

CITY OF METHUEN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2017



CITY OF METHUEN, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Methuen, Massachusetts

Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

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 Methuen, Massachusetts, as of and for the year ended June 30, 2017, (except for the Methuen Contributory Retirement System, which is as of and for the year ended December 31, 2016) and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The City's 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Methuen, Massachusetts, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and the Pension and OPEB schedules appearing on pages 71 to 77 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 evidence sufficient 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 March 22, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that

report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

Melanson Heath

March 22, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Methuen, Massachusetts (the City), we offer readers this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2017.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to 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 our finances in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the government's net position changed during the most recent fiscal 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 fiscal 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, sanitation, health and human services, and culture and recreation. The business-type activities include water and sewer activities.

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide

financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds.

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs such as depreciation or debt service. The primary focus on these criteria is on fees charged to external users. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. Specifically, a single enterprise fund is used to account for the combined water and sewer operations.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal service funds are used to account for self-insured employee health programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are

not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to 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.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- At the end of the current fiscal year, unassigned fund balance for the general fund (the City's main operating fund) was \$2,568,894, a change of \$(1,435,851) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$8,972,239, a change of \$10,240,232 in comparison to the prior year.
- As of the close of the current fiscal year, the government-wide financial statements report total liabilities exceeding assets and deferred outflows of resources by \$(11,085,153) resulting in a negative net position, a change of \$(7,701,884) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position.

The largest portion of net position \$148,878,987 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of 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 net position of \$9,704,159 represents resources that are subject to external restrictions on how they may be used. The remaining amount is a deficit of \$(169,668,299). The deficit results primarily from the adoption of the Governmental Accounting Standards Board (GASB) Statement No. 68 *Accounting*

and Reporting for Pensions in fiscal year 2015. This statement established standards for the measurement, recognition, and presentation of the net pension liability in the City's financial statements. Net pension liability (NPL) for the year ended June 30, 2017, totaled \$116,883,000, reported under noncurrent liabilities on the Statement of Net Position. The City also reported net Other Post Employment Benefits (OPEB) obligation of \$75,328,358 as of June 30, 2017, contributing to the deficit as well.

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

Summary of Net Position (000s)

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 28,695	\$ 29,671	\$ 9,950	\$ 8,000	\$ 38,645	\$ 37,671
Capital assets	<u>177,911</u>	<u>177,995</u>	<u>34,376</u>	<u>35,460</u>	<u>212,287</u>	<u>213,455</u>
Total assets	206,606	207,666	44,326	43,460	250,932	251,126
Deferred outflows of resources	<u>14,272</u>	<u>5,452</u>	<u>803</u>	<u>258</u>	<u>15,075</u>	<u>5,710</u>
Total assets and deferred outflows or resources	<u>\$ 220,878</u>	<u>\$ 213,118</u>	<u>\$ 45,129</u>	<u>\$ 43,718</u>	<u>\$ 266,007</u>	<u>\$ 256,836</u>
Long-term liabilities	\$ 237,679	\$ 214,991	\$ 25,445	\$ 25,425	\$ 263,124	\$ 240,416
Other liabilities	<u>8,819</u>	<u>19,319</u>	<u>1,337</u>	<u>484</u>	<u>10,156</u>	<u>19,803</u>
Total liabilities	246,498	234,310	26,782	25,909	273,280	260,219
Deferred inflows of resources	3,609	-	203	-	3,812	-
Net position:						
Net investment in capital assets	131,977	126,956	16,902	16,512	148,879	143,468
Restricted	9,335	9,505	369	230	9,704	9,735
Unrestricted	<u>(170,541)</u>	<u>(157,653)</u>	<u>873</u>	<u>1,067</u>	<u>(169,668)</u>	<u>(156,586)</u>
Total net position	<u>(29,229)</u>	<u>(21,192)</u>	<u>18,144</u>	<u>17,809</u>	<u>(11,085)</u>	<u>(3,383)</u>
Total liabilities and net position	<u>\$ 220,878</u>	<u>\$ 213,118</u>	<u>\$ 45,129</u>	<u>\$ 43,718</u>	<u>\$ 266,007</u>	<u>\$ 256,836</u>

The following is a summary of condensed government-wide activities for the current and prior fiscal years.

Summary of Changes in Net Position (000s)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Totals</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
Program revenues						
Charges for services	\$ 13,155	\$ 12,166	\$ 12,737	\$ 10,317	\$ 25,892	\$ 22,483
Operating grants and contributions	69,207	63,988	8	8	69,215	63,996
Capital grants and contributions	6,003	1,507	-	-	6,003	1,507
General revenues						
Property Taxes	82,827	79,393	-	-	82,827	79,393
Excises	6,109	6,195	-	-	6,109	6,195
Local option meals tax	885	865	-	-	885	865
Interest and penalties	457	464	-	-	457	464
Grants and contributions not restricted to specific programs	10,099	12,151	-	-	10,099	12,151
Investment income	63	40	19	14	82	54
Other	478	891	5	-	483	891
Total revenues	189,283	177,660	12,769	10,339	202,052	187,999
Expenses:						
General government	16,731	15,114	-	-	16,731	15,114
Public safety	29,233	28,277	-	-	29,233	28,277
Education	128,724	119,536	-	-	128,724	119,536
Public works	11,621	9,252	-	-	11,621	9,252
Sanitation	3,019	2,716	-	-	3,019	2,716
Health and human services	1,625	1,610	-	-	1,625	1,610
Community development	2,042	2,039	-	-	2,042	2,039
Culture and recreation	2,684	2,167	-	-	2,684	2,167
Interest and costs	1,641	1,602	-	-	1,641	1,602
Enterprise services	-	-	12,434	11,222	12,434	11,222
Total expenses	197,320	182,313	12,434	11,222	209,754	193,535
Change in net position	(8,037)	(4,653)	335	(883)	(7,702)	(5,536)
Beginning net position	(21,192)	(16,539)	17,809	18,692	(3,383)	2,153
Ending net position	\$ (29,229)	\$ (21,192)	\$ 18,144	\$ 17,809	\$ (11,085)	\$ (3,383)

Governmental Activities - The City's governmental activities resulted in a change in net position of \$(8,037,184). Events contributing to the decrease in net position are as follows:

- The City's governmental share of OPEB liability increased by \$7,673,954 from the previous year. The City's accomplishments in fiscal 2016 include a step towards addressing the unfunded OPEB liability by passing City Resolution TR-16-8 establishing an Other Post-Employment Benefits (OPEB) Fiduciary Trust Fund in accordance with Massachusetts General Laws (MGL) Chapter 32B, Section 20 and contributing \$200,000 to the fiduciary fund. The City contributed an additional \$200,000 to the OPEB fund in fiscal year 2017.
- The net pension liability (NPL) related to governmental activities increased by \$7,542,395 primarily resulting from the change in assumptions. The increased liability due to change in assumptions is offset in deferred outflows of resources (on the statement of net position) and will increase pension expense over the next six years, as it is being amortized. The net fiscal year 2017 effect is an increase to pension expense of \$2,331,600 after taking into consideration the change in the related deferred outflows and inflows.
- The decreased in net position is also offset by capital asset additions acquired through current year revenues of \$2,388,456, which represents MGL Chapter 90 grants described in the Capital Asset section of the MD&A.

Property tax collections continued to remain strong. The City's total revenues increased by 6.5 percent or \$11,624,126 in comparison to the previous fiscal year. The City's expenses increased by 8.2 percent or \$15,008,461. The cost of all governmental activities this year was \$197,319,939 compared to \$182,311,478 last year. A portion of the cost was paid by:

- Those who directly benefited from the programs, reported as charges for services of \$13,155,328.
- Other governments and organizations that subsidized certain programs with operating and capital grants and contributions in the amount of \$75,210,300.

The City paid for the remaining "public benefit" portion of governmental activities with property taxes and with other revenues, such as interest and general entitlements. The amount that our taxpayers ultimately financed for these activities through property taxes was \$82,826,981. Grants and contributions not restricted to specific programs amounted to \$10,099,423.

The City's tax rate decreased from fiscal year 2016 to 2017 for residential properties from \$14.81 to \$14.65 and increased for commercial properties from \$26.14 to \$27.17. The City's governmental revenues incurred a modest increase,

including State Education Aid in the amount of \$42,215,389 comparing to \$41,177,406 in the prior year. Almost half of the total revenues or 45 percent were derived from grants and contributions.

Business-type Activities - Business-type activities for the year resulted in a change in net position of \$335,300. Contributing to the increase is 10 percent rate increase across all tiers.

D. FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of 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 fiscal year.

The General Fund is the chief operating fund. At the end of the fiscal year, fund balance categories of the General Fund are as follows (in thousands):

<u>General Fund</u>	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>	Balance % of Total General Fund Expenditures <u>6/30/17</u>
Assigned	\$ 593	\$ 799	\$ (206)	0.3%
Unassigned*	<u>2,569</u>	<u>4,005</u>	<u>(1,436)</u>	<u>1.5%</u>
Total fund balance	<u>\$ 3,162</u>	<u>\$ 4,804</u>	<u>\$ (1,642)</u>	<u>1.8%</u>

*Includes stabilization fund balance of \$992,274 at June 30, 2017 and \$2,400,152 at June 30, 2016.

General Fund revenues increased 14.3% over prior year while expenditures increased by 16.2%, contributing to the decrease in total fund balance.

High School Revitalization project is now complete. The intergovernmental revenue reported in the major fund represented a final MSBA reimbursement in May 2017.

Other governmental funds increase in fund balances primarily resulted from issuance of \$3,413,000 equipment bond for new vehicles for police, fire, and public works departments and \$2,583,000 Nicolson stadium improvement bond to finance the costs of these projects which were primarily incurred in the previous year.

Proprietary funds. Proprietary funds include the water and sewer enterprise fund and the health insurance internal service fund. Factors concerning the finances of the enterprise fund have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS AND OTHER INFORMATION

Winter snow removal strained the municipal budget with a price tag of \$1,745,651. The City had been averaging slightly over a \$1,102,308 in snow removal. FY 2017 was \$643,343 more than the average. The City still had to supplement the snow removal budget which affects the City's finances at year end by drawing down on other available funds or more specifically our "Free Cash position. Snow removal will continue to have a tremendous burden on the municipal budget and needs to be addressed and budgeted appropriately.

The City started off FY 2017 with a free cash certification of \$1,180,354 and our Stabilization Fund disclosed an opening balance of \$2,400,152 and ended with a balance of \$992,274. The significant decrease in the Stabilization Fund can be directly attributable to the funding of the Methuen School System. The Methuen City Council voted to appropriate \$2,339,087 to offset the rising costs of Special Education. The overall budget increased by 3.80% or \$5,934,446 with a majority of the increase going towards education, public safety, and employee benefits ~ insurance/pensions. The assessed valuation was set at \$4,804,659,354 an increase of \$230,059,143 in values in all classes which in turn added \$970,238 in new tax growth. Our tax levy used to support the Fiscal Year 2017 budget was \$83,215,227 which is below our actual levy limit governed by Proposition 2½ of \$83,578,045. The City of Methuen, after the adoption of the tax rate was \$362,818 below the levy limit.

