Amounts Carried Forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 83,786,076	\$ 83,786,076	\$ 83,780,615
Tax liens.....	-	-	-	-
Motor vehicle and other excise taxes.....	-	4,510,000	4,510,000	4,510,000
Intergovernmental.....	-	14,482,320	14,482,320	14,517,961
Departmental and other.....	-	2,633,442	2,633,442	2,633,442
Investment income.....	-	18,670	18,670	18,670
TOTAL REVENUES.....	-	105,430,508	105,430,508	105,460,688
EXPENDITURES:				
Current:				
General government.....	154,973	5,090,202	5,245,175	5,407,886
Public safety.....	129,134	13,074,698	13,203,832	13,844,096
Education.....	415,652	50,330,595	50,746,247	50,929,751
Public works.....	340,785	5,544,705	5,885,490	5,892,990
Human services.....	600	1,345,262	1,345,862	1,548,625
Culture and recreation.....	20,103	2,089,206	2,109,309	2,139,309
Pension benefits.....	-	8,507,203	8,507,203	8,507,203
Employee benefits.....	-	9,690,149	9,690,149	9,717,649
State and county charges.....	-	1,292,950	1,292,950	1,718,329
Debt service:				
Principal.....	-	4,720,607	4,720,607	4,720,000
Interest.....	-	2,114,372	2,114,372	2,114,372
TOTAL EXPENDITURES.....	1,061,247	103,799,949	104,861,196	106,540,210
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(1,061,247)	1,630,559	569,312	(1,079,522)
OTHER FINANCING SOURCES (USES):				
Transfers in.....	-	1,608,074	1,608,074	1,858,074
Transfers out.....	-	(2,750,582)	(2,750,582)	(4,090,842)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(1,142,508)	(1,142,508)	(2,232,768)
NET CHANGE IN FUND BALANCE.....	(1,061,247)	488,051	(573,196)	(3,312,290)
BUDGETARY FUND BALANCE, Beginning of year.....	9,203,614	9,203,614	9,203,614	9,203,614
BUDGETARY FUND BALANCE, End of year.....	\$ 8,142,367	\$ 9,691,665	\$ 8,630,418	\$ 5,891,324

See notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
\$	83,688,770	\$ -	\$ (91,845)
	654,407	-	654,407
	5,237,614	-	727,614
	14,693,971	-	176,010
	3,260,955	-	627,513
	<u>21,289</u>	-	<u>2,619</u>
	<u>107,557,006</u>	-	<u>2,096,318</u>
	4,995,262	347,208	65,416
	13,616,005	40,412	187,679
	50,386,044	499,592	44,115
	5,484,373	717,191	(308,574)
	1,517,063	1,614	29,948
	2,084,360	30,040	24,909
	8,495,764	-	11,439
	9,679,022	963	37,664
	1,497,972	-	220,357
	4,720,000	-	-
	<u>2,114,372</u>	-	-
	<u>104,590,237</u>	<u>1,637,020</u>	<u>312,953</u>
	<u>2,966,769</u>	<u>(1,637,020)</u>	<u>2,409,271</u>
	1,858,074	-	-
	<u>(4,090,842)</u>	-	-
	<u>(2,232,768)</u>	-	-
	734,001	(1,637,020)	2,409,271
	<u>9,203,614</u>	-	-
\$	<u><u>9,937,615</u></u>	<u><u>(1,637,020)</u></u>	<u><u>\$ 2,409,271</u></u>

Retirement System Schedules of Funding Progress and Employer Contributions

The Retirement System Schedule of Funding Progress presents multiyear trend information relating to the cost-sharing plan as a whole, of which the City is one participating employer, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Retirement System Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the City is one participating employer, as well as the City's proportionate share of the plan's annual contributions.

BEVERLY CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/14	\$ 91,610	\$ 177,506	\$ 85,896	51.6%	\$ 25,707	334.1%
01/01/12	82,615	161,554	78,939	51.1%	24,016	328.7%
01/01/10	79,867	156,112	76,245	51.2%	24,877	306.5%
01/01/08	86,938	143,368	56,430	60.6%	22,692	248.7%
01/01/06	74,635	132,914	58,279	56.2%	21,116	276.0%
01/01/04	66,993	122,032	55,039	54.9%	19,748	278.7%
01/01/02	65,892	110,369	44,477	59.7%	19,908	223.4%
01/01/00	59,368	95,126	35,758	62.4%	19,330	185.0%

The City's share of the UAAL, as of June 30, 2014, is approximately 96%.
The actuarial valuation dated 1/1/14 was not adopted by the System as of the date of this report.

See notes to required supplementary information.