The City of Methuen's Health Insurance Trust Fund continues to remain healthy. The account is disclosing a balance of \$1,416,562 as of 06/30/2017 after reserving \$1,130,238 for incurred but not reported claims. However, health insurance continues to have a significant impact on the operating budget with an appropriation of \$12,028,534 in FY 2017 an increase of \$912,646 over the Fiscal Year 2016 appropriation. The City continues to pursue alternatives to cut health insurance costs by working with the Public Employees Insurance Committee. Over the past two years the PEC made monumental concessions to reduce health care costs and at the same maintain a Health Insurance plan that works for the employee and the employer.

The Water and Sewer Enterprise fund was certified by the Department of Revenue with \$2,086,174 in available funds as of 07/01/2016. After disclosing the significant change in Retained Earnings, over the past several years the Director of Public Works contracted with the Abrahams Group to assist in evaluating the Water and Sewer Rate structure which had not been changed since Fiscal Year 2008. The objective was to work with the Public Works Director and his staff along with City Auditor on current and projected revenues and

expenditures ~ review water and sewer rates and tiers for potential changes to realize additional user charges revenue ~ ensure water and sewer user charges reflect respective costs ~ determine a cost-based water service charge ~ fund all capital expenses in the DPW's capital plan ~ eliminate projected fund deficits over five-year period (FY 2016 to FY 2020) ~ aim for a projected Retained Earnings balance of between 10% and 15% of Fund expenditures at the end of FY 2020. Upon conclusion of this study a presentation was made to the City Council during several public hearings and ultimately a new rate and tier structure was adopted. It is the intent of this change to stop drawing down on retained earnings to balance the budget and start building the Retained Earnings up to a level that makes the Water and Sewer Enterprise Fund solvent.

As mentioned in these reports in the past, a significant project that will help bolster the economy is the rerouting of a rotary off of Highway Interstate 93. The rotary project broke ground in the spring and is expected to be completed by 2018. The rotary project will improve traffic flow and capacity and open potential development opportunities that were previously turned away due to access issues. More than 100 acres of developable land area exists west of the rotary and there is a renewed interest in potential development sites. It is anticipated the City of Methuen will see a surge in new commercial growth as the project nears completion. The City's residential properties account for about 84% of total assessed valuation with commercial and industrial properties accounting for 16%. Once the Rotary project is nearing completion it is anticipated the City of Methuen will see a surge in new commercial growth. We feel that a significant shift will occur between residential and commercial assessed valuations, which will ease the burden of residential taxes from homeowners.

By the time Fiscal Year 2017 was closed the City was in good working order with an administration that is working with legislative body to instill sound financial policies that will enhance the City's financial condition.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City's investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, and infrastructure.

The following table provides a summary of the City's capital assets at June 30:

City of Methuen's Capital Assets (000s) (net of accumulated depreciation)						
	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land improvements	\$ 3,345	\$ 3,303	\$ 51	\$ 39	\$ 3,396	\$ 3,342
Construction	144,638	146,098	23,863	24,574	168,501	170,672
Infrastructure	12,329	10,497	8,837	9,088	21,166	19,585
Machinery and equipment	3,701	3,432	1,156	1,218	4,857	4,650
Licensed vehicles	4,688	4,364	217	289	4,905	4,653
Land, easements, and right of way	9,210	9,210	252	252	9,462	9,462
Construction in progress	-	1,090	-	-	-	1,090
Total net capital assets	<u>\$ 177,911</u>	<u>\$ 177,994</u>	<u>\$ 34,376</u>	<u>\$ 35,460</u>	<u>\$ 212,287</u>	<u>\$ 213,454</u>

Major capital asset acquisitions during the current fiscal year consisted of the following governmental activities:

The Energy Improvement Project

The City invested in various energy efficient improvements for a total cost of \$2,428,911 incurred in fiscal year 2017.

Other Capital Investments

The City invested in road improvements of \$2,194,823 in fiscal year 2017 funded by MA Chapter 90 grants. The City also incurred other costs on additional street improvements, street sweeper, pick-up trucks, ambulance, sports utility vehicles and other assets.

Additional information on capital assets can be found in the Notes to Financial Statements.

Long-Term Debt. At the end of the current fiscal year, total bonded debt including long-term loans outstanding and unamortized premiums was \$65,010,637, all of which was backed by the full faith and credit of the government. Standard & Poor's assigned the City its AA long term program rating in July 2016 with negative outlook and AA- underlying rating for credit program with stable outlook.

Additional information on long-term debt can be found in the Notes to Financial Statements.

G. NEXT YEAR'S BUDGETS AND RATES

Finally, the municipal operating budget is calling for level funded appropriations from the individual departments. The Administration will have to address contract negotiations with all unions and bargaining units, as they are out of contract in Fiscal Year 2017. This will be a difficult budget cycle as the City of Methuen is up against proposition 2½, which means we have no excess levy capacity other than what Proposition 2½ and new growth allows us. However, in the category of fixed costs the City of Methuen retired a significant amount of debt in fiscal year 2017 and it is anticipated the Bonds & Interest appropriation will be reduced by \$3,000,013. The Employee Benefits Insurance and the Contributory Retirement System will increase by approximately \$1,090,000, leaving a net decrease of \$1,809,968 in Fixed Costs.

The Stabilization Fund was drained last fiscal year to accommodate the School Departments budget but should rebound from the dedicated meals tax revenues that are streamlined into this fund. It is anticipated we should have a balance in excess of \$2,000,000 by the end of the fiscal year.

The City of Methuen continues to add value to its Residential and Commercial Properties as evident by the increase in Building, Gas, Plumbing, and Electrical Permits. In Fiscal Year 2016 we witnessed an increase of 18% from the previous fiscal year and in Fiscal Year 2017 the permits increased by another 13% or just shy of \$1,000,000 in permit revenues. However, our other local revenues will increase slightly in Fiscal year 2018 and the administration's commitment of not relying on one-time revenues to balance the budget will continue. Despite the fact that we are presenting a lean and efficient budget, we are delivering a high quality municipal product. Growing obligations and fixed costs such as retirement and health insurance pose challenges to our ability to present a balanced budget that meets the expectations of the community. All of these conversations and all of these decisions will have to be made together, as a community. This budget is a major step in taking action in protecting our financial future.

General Fund Budget

	<u>FY 2017</u>	<u>FY 2018</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
City	\$ 72,071 ⁽¹⁾	\$ 71,452 ⁽¹⁾	\$ (619)	-0.86%
School	77,407	75,581	(1,826)	-2.36%
County	1,933	2,379	446	23.07%
Enterprise Fund	10,762 ⁽²⁾	11,319 ⁽²⁾	557	5.18%
Total Budget	<u>\$ 162,173</u>	<u>\$ 160,731</u>	<u>\$ (1,442)</u>	<u>-0.89%</u>

⁽¹⁾ Includes reserve for abatements and exemptions and cherry sheet offsets.

⁽²⁾ Excludes indirect costs.

Tax Levy

	<u>FY 2017</u>	<u>FY 2018</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
General Government	\$ 26,136	\$ 28,779	\$ 2,643	10.11%
Fixed Costs	24,086	24,308	222	0.92%
School	32,690	32,941	251	0.77%
Overlay	303	534	231	76.24%
Total Levy	<u>\$ 83,215</u>	<u>\$ 86,562</u>	<u>\$ 3,347</u>	<u>4.02%</u>

Tax Rate

	<u>FY 2017</u>	<u>FY 2018</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Residential	\$ 14.65	\$ 14.27	\$ (0.38)	-2.59%
Commercial	\$ 27.17	\$ 28.11	\$ 0.94	3.46%

Valuation by Classification

<u>Classification</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Residential	\$ 4,279,399	\$ 4,570,149	\$ 290,750	6.79%
Commercial	438,902	441,489	2,587	0.59%
Industrial	153,708	154,290	582	0.38%
Personal Property	162,709	163,596	887	0.55%
	<u>\$ 5,034,718</u>	<u>\$ 5,329,524</u>	<u>\$ 294,806</u>	<u>5.86%</u>

Utility Fund Budget

	<u>FY 2017</u>	<u>FY 2018</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Water & Sewer Enterprise Fund	\$ 12,162	\$ 12,750	\$ 588	4.83%

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Methuen's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City Auditor
City of Methuen
41 Pleasant Street
Methuen, MA 01844

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Assets:			
Current:			
Cash and short-term investments	\$ 15,013,795	\$ 5,364,216	\$ 20,378,011
Receivables, net of allowance for uncollectibles:			
Property taxes	1,638,313	-	1,638,313
Excises	1,248,430	-	1,248,430
User fees	-	4,586,077	4,586,077
Assessments	180,974	-	180,974
Departmental and other	1,672,878	-	1,672,878
Intergovernmental	2,687,323	-	2,687,323
Loans	3,894,015	-	3,894,015
Total current assets	26,335,728	9,950,293	36,286,021
Noncurrent:			
Property taxes	2,359,340	-	2,359,340
Capital assets:			
Nondepreciable capital assets	9,210,451	251,550	9,462,001
Other capital assets, net of accumulated depreciation	168,700,395	34,124,592	202,824,987
Total noncurrent assets	180,270,186	34,376,142	214,646,328
TOTAL ASSETS	206,605,914	44,326,435	250,932,349
Deferred Outflows of Resources:			
Related to pensions	14,271,502	803,498	15,075,000
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 220,877,416	\$ 45,129,933	\$ 266,007,349
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
Liabilities:			
Current:			
Warrants and accounts payable	\$ 2,006,462	\$ 1,090,656	\$ 3,097,118
Accrued liabilities	1,650,140	246,794	1,896,934
Notes payable	2,915,000	-	2,915,000
Guaranteed deposits payable	1,047,230	-	1,047,230
Other current liabilities	1,199,898	-	1,199,898
Current portion of long-term liabilities:			
Bonds and loans payable	2,329,602	1,502,274	3,831,876
Other liabilities	2,704,846	-	2,704,846
Total current liabilities	13,853,178	2,839,724	16,692,902
Noncurrent:			
Bonds and loans payable, net of current portion	45,191,574	15,987,187	61,178,761
Net pension liability	110,653,136	6,229,864	116,883,000
Net OPEB obligation	73,735,327	1,593,031	75,328,358
Other liabilities, net of current portion	3,064,846	132,635	3,197,481
Total noncurrent liabilities	232,644,883	23,942,717	256,587,600
TOTAL LIABILITIES	246,498,061	26,782,441	273,280,502
Deferred Inflows of Resources:			
Related to pensions	3,608,820	203,180	3,812,000
Net Position:			
Net investment in capital assets	131,976,956	16,902,031	148,878,987
Restricted externally or constitutionally for:			
Loan, grant programs, and other restrictions	8,917,554	-	8,917,554
Sewer mitigation	-	369,549	369,549
Permanent fund - nonexpendable	417,056	-	417,056
Unrestricted (deficit)	(170,541,031)	872,732	(169,668,299)
TOTAL NET POSITION	(29,229,465)	18,144,312	(11,085,153)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 220,877,416	\$ 45,129,933	\$ 266,007,349

The accompanying notes are an integral part of these financial statements.

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities:					
General government	\$ 16,731,123	\$ 1,812,523	\$ 250,867	\$ -	\$ (14,667,733)
Public safety	29,233,103	5,436,524	346,319	-	(23,450,260)
Education	128,724,486	3,724,685	67,877,204	3,274,790	(53,847,807)
Public works	11,620,531	353,978	-	2,388,456	(8,878,097)
Sanitation	3,018,631	-	-	-	(3,018,631)
Health and human services	1,625,070	114,185	704,865	-	(806,020)
Community development	2,042,338	355,913	-	340,053	(1,346,372)
Culture and recreation	2,683,896	1,357,520	27,746	-	(1,298,630)
Interest	1,640,761	-	-	-	(1,640,761)
Total Governmental Activities	197,319,939	13,155,328	69,207,001	6,003,299	(108,954,311)
Business-Type Activities:					
Enterprise services	12,434,182	12,736,651	8,225	-	310,694
Total	\$ 209,754,121	\$ 25,891,979	\$ 69,215,226	\$ 6,003,299	\$ (108,643,617)

(continued)

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

(continued)

	Governmental <u>Activities</u>	Business- Type <u>Activities</u>	<u>Total</u>
Change in Net Position:			
Net (Expenses) revenue from previous page	\$ (108,954,311)	\$ 310,694	\$ (108,643,617)
General Revenues:			
Property taxes	82,826,981	-	82,826,981
Excise taxes	6,109,210	-	6,109,210
Local option meals tax	884,665	-	884,665
Interest and penalties	457,364	-	457,364
Grants and contributions not restricted to specific programs	10,099,423	-	10,099,423
Investment income	62,704	19,003	81,707
Other	<u>476,780</u>	<u>5,603</u>	<u>482,383</u>
Total general revenues	<u>100,917,127</u>	<u>24,606</u>	<u>100,941,733</u>
Change in Net Position	(8,037,184)	335,300	(7,701,884)
Net Position:			
Beginning of year	<u>(21,192,281)</u>	<u>17,809,012</u>	<u>(3,383,269)</u>
End of year	<u>\$ (29,229,465)</u>	<u>\$ 18,144,312</u>	<u>\$ (11,085,153)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF METHUEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

	<u>General</u>	<u>High School Revitalization</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 5,578,935	\$ 2,915,988	\$ 3,835,955	\$ 12,330,878
Receivables:				
Property taxes	4,565,653	-	-	4,565,653
Excises	1,785,430	-	-	1,785,430
Assessments	180,974	-	-	180,974
Departmental and other	1,178,841	-	688,424	1,867,265
Intergovernmental	498,319	-	2,189,004	2,687,323
Loans	-	-	3,894,015	3,894,015
TOTAL ASSETS	<u>\$ 13,788,152</u>	<u>\$ 2,915,988</u>	<u>\$ 10,607,398</u>	<u>\$ 27,311,538</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Warrants and accounts payable	\$ 1,389,843	\$ -	\$ 478,889	\$ 1,868,732
Accrued liabilities	800,899	-	136,654	937,553
Notes payable	-	2,915,000	-	2,915,000
Guaranteed deposits payable	1,047,230	-	-	1,047,230
Other liabilities	69,660	-	-	69,660
Total Liabilities	3,307,632	2,915,000	615,543	6,838,175
Deferred Inflows of Resources:				
Unavailable revenues	7,319,099	-	4,182,025	11,501,124
Fund Balances:				
Nonspendable	-	-	417,056	417,056
Restricted	-	988	5,987,715	5,988,703
Assigned	592,527	-	-	592,527
Unassigned	2,568,894	-	(594,941)	1,973,953
Total Fund Balances	<u>3,161,421</u>	<u>988</u>	<u>5,809,830</u>	<u>8,972,239</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 13,788,152</u>	<u>\$ 2,915,988</u>	<u>\$ 10,607,398</u>	<u>\$ 27,311,538</u>

The accompanying notes are an integral part of these financial statements.

CITY OF METHUEN, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2017

Total governmental fund balances	\$ 8,972,239
<ul style="list-style-type: none"> Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 	177,910,846
<ul style="list-style-type: none"> Deferred outflows and inflows of resources related to pension are not financial resources nor are they available to pay current-period expenditures. Pension related outflows and inflows consist of: <ul style="list-style-type: none"> Deferred outflows Deferred inflows 	14,271,502 (3,608,820)
<ul style="list-style-type: none"> Revenues are reported on the accrual basis of accounting and are not deferred until collection. 	10,200,124
<ul style="list-style-type: none"> Internal service funds are used by management to account for 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. 	1,416,562
<ul style="list-style-type: none"> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	(712,587)
<ul style="list-style-type: none"> Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. <ul style="list-style-type: none"> Bonds payable Net OPEB obligation Net pension liability Landfill liability Compensated absences liability 	(47,521,176) (73,735,327) (110,653,136) (440,000) (5,329,692)
Net position of governmental activities (deficit)	\$ <u>(29,229,465)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF METHUEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2017

	<u>General</u>	<u>High School Revitalization</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 82,770,784	\$ -	\$ -	\$ 82,770,784
Excise taxes	6,258,751	-	-	6,258,751
Local option meals tax	884,667	-	-	884,667
Licenses and permits	1,419,770	-	-	1,419,770
Intergovernmental	69,150,921	3,274,791	12,640,992	85,066,704
Charges for services	3,406,899	-	7,922,300	11,329,199
Interest and penalties	457,364	-	-	457,364
Investment income	62,312	-	392	62,704
Fines and forfeitures	375,108	-	-	375,108
Contributions	-	-	271,053	271,053
Other revenue	112,906	-	314,921	427,827
Total Revenues	164,899,482	3,274,791	21,149,658	189,323,931
Expenditures:				
Current:				
General government	27,229,248	-	345,185	27,574,433
Public safety	22,593,647	-	3,118,503	25,712,150
Education	95,787,644	-	12,603,340	108,390,984
Public works	7,963,094	-	63,338	8,026,432
Sanitation	3,018,631	-	-	3,018,631
Health and human services	1,168,423	-	806,771	1,975,194
Community development	1,493,653	-	511,969	2,005,622
Culture and recreation	1,242,277	-	1,431,692	2,673,969
Debt service:				
Principal	5,460,000	-	-	5,460,000
Interest	1,464,360	-	-	1,464,360
Capital outlay	-	-	5,470,889	5,470,889
Total Expenditures	167,420,977	-	24,351,687	191,772,664
Excess (deficiency) of revenues over expenditures	(2,521,495)	3,274,791	(3,202,029)	(2,448,733)
Other Financing Sources (Uses):				
Bond proceeds	-	2,500,000	9,396,000	11,896,000
Bond premium	792,965	-	-	792,965
Transfers in	315,351	-	874,070	1,189,421
Transfers out	(229,070)	(645,000)	(315,351)	(1,189,421)
Total Other Financing Sources (Uses)	879,246	1,855,000	9,954,719	12,688,965
Net change in fund balances	(1,642,249)	5,129,791	6,752,690	10,240,232
Fund Balances (Deficit), at Beginning of Year	4,803,670	(5,128,803)	(942,860)	(1,267,993)
Fund Balances (Deficit), at End of Year	\$ 3,161,421	\$ 988	\$ 5,809,830	\$ 8,972,239

The accompanying notes are an integral part of these financial statements.

CITY OF METHUEN, MASSACHUSETTS
RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Net changes in fund balances - Total governmental funds	\$ 10,240,232																								
<ul style="list-style-type: none"> 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: <table> <tr> <td>Capital outlay purchases, net of disposals</td><td style="text-align: right;">6,672,716</td></tr> <tr> <td>Depreciation</td><td style="text-align: right;">(6,756,309)</td></tr> </table> 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. <div style="text-align: right;">(90,128)</div> The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table> <tr> <td>Issuance of debt</td><td style="text-align: right;">(11,896,000)</td></tr> <tr> <td>Repayments of debt</td><td style="text-align: right;">5,460,000</td></tr> <tr> <td>Change in unamortized bond premium</td><td style="text-align: right;">(744,011)</td></tr> <tr> <td>Payments of capital leases</td><td style="text-align: right;">95,378</td></tr> </table> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <div style="text-align: right;">(176,398)</div> 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. <table> <tr> <td>Compensated absences change</td><td style="text-align: right;">(427,488)</td></tr> <tr> <td>Landfill liability change</td><td style="text-align: right;">40,000</td></tr> <tr> <td>Net OPEB obligation change</td><td style="text-align: right;">(7,673,954)</td></tr> <tr> <td>Net pension liability change</td><td style="text-align: right;">(7,542,395)</td></tr> <tr> <td>Pension related deferred outflows change</td><td style="text-align: right;">8,819,595</td></tr> <tr> <td>Pension related deferred inflows change</td><td style="text-align: right;">(3,608,800)</td></tr> </table> Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. <div style="text-align: right;">(449,622)</div> 	Capital outlay purchases, net of disposals	6,672,716	Depreciation	(6,756,309)	Issuance of debt	(11,896,000)	Repayments of debt	5,460,000	Change in unamortized bond premium	(744,011)	Payments of capital leases	95,378	Compensated absences change	(427,488)	Landfill liability change	40,000	Net OPEB obligation change	(7,673,954)	Net pension liability change	(7,542,395)	Pension related deferred outflows change	8,819,595	Pension related deferred inflows change	(3,608,800)	<div style="border-top: 1px solid black; border-bottom: 3px double black;"> \$ (8,037,184) </div>
Capital outlay purchases, net of disposals	6,672,716																								
Depreciation	(6,756,309)																								
Issuance of debt	(11,896,000)																								
Repayments of debt	5,460,000																								
Change in unamortized bond premium	(744,011)																								
Payments of capital leases	95,378																								
Compensated absences change	(427,488)																								
Landfill liability change	40,000																								
Net OPEB obligation change	(7,673,954)																								
Net pension liability change	(7,542,395)																								
Pension related deferred outflows change	8,819,595																								
Pension related deferred inflows change	(3,608,800)																								
Change in net position of governmental activities	\$ (8,037,184)																								

The accompanying notes are an integral part of these financial statements.

CITY OF METHUEN, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES
AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
	<u>Budget</u>	<u>Budget</u>		<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Property tax	\$ 82,772,160	\$ 82,772,160	\$ 82,772,160	\$ -
Local revenue	12,514,500	12,514,500	13,094,522	580,022
Cherry sheet	51,471,030	51,471,030	51,522,196	51,166
Local option meals tax	-	884,667	884,667	-
Other	300,000	381,617	423,711	42,094
Total Revenues	147,057,690	148,023,974	148,697,256	673,282
Expenditures:				
Current:				
Legislative and administrative	1,860,130	1,889,873	1,889,873	-
Financial	1,639,358	1,555,133	1,555,133	-
Community development	1,655,223	1,482,409	1,482,409	-
Human services	2,689,499	2,609,133	2,609,133	-
Public safety	22,617,952	22,853,755	22,853,755	-
Public works	5,825,540	7,253,983	7,253,983	-
Insurance	14,533,359	14,532,636	14,532,636	-
Retirement	10,867,272	10,867,272	10,867,272	-
Sanitation	3,010,000	3,018,631	3,018,631	-
Debt service	6,868,554	6,629,782	6,629,782	-
Education	73,470,127	73,465,613	73,465,613	-
Intergovernmental	3,936,606	3,816,983	3,816,983	-
State assessments	1,933,058	2,093,019	2,093,019	-
Total Expenditures	150,906,678	152,068,222	152,068,222	-
Excess (deficiency) of revenues over expenditures	(3,848,988)	(4,044,248)	(3,370,966)	673,282
Other Financing Sources (Uses):				
Use of free cash	165,389	609,694	-	(609,694)
Amortization of prior year deficit	(165,389)	(165,389)	-	165,389
Transfers in	3,848,988	4,641,953	4,641,953	-
Transfers out	-	(1,042,010)	(1,042,010)	-
Total Other Financing Sources (Uses)	3,848,988	4,044,248	3,599,943	(444,305)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 228,977	\$ 228,977

The accompanying notes are an integral part of these financial statements.