**BEVERLY CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

(Dollar amounts in thousands)

Year Ended June 30	System Wide			City of Beverly	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) City's Percentage of System Wide Actual Contributions
2014	\$ 8,830	\$ 8,830	100%	\$ 8,505	96.32%
2013	8,437	8,437	100%	8,133	96.40%
2012	8,074	8,074	100%	7,774	96.28%
2011	7,716	7,716	100%	7,448	96.53%
2010	7,384	7,384	100%	7,112	96.32%
2009	6,950	6,950	100%	6,752	97.15%
2008	6,733	6,733	100%	6,533	97.03%
2007	6,455	6,455	100%	6,207	96.16%
2006	6,167	6,167	100%	5,939	96.30%

The City's Actual Contributions equaled 100% of its Required Contributions for each year presented.

See notes to required supplementary information.

Other Postemployment Benefit Plan Schedules

The Schedule of Funding progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents, over time, the ratio of the actual annual employer contributions to the annual required contribution.

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

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

(Dollar amounts in thousands)

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)
6/30/2013	\$ -	\$ 202,670	\$ 202,670	0%	\$ 45,336	447%
6/30/2011	-	253,700	253,700	0%	69,729	364%
6/30/2009	-	209,173	209,173	0%	48,600	430%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
2014	\$ 14,593	\$ 5,341	37%
2013	18,941	7,284	38%
2012	18,040	6,759	37%
2011	17,173	6,171	36%
2010	13,392	6,634	50%
2009	12,936	6,028	47%

The City implemented GASB Statement No. 45 for the year ended June 30, 2009.
Information for prior years is not available.

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Valuation date.....	June 30, 2013
Actuarial cost method.....	Projected unit credit
Amortization method.....	Level percentage of projected payroll assuming 4% future payroll increases
Remaining amortization period.....	30 years, open basis

Actuarial Assumptions:

Investment rate of return.....	4.0%
Medical care inflation rate.....	9% decreasing to 5% over 14 years

Plan Membership:

Current retirees, beneficiaries, and dependents.....	945
Current active members.....	<u>1,001</u>
Total	<u><u>1,946</u></u>

See notes to required supplementary information.

NOTE A - BUDGETARY BASIS OF ACCOUNTING1. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by the Mayor and the City Council (the Council). The Mayor presents an annual budget to the Council, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Expenditures are budgeted by categories that are broken down by personal services, expenses, debt service and capital outlay, which are mandated by Municipal Law. The Council, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

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

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

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

The City adopts an annual budget for the General Fund in conformity with the guidelines described above. The original 2014 budget authorized \$107.6 million in appropriations and other amounts to be raised; which includes \$1.1 million of amounts carried forward from the prior year. During 2014, the Council also approved supplemental appropriations totaling \$3 million, which primarily consisted of increases in public safety, state and county charges and transfers to other funds. The Office of the City Accountant has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation basis. Budgetary control is exercised through the City's accounting system.

2. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2014, is presented below:

Net change in fund balance - budgetary basis.....	\$	734,001
<u>Perspective differences:</u>		
Activity of the stabilization fund recorded in the general fund for GAAP.....		1,000,928
<u>Basis of accounting differences:</u>		
Net change in recording accrued payroll.....		72,000
Net change in recording tax refunds payable.....		8,019
Net change in recording 60 day receipts.....		135,600
Recognition of revenue for on-behalf payments.....		11,997,390
Recognition of expenditures for on-behalf payments.....		<u>(11,997,390)</u>
Net change in fund balance - GAAP basis.....	\$	<u>1,950,548</u>

NOTE B – PENSION PLAN

The City contributes to the System, a cost-sharing, multiple-employer defined benefit pension plan ("Plan") administered by the Beverly Contributory Retirement Board. The System provides retirement, disability, and death benefits to members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the Plan. The City is required to pay into the Retirement System its share of the system-wide actuarially determined contribution which is apportioned among the employers based on active covered payroll.

The schedule of funding progress, presented as required supplementary information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information presents multi-year trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the City is one participating employer, as well as the City's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the City.

The following actuarial methods and assumptions were used in the Retirement System's most recent actuarial valuation:

Valuation Date.....	January 1, 2014
Actuarial Cost Method.....	Entry Age Normal Cost Method
Amortization Method.....	Increasing at 4.5% per year
Remaining Amortization Period.....	16 to 18 years remaining as of January 1, 2014 depending on funding schedule adopted.
Asset Valuation Method.....	The difference between the expected return on an actuarial basis and actual investment return on a market value basis is recognized over a 5 year period.
Actuarial Assumptions:	
Investment rate of return.....	7.75%
Projected salary increases.....	4.25 - 4.75%
Cost of living adjustments.....	3.00% for the first \$12,000 of retirement income

The actuarial valuation dated 1/1/14 was not adopted by the System as of the date of this report.

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

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

The City currently finances its other postemployment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the City has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents, over time, the ratio of the actual annual employer contributions to the annual required contribution.

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

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