CITY OF METHUEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
ASSETS		
Current:		
Cash and short-term investments	\$ 5,364,216	\$ 2,682,918
Accrued revenue	-	1,613
User fees receivable	<u>4,586,077</u>	<u>-</u>
Total current assets	9,950,293	2,684,531
Noncurrent:		
Capital assets:		
Nondepreciable capital assets	251,550	-
Other capital assets, net of accumulated depreciation	<u>34,124,592</u>	<u>-</u>
Total noncurrent assets	<u>34,376,142</u>	<u>-</u>
TOTAL ASSETS	44,326,435	-
DEFERRED OUTFLOWS OF RESOURCES		
Related to pensions	<u>803,498</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 45,129,933</u>	<u>\$ 2,684,531</u>
LIABILITIES		
Current:		
Accounts payable	\$ 1,090,656	\$ 137,731
Accrued liabilities	246,794	-
Other current liabilities	-	1,130,238
Current portion of long-term liabilities:		
Bonds and loans payable	<u>1,502,274</u>	<u>-</u>
Total current liabilities	2,839,724	1,267,969
Noncurrent:		
Bonds and loans payable, net of current portion	15,987,187	-
Net OPEB obligation	1,593,031	-
Net pension liability	6,229,864	-
Other liabilities, net of current portion	<u>132,635</u>	<u>-</u>
Total noncurrent liabilities	<u>23,942,717</u>	<u>-</u>
TOTAL LIABILITIES	26,782,441	1,267,969
DEFERRED INFLOWS OF RESOURCES		
Related to pensions	203,180	-
NET POSITION		
Net investment in capital assets	16,902,031	-
Restricted	369,549	-
Unrestricted	<u>872,732</u>	<u>1,416,562</u>
TOTAL NET POSITION	<u>18,144,312</u>	<u>1,416,562</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 45,129,933</u>	<u>\$ 2,684,531</u>

The accompanying notes are an integral part of these financial statements.

CITY OF METHUEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
Operating Revenues:		
Charges for services	\$ 12,495,681	\$ -
Contributions	-	19,282,102
Permits and fees	240,970	-
Total Operating Revenues	12,736,651	19,282,102
Operating Expenses:		
Personal services	5,218,862	-
Materials	2,306,830	-
Depreciation	1,151,117	-
Sanitary district assessment	3,354,982	-
Employee benefits	-	19,731,724
Total Operating Expenses	12,031,791	19,731,724
Operating Income	704,860	(449,622)
Nonoperating Revenues (Expenses):		
Intergovernmental revenue	8,225	-
Investment income	19,003	-
Miscellaneous revenue	5,603	-
Interest expense	(402,391)	-
Total Nonoperating Revenues (Expenses), Net	(369,560)	-
Change in Net Position	335,300	(449,622)
Net Position at Beginning of Year	17,809,012	1,866,184
Net Position at End of Year	\$ 18,144,312	\$ 1,416,562

The accompanying notes are an integral part of these financial statements.

CITY OF METHUEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers and users	\$ 12,215,571	\$ -
Employer contributions and stop loss reimbursements	-	12,636,609
Employee contributions	-	6,643,880
Payments of employee salaries, benefits, and related expenses	(4,053,176)	(19,129,142)
Payments to vendors	(1,451,742)	-
Payments to other governments	(3,354,982)	-
Net Cash Provided By (Used For) Operating Activities	3,355,671	151,347
<u>Cash Flows From Noncapital Financing Activities:</u>		
Commonwealth of Massachusetts rate relief	8,225	-
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Acquisition and construction of capital assets	(67,490)	-
Principal payments on bonds and loans	(1,474,740)	-
Sale of surplus equipment	5,604	-
Interest expense	(417,223)	-
Net Cash Used For Capital and Related Financing Activities	(1,953,849)	-
<u>Cash Flows From Investing Activities:</u>		
Investment income	19,003	-
Net Cash Provided By Investing Activities	19,003	-
Net Change in Cash and Short-Term Investments	1,429,050	151,347
Cash and Short-Term Investments, Beginning of Year	3,935,166	2,531,571
Cash and Short-Term Investments, End of Year	\$ 5,364,216	\$ 2,682,918
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u>		
Operating loss	\$ 704,860	\$ (449,622)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,151,117	-
Changes in assets, deferred outflows and liabilities:		
User fees	(521,080)	-
Other receivables	-	(1,613)
Deferred outflows - related to pensions	(545,406)	-
Accounts payable	855,088	72,344
Accrued liabilities	13,435	-
Other liabilities	-	530,238
Compensated absences	(19,916)	-
Net pension liability	1,348,626	-
OPEB liability	165,767	-
Deferred inflows - related to pensions	203,180	-
Net Cash Provided By (Used in) Operating Activities	\$ 3,355,671	\$ 151,347

The accompanying notes are an integral part of these financial statements.

CITY OF METHUEN, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017

	Pension Trust Fund (For the Year Ended December 31, 2016)	Private Purpose Trust Fund	Other Post Employment Benefits Trust Fund	Agency Fund
ASSETS				
Non-pooled cash and short-term investments	\$ 197,374	\$ 412,862	\$ 201,768	\$ 146,782
Investments, at fair value:				
PRIT Fund	127,866,443	-	-	-
Pooled alternative investments	754,430	-	-	-
Pooled real estate funds	58,279	-	-	-
Fixed income mutual funds	-	-	68,345	-
Equity mutual funds	-	-	129,243	-
Receivables	<u>72,113</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	128,948,639	412,862	399,356	146,782
LIABILITIES AND NET POSITION				
Other liabilities	<u>98,715</u>	<u>-</u>	<u>-</u>	<u>146,782</u>
Total Liabilities	<u>98,715</u>	<u>-</u>	<u>-</u>	<u>146,782</u>
NET POSITION				
Total net position held in trust for pension benefits and other purposes	<u>\$ 128,849,924</u>	<u>\$ 412,862</u>	<u>\$ 399,356</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

CITY OF METHUEN, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	Pension Trust Fund (For the Year Ended December 31, 2016)	Private Purpose Trust Fund	Other Post Employment Benefits Trust Fund
Additions:			
Contributions:			
Employers	\$ 11,139,400	\$ -	\$ 4,233,766
Plan members	3,451,766	-	-
Commonwealth of Massachusetts and other systems	288,780	-	-
Other	7,348	-	-
Total contributions	14,887,294	-	4,233,766
Investment Income:			
Change in fair value of investments	9,441,560	6,320	(644)
Less: management fees	(660,179)	-	-
Net investment income(loss)	8,781,381	6,320	(644)
Total additions	23,668,675	6,320	4,233,122
Deductions:			
Benefit payments to plan members and beneficiaries	12,737,435	-	4,033,766
Refunds to plan members	207,253	-	-
Transfers to other systems	429,553	-	-
Administrative expenses	210,008	-	-
Other	-	3,000	-
Total deductions	13,584,249	3,000	4,033,766
Net increase	10,084,426	3,320	199,356
Net position:			
Beginning of year	118,765,498	409,542	200,000
End of year	\$ 128,849,924	\$ 412,862	\$ 399,356

The accompanying notes are an integral part of these financial statements.

CITY OF METHUEN, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the City of Methuen (the City) conform to generally accepted accounting principles (GAAP) as applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

The following is a summary of the more significant policies:

A. Reporting Entity

The City is a municipal corporation governed by an elected City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. The following entity met the required GASB 14 (as amended) criteria of component units.

Component Unit Fiduciary in Nature: The Methuen Contributory Retirement System (the System) which was established to provide retirement benefits primarily to employees and their beneficiaries. 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 does not issue a stand-alone audited financial report. Additional financial information of the System can be obtained by contacting the System located at 41 Pleasant Street, Methuen, Massachusetts 01844.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Changes in Net Position) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or

applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under

accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and other long-term liabilities, are recorded only when payment is due.

The City reports the following major governmental funds:

- The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *High School Revitalization Fund* was established to account for construction costs of the High School renovation financed by MSBA and issuance of notes/bonds.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

- The enterprise fund accounts for the operating activities of the City's water and sewer utilities and capital improvement services.
- The self-insured employee health program is reported as an internal service fund in the accompanying financial statements.

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

The City reports the following fiduciary funds:

- The pension trust fund accounts for the activities of the Methuen Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees. The accounting policies of the System conform to generally accepted accounting principles for public employee retirement systems (PERS). Plan member contributions are recognized as revenue in the period in

which the members provide services to the employer. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

- The private-purpose trust fund is used to account for trust arrangements, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.
- The other post-employment benefit (OPEB) trust fund, established in accordance with MGL Chapter 32B, Section 20, is used to accumulate resources for health and life insurance benefits for retired employees. It is used to account for funds to offset the anticipated cost of premiums payments for retirees or direct payments to the retired employees of the City, and to any eligible surviving spouse or dependents.
- The agency fund is used to account for student activity funds, which are held by the City in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, permanent, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, money markets, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one

year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Trust Funds may be combined and invested in any instruments allowed by Legal List issued by the Banking Commissioner, except those required to be segregated by trust documents. Each trust fund is accounted for separately.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Contributory Retirement System consists of pooled portfolios carried at fair value.

F. Property Tax Limitations

The City has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2017 tax levy reflected an excess capacity of approximately \$362,818.

G. Capital Assets

Capital assets, which include land, construction in progress, land improvements, construction, vehicles, machinery and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Construction	7 - 50
Infrastructure	10 - 65
Machinery and equipment	5 - 30
Licensed vehicles	8

H. Deferred Outflows and Inflows of Resources

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent the consumption of net assets by the City that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred inflows of resources represent an acquisition of fund balance that applies to future periods and will be recognized as revenue in future periods. Deferred inflows of resources have a negative effect on fund balance, similar to liabilities.

I. Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

J. Compensated Absences

The City's policy is to permit employees to accumulate earned but unused vacation and sick pay benefits. Full-time, permanent employees are granted vacation benefits in varying amounts depending on contracts with the City. Sick leave accrues to full-time, permanent employees to specified maximums. Generally, after one year of service, employees are entitled to a percentage of their sick leave ranging between 30% and 50% depending

on their contract with the City, and all of their accrued vacation upon termination. All vested sick and vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

K. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

L. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net position”.

Fund Balance - Generally, fund balance represents the difference between the current assets/deferred outflows and current liabilities/deferred inflows. The City reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The City’s fund balance classification policies and procedures are as follows:

- 1) Nonspendable – represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- 2) Restricted – represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- 3) Committed – represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City’s highest level of decision-making authority, the City Council.
- 4) Assigned – represents amounts that are constrained by the City’s intent to use these resources for a specific purpose as established

by management. The City follows order number 5161 (City Resolution 2016-9) that permits management to assign fund balance amounts to a specific purpose.

- 5) Unassigned – represent the residual classification for the general fund and include all amounts not contained in the other classifications. Unassigned amounts are available for any purpose. Temporary fund balance deficits are reported as negative amounts in the unassigned classification in other governmental funds. Positive unassigned amounts are reported only in the general fund.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the City uses the following order to liquidate liabilities: restricted, committed, assigned and unassigned.

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/ deferred inflows. Net investment capital assets, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net position is reported as unrestricted.

M. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

At a City Council meeting in May, the Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the City Council, also establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at City Council meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the City Council is empow-

ered to transfer funds from the Reserve Fund to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the major line items as voted by the City Council. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Annually, prior to year-end, the City Council authorizes the Mayor and City Accountant to amend the budget by making various inter and intradepartmental transfers and using available sources to avoid individual departmental over-expenditures.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances, which will be honored during the subsequent year.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Enterprise Funds.

Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

B. Budgetary Basis

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 164,899,482	\$ 167,420,977
Other financing sources/uses (GAAP Basis)	<u>1,108,316</u>	<u>229,070</u>
Subtotal (GAAP Basis)	166,007,798	167,650,047
To adjust property tax revenue to the budgetary basis	256,950	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(798,925)
To book current year appropriation carryforwards	-	592,527
To gross up employee benefits grant allocations	361,817	361,817
To gross up indirect fees from the Enterprise fund	1,399,902	1,399,902
To reverse GASB 85 MTRS on behalf payments made by the State	(16,808,076)	(16,808,076)
To adjust for stabilization activity	<u>2,120,818</u>	<u>712,940</u>
Budgetary Basis	<u>\$ 153,339,209</u>	<u>\$ 153,110,232</u>

D. Deficit Fund Equity

The following funds or projects within the funds had deficits as of June 30, 2017:

Nonmajor Governmental Funds:	
Stadium Improvement Project	\$ 200,000
Massworks EOHED	38,390
MGL Chapter 90 Highway Grant	53,426
OATA Grant	3,637
School #458 FY17 Career Pathways	7,632
MA CDBG C Fund FY16	21,188
Police Outside Detail	<u>270,668</u>
	<u>\$ 594,941</u>

The deficits in these funds will be eliminated through future departmental revenues, intergovernmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the City's and Contributory Retirement System's (the System) deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company."

As of June 30, 2017, \$4,865,877 of the City's bank balances of \$23,969,947 was exposed to custodial credit risk as uninsured, and collateral held by pledging bank's trust department not in the City's name. The exposed balance included \$4,384,743, which was invested in the Massachusetts Municipal Depository Trust (MMDT), which is not considered an uncollateralized product under Government Accounting Standards Board (GASB) Statement 40. Per the City's policy, the City may invest in MMDT, U.S. Treasury and Agencies up to one-year maturity, bank accounts and Certificates of Deposits, which are fully insured by FDIC, DIF, SIF or collateralized through a third-party agreement, and certain mutual funds, under Chapter 44, Sec. 55 of MGL, as amended by Chapter 314 of the Acts of 1996. Unsecured deposits are limited to no more than 5% of an institution's assets and no more the 10% of the City's cash. To maintain adequate cash flow, the City's balances as of June 30, 2017 were deposited in MMDT and bank accounts (checking, savings, and money market accounts).

As of December 31, 2016, \$136,243 of the System's bank balances of \$386,243 was exposed to custodial credit risk as uninsured, and collateral held by pledging bank's trust department not in the System's name. The System's exposed balance included \$135,775 which was invested in the Pension Reserves Investment Trust (PRIT). The System does not have a deposit policy for custodial credit risk.

Fair Value of Short Term Investments

The City's considers its investment in money market accounts as a Level 1 investment (unadjusted quoted market prices). The City reports its investment in MMDT, an external investment pool overseen by the Treasurer of the Commonwealth of Massachusetts, at amortized cost per GASB 79.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General law, Chapter 44, Section 55, limits the City's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs). Effective November 7, 2016, legislation (referred to as the Municipal Modernization Act) expanded the listing of legal investments and now permits most investments to have a maturity date from date of purchase of up to 3 years.

Presented below is the actual rating as of year-end for each investment of the City. (All federal agency securities have an implied credit rating of AAA):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Ratings as of Year End</u>					<u>Not Rated</u>
		<u>AAA</u>	<u>Aa1-A3</u>	<u>Baa1-B3</u>	<u>Caa1-C3</u>		
Debt related:							
Fixed income mutual funds	\$ 68,346	\$ 16,579	\$ 14,934	\$ 31,065	\$ 3,129	\$ 2,639	
Total debt securities	68,346	<u>16,579</u>	<u>14,934</u>	<u>31,065</u>	<u>3,129</u>	<u>2,639</u>	
Equities:							
Equity mutual funds	<u>129,242</u>						
Total equities	<u>129,242</u>						
Total investments	<u>\$ 197,588</u>						

Massachusetts General Law, Chapter 32, Section 23, limits the investment of the Retirement System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security. The System invests in PRIT. The System's investments in limited partnerships will be transferred to PRIT at the end of their respective partnership terms. PRIT fund is an external investment pool that is not registered with the Securities and Exchange Commission.

At December 31, 2016, the System maintained its investments in the State Investment Pool (PRIT)*, Sentinel, and BlackRock with fair values of \$127,866,443, \$58,279, and \$1,003,938, respectively.

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust (PRIT) was created under Massachusetts general law, chapter 32, section 22, in December 1983. PRIT is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management (PRIM) Board. The PRIM Board chooses an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts general law, chapter 30B.*

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City does not have a policy for custodial credit risk.

As of June 30, 2017, the entire City's investment balance of, \$197,588 was exposed to custodial credit risk as uninsured and uncollateralized. The City manages this risk with Securities Investor Protection Corporation (SIPC).

As of December 31, 2016, the System's investment in pooled funds of \$128,928,660 were exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the system's brokerage firm, which is also the Counterparty to these securities. Of the System's total exposure, \$127,866,443 is invested in the State Investment Pool (PRIT) and \$1,062,217 is invested in limited partnerships. Investment in PRIT is not considered an uncollateralized product under GASB.

C. Concentration of Credit Risk

Massachusetts General Law Chapter 32, Section 23 limits the amount the City may invest in any one issuer or security type, with the exception of the PRIT Fund.

The City's investments are in mutual funds and therefore, not subject to this disclosure.

The System does not have an investment in one issuer greater than 5% of total investments, with the exception of the PRIT Fund, which is an external investment pool excluded from this disclosure requirement.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City and System do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Effective Duration (in years)</u>
Debt related:		
Fixed income mutual funds	\$ 68,346	3.38

The System's investments in Pooled Funds are exempt from interest rate risk disclosure.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City and System do not have a foreign currency risk policy.

F. Fair Value

The City categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Level 1 - Unadjusted quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

Level 3 – Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation.

The City has the following fair value measurements as of June 30, 2017:

<u>Description</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using:</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:				
Debt securities:				
Fixed income mutual funds	\$ 68,346	\$ -	\$ 68,346	\$ -
Equity securities:				
Equity mutual funds	<u>129,242</u>	<u>129,242</u>	<u>-</u>	<u>-</u>
Total investments	\$ <u>197,588</u>	\$ <u>129,242</u>	\$ <u>68,346</u>	\$ <u>-</u>

The System does not have investments classified as Level 1, 2, or 3. The System has the following investments measured at net asset value (NAV) as of December 31, 2016:

<u>Investments measured at the net asset value (NAV):</u>	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Pension Reserves Investment Trust (PRIT)	\$ 127,866,443	\$ -	Monthly	30 days
Diversified private equity funds	754,430	-	Quarterly ⁽¹⁾	30 days
Real estate funds	<u>58,279</u>	-	Quarterly ⁽¹⁾	30 days
Total investments	<u>\$ 128,679,152</u>			

⁽¹⁾Full redemption cannot be made until partnership expires.

5. **Taxes and Excises Receivable**

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 Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis 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 fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The City has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles annually calculates the value of all registered motor vehicles for the purpose of excise assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25 per \$1,000 of value. Excise receivable includes an immaterial amount related to boat excise as well as motor vehicle.

Taxes and excise receivable at June 30, 2017 consist of the following, net of an estimated allowance for doubtful accounts in the government-wide financial statements:

	Gross Amount (fund basis)	Allowance for Doubtful Accounts	Net amount (government-wide basis)
Real estate	\$ 1,526,979	\$ -	\$ 1,526,979
Personal property	326,334	(215,000)	111,334
Tax liens	2,712,340	(353,000)	2,359,340
Excises	<u>1,785,430</u>	<u>(537,000)</u>	<u>1,248,430</u>
Total	<u>\$ 6,351,083</u>	<u>\$ (1,105,000)</u>	<u>\$ 5,246,083</u>

6. User Fees Receivable

User fees receivable in the enterprise fund includes amounts due from customers for water and sewer usage. Water and sewer delinquent receivables are liened in a similar manner as property taxes, described in Note 5.

7. Departmental and Other Receivables

The City's departmental and other receivables at June 30, 2017 consist of the following:

	Fire Ambulance	Police Outside Detail	Other*	Total
Gross	\$ 1,017,090	\$ 288,010	\$ 563,778	\$ 1,868,878
Less: Allowance for doubtful accounts	<u>(153,000)</u>	<u>(43,000)</u>	<u>-</u>	<u>(196,000)</u>
Total	<u>\$ 864,090</u>	<u>\$ 245,010</u>	<u>\$ 563,778</u>	<u>\$ 1,672,878</u>

*Includes receivable in the Internal Service Fund.

8. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2017.

9. Loans Receivable

Loans receivable represent collectible balances from developers and homeowners for loans under Community Development Block Grants and HOME Grants from the U.S. Department of Housing and Urban Development.

10. Interfund Transfers

The City reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposed. The following is an analysis of interfund transfers made in fiscal year 2017:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 315,351	\$ 229,070
High school revitalization	-	645,000
Nonmajor funds:		
Special revenue funds:		
Revolving funds	5,000	60,000
State grants	171,728	205,351
Other special revenue funds	-	50,000
Capital project funds:		
School renovations	645,000	-
Stadium improvement project	52,342	-
Subtotal nonmajor funds	874,070	315,351
Grand Total	\$ 1,189,421	\$ 1,189,421

Transfers out of the general fund include \$171,728 to cover year end special revenue fund deficits and transfers into the general fund include \$205,351 reimbursements from special revenue funds for covering prior year deficits.

Transfer out of high school revitalization major fund of \$645,000 into school renovations capital project fund resulted from city council re-appropriation of unspent debt issuance.

11. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital assets, being depreciated:					
Land improvements	\$ 9,146	\$ 345	\$ -	-	\$ 9,491
Construction	208,377	2,460	-	308	211,145
Infrastructure	31,055	2,658	-	-	33,713
Machinery and equipment	11,722	149	(170)	782	12,483
Licensed vehicles	14,840	1,072	-	-	15,912
Total capital assets, being depreciated	275,140	6,684	(170)	1,090	282,744
Less accumulated depreciation for:					
Land improvements	(5,843)	(303)	-	-	(6,146)
Construction	(62,279)	(4,228)	-	-	(66,507)
Infrastructure	(20,558)	(826)	-	-	(21,384)
Machinery and equipment	(8,290)	(651)	159	-	(8,782)
Licensed vehicles	(10,476)	(748)	-	-	(11,224)
Total accumulated depreciation	(107,446)	(6,756)	159	-	(114,043)
Total capital assets, being depreciated, net	167,694	(72)	(11)	1,090	168,701
Capital assets, not being depreciated:					
Land, easements and right of way	9,210	-	-	-	9,210
Construction in progress	1,090	-	-	(1,090)	-
Total capital assets, not being depreciated	10,300	-	-	(1,090)	9,210
Governmental activities capital assets, net	\$ 177,994	\$ (72)	\$ (11)	-	\$ 177,911
Business-Type Activities:					
Capital assets, being depreciated:					
Land improvements	\$ 258	\$ 14	\$ -	-	\$ 272
Construction	34,442	-	-	-	34,442
Infrastructure	26,476	-	-	-	26,476
Machinery and equipment	3,193	53	(11)	-	3,235
Licensed vehicles	832	-	-	-	832
Total capital assets, being depreciated	65,201	67	(11)	-	65,257
Less accumulated depreciation for:					
Land improvements	(219)	(2)	-	-	(221)
Construction	(9,868)	(711)	-	-	(10,579)
Infrastructure	(17,388)	(251)	-	-	(17,639)
Machinery and equipment	(1,975)	(115)	11	-	(2,079)
Licensed vehicles	(543)	(72)	-	-	(615)
Total accumulated depreciation	(29,993)	(1,151)	11	-	(31,133)
Total capital assets, being depreciated, net	35,208	(1,084)	-	-	34,124
Capital assets, not being depreciated:					
Land, easements and right of way	252	-	-	-	252
Total capital assets, not being depreciated	252	-	-	-	252
Business-type activities capital assets, net	\$ 35,460	\$ (1,084)	\$ -	-	\$ 34,376

Depreciation expense was charged to functions of the City as follows:

Governmental Activities:

General government	\$ 117,559
Public safety	584,002
Education	4,721,307
Public works	1,316,184
Health and human services	9,757
Culture and recreation	<u>7,500</u>
Total depreciation expense - governmental activities	\$ <u>6,756,309</u>

Business-Type Activities:

Enterprise	\$ <u>1,151,117</u>
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12. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the City that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions, in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions, are more fully discussed in Note 21.

13. Warrants and Accounts Payable

Warrants payable represent 2017 expenditures paid by July 15, 2017 as permitted by law. Accounts payable represent additional 2017 expenditures paid after July 15, 2017.

14. Accrued Liabilities

The City had the following accrued liabilities as of June 30, 2017:

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>
Salaries and wages	\$ 828,409	\$ 62,855
Interest on debt	712,587	178,138
Tailings	<u>109,144</u>	<u>5,801</u>
Total accrued liabilities	\$ <u>1,650,140</u>	\$ <u>246,794</u>

15. Bond Anticipation Notes Payable

The City had the following notes outstanding at June 30, 2017:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/17</u>
High school revitalization	0.55 - 2.00%	08/07/15	08/05/16	\$ 2,915,000

The following summarizes activity in notes payable during fiscal year 2017:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
High School revitalization	\$ 5,415,000	\$ 5,830,000	\$ (8,330,000)	\$ 2,915,000
High School athletic facility	2,583,000	-	(2,583,000)	-
Departmental equipment	3,413,000	-	(3,413,000)	-
Various energy efficiency improvements	3,400,540	-	(3,400,540)	-
	<u>\$ 14,811,540</u>	<u>\$ 5,830,000</u>	<u>\$ (17,726,540)</u>	<u>\$ 2,915,000</u>

16. Other Current Liabilities

Other current liabilities as of June 30, 2017 consist of the following:

	<u>Governmental Activities</u>
IBNR (see Note 25)	\$ 1,130,238
Employee withholdings and other	<u>69,660</u>
Total other current liabilities	<u>\$ 1,199,898</u>

17. Long-Term Debt

A. Long-Term Debt Supporting Activities

The City issues general obligation bonds to provide funds for the acquisition, construction, and improvements of major capital facilities and infrastructure. General obligation bonds, approved by City Council, have been issued for both governmental and business-type activities and are repaid with general and enterprise fund revenues. Compensated absences, OPEB, NPL are paid from the fund responsible for the employee's compensation with significant liabilities paid from general fund and the rest from enterprise

fund. Landfill closure costs are paid from general fund, and capital lease payments are made from general and enterprise funds.

B. General Obligation Bonds and Other Long-Term Debt

General obligation bonds and loans currently outstanding are as follows:

	Original Issue Amount	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of 6/30/17
<u>Governmental Activities:</u>				
Library	\$ 4,800,000 *	10/15/19	5.00%	\$ 755,000
Landfill Closure	85,000	09/01/21	3.91%	25,000
Road and Surface Drains	3,500,000	08/15/22	4.30%	225,000
High School	35,585,000	09/01/43	variable	34,090,000
Departmental Equipment	5,713,000	09/01/22	variable	4,528,000
Dileo Judgment	594,000	09/01/29	variable	475,000
Athletic Facilities Projects	2,583,000	09/01/30	variable	2,583,000
Energy Efficiency Improvements	3,400,000	09/01/36	variable	3,400,000
Total Governmental Activities				<u>\$ 46,081,000</u>

*Partially refunded, original amount shown.

	Original Issue Amount	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of 6/30/17
<u>Business-Type Activities:</u>				
Sewer (MWPAT)	\$ 395,100 *	08/01/18	variable	\$ 68,400
Storm Water Management (MWPAT)	468,063 *	08/01/23	variable	200,000
Water Distribution System (MWPAT)	5,786,500 *	07/15/25	2.00%	2,903,254
Water Distribution System	700,000	08/15/27	4.16%	460,000
Water Treatment Plant	1,250,000	08/15/27	4.16%	815,000
Water Distribution System (MWPAT)	18,550,000 *	07/15/27	2.00%	11,128,146
Storm Water Management (MWPAT)	200,000 *	07/15/27	2.00%	111,539
Water Tank (MWPAT)	750,000 *	07/15/27	2.00%	293,681
Sewer Rehabilitation and Replacement (MWPAT)	1,117,204 *	07/15/28	2.00%	686,031
Storm Water Management (MWPAT)	12,243	07/15/27	2.00%	8,388
Water Treatment Plant Improvement (MWPAT)	650,000	07/15/30	2.00%	463,358
Sewer Rehabilitation (MWPAT)	452,604	07/15/32	2.00%	351,664
Total Business-Type Activities				<u>\$ 17,489,461</u>

*Partially refunded, original amount shown.

C. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2017 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,241,000	\$ 1,831,973	\$ 4,072,973
2019	2,515,000	1,530,963	4,045,963
2020	2,330,000	1,428,713	3,758,713
2021	2,155,000	1,339,081	3,494,081
2022	2,125,000	1,250,906	3,375,906
2023 - 2027	9,810,000	5,098,288	14,908,288
2028 - 2032	9,530,000	3,486,141	13,016,141
2033 - 2037	8,655,000	1,995,831	10,650,831
2038 - 2042	6,155,000	759,863	6,914,863
2043	565,000	11,300	576,300
Total	\$ <u>46,081,000</u>	\$ <u>18,733,059</u>	\$ <u>64,814,059</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,502,274	\$ 383,069	\$ 1,885,343
2019	1,530,443	348,594	1,879,037
2020	1,528,462	313,757	1,842,219
2021	1,566,742	278,269	1,845,011
2022	1,595,591	242,269	1,837,860
2023 - 2027	8,050,536	652,435	8,702,971
2028 - 2032	1,689,715	33,806	1,723,521
2033	25,698	276	25,974
Total	\$ <u>17,489,461</u>	\$ <u>2,252,475</u>	\$ <u>19,741,936</u>

D. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2017 are as follows:

<u>Date</u>	<u>Purpose</u>	<u>Amount</u>
07/05/06	Sewer rehab and East Capital St. project	\$ 202,796
11/03/10	Sewer system rehab projects	146,795
10/02/14	Energy efficiency improvements	<u>338,279</u>
Total		\$ <u>687,870</u>

E. Changes in Long-Term Liabilities

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

	Total Balance <u>7/1/16</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/17</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/17</u>
<u>Governmental Activities</u>						
General obligation debt	\$ 39,645	\$ 11,896	\$ (5,460)	\$ 46,081	\$ (2,241)	\$ 43,840
Unamortized bond premium	697	793	(49)	1,441	(89)	1,352
Subtotal	40,342	12,689	(5,509)	47,522	(2,330)	45,192
Net pension liability	103,111	7,542	-	110,653	-	110,653
Net OPEB obligation	66,061	7,674	-	73,735	-	73,735
Other:						
Capital leases	95	-	(95)	-	-	-
Landfill closure	480	-	(40)	440	(40)	400
Accrued employee benefits	4,971	3,410	(3,051)	5,330	(2,665)	2,665
Subtotal	5,546	3,410	(3,186)	5,770	(2,705)	3,065
Totals	\$ 215,060	\$ 31,315	\$ (8,695)	\$ 237,680	\$ (5,035)	\$ 232,645

	Total Balance <u>7/1/16</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/17</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/17</u>
<u>Business-Type Activities</u>						
General obligation debt and MWPAT loans	\$ 18,965	\$ -	\$ (1,475)	\$ 17,490	\$ (1,502)	\$ 15,988
Net pension liability	4,881	1,349	-	6,230	-	6,230
Net OPEB obligation	1,427	166	-	1,593	-	1,593
Other:						
Accrued employee benefits	153	164	(183)	134	-	134
Subtotal	153	164	(183)	134	-	134
Totals	\$ 25,426	\$ 1,679	\$ (1,658)	\$ 25,447	\$ (1,502)	\$ 23,945

For more information related to net pension liability and net OPEB obligation, see Notes 21 and 23.

18. Landfill Postclosure Care Costs

State and Federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure.

The \$440,000 is reported as landfill postclosure care liability at June 30, 2017. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

19. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the City that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. The City reports two items as deferred inflows of resources: one which is attributable to changes in the net pension liability, and the other which arises from the current financial resources measurement focus and the modified accrual basis of accounting in governmental funds. Deferred inflows of resources related to pension will be recognized in pension expense in future years and is more fully described in Note 21.

Deferred inflows of resources at June 30, 2017 reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

20. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of fund balances are reported at June 30, 2017:

Nonspendable - This fund balance classification includes nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - This fund balance classification includes general fund encumbrances, various special revenue funds, the income portion of permanent trust funds, and capital project unspent proceeds from bond issuances.

Assigned - This fund balance classification includes general fund encumbrances that have been established by various City departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period. These funds have been assigned for specific goods and services ordered but not yet paid for.

Unassigned – This fund balance is the general fund stabilization set aside by City Council vote for future capital acquisitions and improvements, residual classification for the general fund, and deficits in other funds.

Following is a breakdown of the City's fund balances at June 30, 2017:

	General <u>Fund</u>	High School <u>Revitalization</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Nonspendable				
Nonexpendable perpetual care permanent fund	\$ -	\$ -	\$ 417,056	\$ 417,056
Total Nonspendable	-	-	417,056	417,056
Restricted				
Bonded projects:				
High school revitalization	-	988	-	988
Energy improvements - Ameresco	-	-	459,194	459,194
School renovation	-	-	645,000	645,000
Other bonded projects	-	-	147,992	147,992
Special revenue funds:				
Revolving fund - City/Verizon CIP	-	-	381,793	381,793
Revolving fund - MPS before and after school program	-	-	621,845	621,845
Revolving fund - MCTV	-	-	382,104	382,104
Revolving fund - state SPED reimbursement	-	-	281,848	281,848
Revolving fund - MGEP	-	-	400,866	400,866
Revolving fund - building safety task force	-	-	260,443	260,443
Revolving funds - all remaining	-	-	713,032	713,032
State grants - Rail trail	-	-	300,000	300,000
State grants - all remaining	-	-	76,031	76,031
Federal grants - all remaining	-	-	267,736	267,736
School lunch	-	-	272,274	272,274
Other special revenue funds	-	-	319,231	319,231
Expendable special revenue trust fund	-	-	372,763	372,763
Other special revenue trust fund	-	-	85,563	85,563
Total Restricted	-	988	5,987,715	5,988,703
Assigned				
Encumbrances:				
General government	38,352	-	-	38,352
Public safety	260,808	-	-	260,808
Education	134,296	-	-	134,296
Public works	159,071	-	-	159,071
Total Assigned	592,527	-	-	592,527
Unassigned	2,568,894	-	(594,941)	1,973,953
Total Unassigned	2,568,894	-	(594,941)	1,973,953
Total Fund Balance	\$ 3,161,421	\$ 988	\$ 5,809,830	\$ 8,972,239

21. Retirement System

The City follows the provisions of GASB Statement No. 67 *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

A. Plan Description

The System is a member of the Methuen Contributory Retirement Systems and is governed by Chapter 32 of the Massachusetts General Laws. Because of the significance of its operational and financial relationship with the City, the System is included as a pension trust fund in the City's basic financial systems.

Substantially all employees of the City (except teachers and administrators under contract employed by the School Department) and Methuen Housing Authority are members of the Methuen Contributory Retirement System (the System), a cost-sharing, multiple employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid.

The System is governed by a five-member board. The five members include two appointed by the City, two elected by the members and retirees, and a fifth member chosen by the other four members with the approval of the Public Employee Retirement Administration Commission. The System Retirement Board does not have the authority to amend benefit provisions.

Membership of each plan consisted of the following at December 31, 2016 (the latest actuarial valuation):

Retired members and beneficiaries	415
Inactive members entitled to a return of employee contributions	58
Inactive members with a vested right to a deferred or immediate benefit	16
Active plan members	<u>642</u>
Total	<u>1,131</u>
Number of participating employers	2

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 10 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

If a participant was a member prior to February 1, 2012 a retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left City employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of

service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

Participants Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired on or after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The City's contribution to the System for the year ended June 30, 2017 was \$10,867,272, which was equal to its annual required contribution.

B. Investment Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 7.50%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Net Pension Liability of Participating Employers

The net pension liability was based on an actuarial valuation dated January 1, 2016, and rolled forward to December 31, 2016.

The components of the net pension liability of the participating employers at June 30, 2017 were as follows (in thousands):

Net Pension Liability of Employers

Total pension liability	\$ 248,878
Plan fiduciary net position	<u>128,850</u>
Employers' net pension liability	<u>\$ 120,028</u>
Plan fiduciary net position as a percentage of total pension liability	51.8%

Actuarial Assumptions

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below:

Valuation Date	1/1/16 rolled forward to 12/31/16
Actuarial cost method	Entry Age
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.25 for Group 1 and 4.75% for Group 4
Inflation rate	Not explicitly assumed
Post-retirement cost-of-living adjustment	3% of first \$15,000

Actuarial valuation of the ongoing Systems involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the December 31, 2016 valuation were based on the results of the most recent actuarial experience study, which was for the period January 1, 2012 through December 31, 2014.

Mortality rates were based on pre-retirement rates that reflect the RP-2000 Employees table projected generationally with Scale BB and a base of 2009 (gender distinct). Post retirement rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year 2009 (gender distinct). For disabled retirees, the rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2012 (gender distinct).

Target Allocations

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block

approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	40.00%	6.97%
Core fixed income	13.00%	2.29%
Value-added fixed income	10.00%	6.53%
Private equity	10.00%	8.25%
Real estate	10.00%	6.00%
Timberland	4.00%	6.00%
Hedge funds and portfolio completion	13.00%	2.92%
Total	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of The Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage-point higher (8.50%) than the current rate (in thousands):

<u>Year Ended</u>	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
December 31, 2016	\$ 145,099,121	\$ 116,883,000	\$ 93,040,747

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the City reported a liability of \$116,883,000 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the City's proportion was 97.38 percent.

For the year ended June 30, 2017, the City recognized pension expense of approximately \$14,212,000. In addition, the City reported deferred outflows of resources related to pension for the net difference between projected and actual investment earnings on pension plan investments of \$4,301,000, for changes in assumption share of approximately \$9,148,000 and for changes in proportional share of \$1,626,000.

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ 4,301,000	\$ -
Difference between expected and	-	(2,648,000)
Change in assumption	9,148,000	-
Change in proportion	<u>1,626,000</u>	<u>(1,164,000)</u>
Total	<u>\$ 15,075,000</u>	<u>\$ (3,812,000)</u>

Year ended June 30:	Deferred Outflows of Resources	Deferred (Inflows) of Resources
2017	\$ 3,726,000	\$ (949,000)
2018	3,726,000	(949,000)
2019	3,465,000	(673,000)
2020	1,907,000	(565,000)
2021	1,873,000	(565,000)
2022	<u>378,000</u>	<u>(111,000)</u>
Total	<u>\$ 15,075,000</u>	<u>\$ (3,812,000)</u>

22. **Massachusetts Teachers' Retirement System (MTRS)**

A. Plan Description

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

B. Benefits Provided

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

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

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies.

The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

C. Contributions

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

<u>Membership Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

D. Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. This valuation used the following assumptions:

- (a) 7.50% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.00% to 7.50% depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
- Mortality rates were as follows:
 - Pre-retirement - reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct)
 - Post-retirement - reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct)
 - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year 2014 set forward 4 years

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-

estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.0%	6.9%
Core fixed income	13.0%	1.6%
Private equity	10.0%	8.7%
Real estate	10.0%	4.6%
Value added fixed income	10.0%	4.8%
Hedge funds	9.0%	4.0%
Portfolio completion strategies	4.0%	3.6%
Timber/natural resources	4.0%	5.4%
Total	<u>100.0%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate as of June 30, 2016. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (amounts in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease to 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase to 8.50%</u>
June 30, 2017	\$ 27,464,000	\$ 22,357,928	\$ 18,022,000

G. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

H. City Proportions

In fiscal year 2017 (the most recent measurement period), the City's proportionate share of the MTRS' collective net pension liability and pension expense was \$164,774,468 and \$16,808,076 respectively, based on a proportionate share of 0.736985%. As required by GASB 85, the City has recognized its portion of the collective pension expense as both a revenue and expenditure in the general fund.

23. Other Post-Employment Benefits – OPEB (GASB 45)

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described, the City provides post-employment healthcare and life insurance benefits for retired employees through the City's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2016, the actuarial valuation date, approximately 767 retirees and beneficiaries, and 396 active employees, meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The City provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the City and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Medicare retirees contribute 20% and Tufts or Blue Cross retirees contribute 36% of the cost of the health plan, as determined by the City. The City contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The City's fiscal 2017 annual OPEB 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 No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2017, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of June 30, 2016.

Annual Required Contribution (ARC)	\$ 12,180,320
Interest on net OPEB obligation	2,699,545
Adjustment to ARC	<u>(2,578,906)</u>
Annual OPEB cost	12,300,959
Contributions made	<u>4,461,238</u>
Increase in net OPEB obligation	7,839,721
Net OPEB obligation - beginning of year	<u>67,488,637</u>
Net OPEB obligation - end of year	<u><u>\$ 75,328,358</u></u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB	
		Cost Contributed	Net OPEB Obligation
2017	\$ 12,300,959	36.3%	\$ 75,328,358
2016	\$ 11,731,881	35.0%	\$ 67,488,637
2015	\$ 10,646,716	42.4%	\$ 59,864,262
2014	\$ 10,190,808	30.6%	\$ 53,734,844
2013	\$ 14,025,803	31.6%	\$ 47,831,881
2012	\$ 13,461,530	30.1%	\$ 38,240,830
2011	\$ 12,826,083	28.8%	\$ 28,828,625

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2016, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 160,147,367
Actuarial value of plan assets	<u>(200,000)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 159,947,367</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0.12%</u>
Covered payroll (active plan members)	<u>\$ 71,779,228</u>
UAAL as a percentage of covered payroll	<u>222.83%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included 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 that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the City 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 City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2016 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advance funded its obligation. The actuarial assumptions included a 4.0% investment rate of return and an initial annual healthcare cost trend rate of 6.0% which decreases to a 4.5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on an open basis. This has been calculated assuming the amortization payment increases at a rate of 3.5%.

24. Other Post-Employment Benefits – OPEB (GASB 74)

The Government Accounting Standards Board (GASB) has issued Statement 74, Financial Reporting for Postemployment Benefit Plans other than Pension Plans, replacing Statements No. 43 and 57, which was required to be implemented for fiscal year 2017. Included are requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statements No. 25, 43, and 50.

On March 7, 2016, the City adopted MGL Chapter 32B, Section 20, which established an OPEB Trust fund to provide funding for future employee health care costs.

Investments

The OPEB Trust fund does not have a formal investment policy. At June 30, 2017, investments consisted of fixed income mutual funds and equity mutual funds. Concentration and rate of return information was not available.

Net OPEB Liability

The components of the net OPEB liability were as follows:

Total OPEB liability	\$ 189,397,964
Plan fiduciary net position	<u>(399,356)</u>
Net OPEB liability	<u>\$ 188,998,608</u>

Plan fiduciary net position as a percentage of the total OPEB liability	0.2%
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Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	6.0 percent
Salary increases	3.0 percent, average, including inflation
Investment rate of return	-0.32 percent, net of OPEB plan investment expense, including inflation

Mortality rates were based on the following:

- Non-Teachers – It is assumed that both pre-retirement mortality and beneficiary mortality is represented by the RP-2014 Blue Collar Mortality with Scale MP-2015, fully generational. Mortality for retired members for Group 1 and 2 is represented by the RP-2014 Blue Collar

Mortality Table set forward five years for males and 3 years for females, fully generational. Mortality for retired members for Group 4 is represented by the RP-2014 Blue Collar Mortality Table set forward three years for males, and six years for females, fully generational. Mortality for disabled members for Group 1 and 2 is represented by the RP-2000 Mortality Table set forward six years. Mortality for disabled members for Group 4 is represented by the RP-2000 Mortality Table set forward two years. Generational adjusting is based on Scale MP-2015.

- All Teachers – RP2000 Combined Health Mortality Table with improvements by Scale AA to 2015, fully generational. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward two years is used.

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of a 2015 actuarial experience study. The actuarial assumptions were modified from the previous actuarial valuation based on the Sherman Actuarial Services 2015 Experience Study.

The long-term expected rate of return on OPEB plan investments was not available.

Discount rate. The discount rate used to measure the total OPEB liability was 3.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan member will be made at the current contribution rate. Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.75 percent) or 1-percentage-point higher (4.75 percent) than the current discount rate:

	1% Decrease (2.75%)	Discount Rate (3.75%)	1% Increase (4.75%)
Net OPEB liability	\$ 230,739,766	\$ 188,998,608	\$ 157,546,495

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (5%)	Current Healthcare Cost Trend Rates (6%)	1% Increase (7%)
Net OPEB liability	\$ 155,830,668	\$ 188,998,608	\$ 233,162,899

25. Self-insurance

The City self-insures for health coverage. Annual estimated requirements for claims are provided in the City's annual operating budget. The City contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the City is liable for claims up to \$125,000 per incident. The claims liability represents an estimate of claims incurred but unpaid at year-end, based on past historical costs and claims paid subsequent to year-end.

Changes in the aggregate liability for claims for the year ended June 30, 2017 are as follows:

	Year Ended <u>June 30, 2017</u>	Year Ended <u>June 30, 2016</u>
Unpaid claims, beginning of fiscal year	\$ 600,000	\$ 587,382
Claims incurred (including IBNRs)	19,731,724	18,925,796
Claims paid	<u>(19,201,486)</u>	<u>(18,913,178)</u>
Unpaid claims, end of fiscal year	\$ <u><u>1,130,238</u></u> *	\$ <u><u>600,000</u></u>

* This liability is considered to be all current.

The estimated liability for claims incurred but not reported is based on the percentage of total claims, which the City believes is a reasonable methodology to estimate known loss events expected to later be presented as claims and unknown loss events expected to become claims and expected future developments on claims already reported. As a result, the City believes that the estimate is reasonable.

26. Commitments and Contingencies

Outstanding Legal Issues - On an ongoing basis, there are typically pending legal issues in which the City is involved. The City's management is of the opinion that the potential future settlement of these issues would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Abatements - There are several cases pending before the Appellate Tax Board in regard to alleged discrepancies in property assessments. According

to the City's counsel, the probable outcome of these cases at the present time is indeterminable.

27. Tax Abatement Agreements

The City provides property tax abatements authorized under *Tax Increment Financing Agreements* in accordance with Massachusetts Economic Development Incentive Program and Massachusetts General Law Chapter 23A.

In order to qualify for tax relief, the proposed economic development program must provide the following public benefits:

- Create new permanent full-time jobs
- Invest into capital improvements
- Promote economy within the City

MGL Chapter 23A Section 3A stipulates endorsement by the vote of the City Council with the approval of the Mayor, which includes determination that the proposed project

- will be consistent with the City's economic development objectives
- has the means to undertake and complete the proposed project
- will have a reasonable chance of increasing or retaining employment opportunities as advanced in the proposal
- will not overburden the municipality's infrastructure and other supporting resources
- a description of the local tax incentive together with a copy of the fully executed tax increment financing agreement

Property tax revenues were reduced by \$222,982 under agreements entered into by the City during fiscal year 2017.

28. Subsequent Events

On September 29, 2017, the City issued \$4,988,753 general obligation bond anticipation notes maturing on September 28, 2018 with an interest rate of 1.50 percent. \$2,350,000 was for City Hall Renovations and \$2,638,753 for School Energy Efficiency Improvements.

29. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other

than Pensions, replacing requirements of Statements No. 45 and 57, effective for the City beginning with its year ending June 30, 2018. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB.

CITY OF METHUEN, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (GASB 68)
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

(in thousands)
(Unaudited)

Methuen Contributory Retirement System						
<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	December 30, 2016	97.38%	\$116,883	\$ 43,400	269.32%	51.8%
June 30, 2016	December 30, 2015	97.03%	\$107,992	\$ 41,242	261.85%	51.6%
June 30, 2015	December 30, 2014	96.81%	\$101,811	\$ 40,441	251.75%	51.6%

Massachusetts Teachers' Retirement System								
<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the City</u>	<u>Total Net Pension Liability Associated with the City</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	June 30, 2016	0.74%	\$ -	\$ 164,774	\$ 164,774	\$ 51,274	0%	52.73%
June 30, 2016	June 30, 2015	0.73%	\$ -	\$ 150,565	\$ 150,565	\$ 50,177	0%	55.38%
June 30, 2015	June 30, 2014	0.73%	\$ -	\$ 116,314	\$ 116,314	\$ 50,065	0%	61.64%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

CITY OF METHUEN, MASSACHUSETTS

SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2017

(in thousands)
(Unaudited)

Methuen Contributory Retirement System					
<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2017	\$ 10,867	\$ 10,867	\$ -	\$ 43,400	25.04%
June 30, 2016	\$ 9,585	\$ 9,585	\$ -	\$ 41,242	23.24%
June 30, 2015	\$ 8,804	\$ 8,804	\$ -	\$ 40,441	21.77%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

**CITY OF METHUEN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

Schedule of Changes in the Net Pension Liability (GASB 67) (in thousands)

Required Supplementary Information

(in thousands)
(Unaudited)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability			
Service cost	\$ 5,368	\$ 4,802	\$ 4,595
Interest on unfunded liability - time value of \$	17,183	16,978	16,248
Differences between expected and actual experience	(3,242)	-	-
Changes of benefit terms	962	-	-
Changes of assumptions	11,200	-	-
Benefit payments, including refunds of member contributions	<u>(12,656)</u>	<u>(11,970)</u>	<u>(11,297)</u>
Net change in total pension liability	18,815	9,810	9,546
Total pension liability - beginning	<u>230,063</u>	<u>220,253</u>	<u>210,707</u>
Total pension liability - ending (a)	<u><u>\$ 248,878</u></u>	<u><u>\$ 230,063</u></u>	<u><u>\$ 220,253</u></u>
Plan fiduciary net position			
Contributions - employer	\$ 11,147	\$ 10,623	\$ 9,834
Contributions - member	3,022	3,495	3,041
Net investment income	8,780	1,791	8,330
Benefit payments, including refunds of member contributions	(12,656)	(11,970)	(11,297)
Administrative expense	(210)	(263)	(160)
Other	<u>2</u>	<u>2</u>	<u>29</u>
Net change in plan fiduciary net position	10,085	3,678	9,777
Plan fiduciary net position - beginning	<u>118,765</u>	<u>115,087</u>	<u>105,310</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 128,850</u></u>	<u><u>\$ 118,765</u></u>	<u><u>\$ 115,087</u></u>
Net pension liability - ending (a-b)	<u><u>\$ 120,028</u></u>	<u><u>\$ 111,298</u></u>	<u><u>\$ 105,166</u></u>

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See notes to the City's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

**CITY OF METHUEN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

Schedules of Net Pension Liability, Contributions, and Investment Returns (GASB 67)

Required Supplementary Information

(in thousands)
(Unaudited)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Schedule of Net Pension Liability			
Total pension liability	\$ 248,878	\$ 230,063	\$ 220,253
Plan fiduciary net position	<u>128,850</u>	<u>118,765</u>	<u>115,087</u>
Net pension liability (asset)	<u>\$ 120,028</u>	<u>\$ 111,298</u>	<u>\$ 105,166</u>
Plan fiduciary net position as a percentage of the total pension liability	51.8%	51.6%	52.3%
Covered payroll	\$ 34,459	\$ 32,256	\$ 32,256
Participating employer net pension liability (asset) as a percentage of covered employee payroll	348.3%	345.0%	326.0%
Schedule of Contributions			
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 10,387	\$ 9,879	\$ 9,094
Contributions in relation to the actuarially determined contribution	<u>10,387</u>	<u>9,879</u>	<u>9,094</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 34,459	\$ 32,256	\$ 32,256
Contributions as a percentage of covered payroll	30.1%	30.6%	28.2%
Schedule of Investment Returns			
<i>Year ended December 31</i>			
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money weighted rate of return, net of investment expense	7.50%	0.56%	7.76%

*Schedules are intended to show information for 10 years.
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See Independent Auditors' Report.

CITY OF METHUEN, MASSACHUSETTS
SCHEDULE OF OPEB FUNDING PROGRESS (GASB 45)
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2017

(Unaudited)

Other Post-Employment Benefits						
Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
06/30/16	\$ 200,000	\$ 160,147,367	\$ 159,947,367	0.12%	\$ 71,779,228	222.83%
12/31/13	-	\$ 142,302,752	\$ 142,302,752	0.00%	\$ 72,921,861	195.14%
12/31/11	-	\$ 206,686,174	\$ 206,686,174	0.00%	N/A	N/A
06/30/08	-	\$ 209,816,378	\$ 209,816,378	0.00%	\$ 80,056,909	262.08%

See Independent Auditors' Report.

**CITY OF METHUEN, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedule of Changes in the Net OPEB Liability (GASB 74)

(Unaudited)

	<u>2017</u>
Total OPEB liability	
Service cost	\$ 3,114,955
Interest on unfunded liability - time value of \$	6,923,429
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of member contributions	<u>(4,261,240)</u>
Net change in total OPEB liability	5,777,144
Total OPEB liability - beginning	<u>183,620,820</u>
Total OPEB liability - ending (a)	<u>\$ 189,397,964</u>
Plan fiduciary net position	
Contributions - employer	\$ 4,233,766
Contributions - member	-
Net investment income	(644)
Benefit payments, including refunds of member contributions	(4,033,766)
Administrative expense	-
Other	<u>-</u>
Net change in plan fiduciary net position	199,356
Plan fiduciary net position - beginning	<u>200,000</u>
Plan fiduciary net position - ending (b)	<u>\$ 399,356</u>
Net OPEB liability (asset) - ending (a-b)	<u>\$ 188,998,608</u>

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See notes to the City's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

**CITY OF METHUEN, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedules of Net OPEB Liability, Contributions, and Investment Returns (GASB 74)

(Unaudited)

Schedule of Net OPEB Liability

	<u>2017</u>
Total OPEB liability	\$ 189,397,964
Plan fiduciary net position	<u>399,356</u>
Net OPEB liability (asset)	<u>\$ 188,998,608</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.2%
Covered payroll	not available
Participating employer net OPEB liability (asset) as a percentage of covered payroll	not available

Schedule of Contributions

	<u>2017</u>
Actuarially determined contribution	\$ 12,180,320
Contributions in relation to the actuarially determined contribution	<u>200,000</u>
Contribution deficiency (excess)	<u>\$ 11,980,320</u>
Covered payroll	not available
Contributions as a percentage of covered payroll	not available

Schedule of Investment Returns

	<u>2017</u>
Annual money weighted rate of return, net of investment expense	-0.3%

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See Independent Auditors' Report.