

CITY OF METHUEN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2018



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, 2018, (except for the Methuen Contributory Retirement System, which is as of and for the year ended December 31, 2017) 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, 2018, 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.

Emphasis of Matter

As discussed in Note 28 to the financial statements, in October 2018, special legislation was passed by the Commonwealth of Massachusetts to, among other items, permit the City to borrow up to \$4,000,000 in bonds to balance the budgets for fiscal years 2019 and 2020. Also discussed in Note 28, the City has an unresolved contractual issue with the Police Union. Our opinion is not modified with respect to these matters.

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 72 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 December 10, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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

December 10, 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, 2018.

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 comprise 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 City'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 \$330,415, a change of \$(2,238,479) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$5,585,126, a change of \$(3,387,113) in comparison to the prior year.
- As of the close of the current fiscal year, the government-wide financial statements report total liabilities and deferred inflows exceeding assets and deferred outflows of resources by \$(127,364,305) resulting in a negative net position, a change of \$(8,186,690) in comparison to the prior year, as revised for GASB 75.

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 \$147,788,870 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 \$12,025,126 represents resources that are subject to external restrictions on how they may be used. The remaining amount is a deficit of \$(287,178,301) 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 and *Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* in fiscal year 2018.

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	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 34,843	\$ 28,695	\$ 12,752	\$ 9,950	\$ 47,595	\$ 38,645
Capital assets	<u>176,817</u>	<u>177,911</u>	<u>34,748</u>	<u>34,376</u>	<u>211,565</u>	<u>212,287</u>
Total assets	211,660	206,606	47,500	44,326	259,160	250,932
Deferred outflows of resources	<u>13,493</u>	<u>14,272</u>	<u>784</u>	<u>803</u>	<u>14,277</u>	<u>15,075</u>
Total assets and deferred outflows or resources	\$ <u>225,153</u>	\$ <u>220,878</u>	\$ <u>48,284</u>	\$ <u>45,129</u>	\$ <u>273,437</u>	\$ <u>266,007</u>
Long-term liabilities	\$ 345,360	\$ 237,679	\$ 26,290	\$ 25,445	\$ 371,650	\$ 263,124
Other liabilities	<u>16,770</u>	<u>8,819</u>	<u>4,596</u>	<u>1,337</u>	<u>21,366</u>	<u>10,156</u>
Total liabilities	362,130	246,498	30,886	26,782	393,016	273,280
Deferred inflows of resources	7,084	3,609	701	203	7,785	3,812
Net position:						
Net investment in capital assets	130,366	131,977	17,423	16,902	147,789	148,879
Restricted	11,519	9,335	506	369	12,025	9,704
Unrestricted	<u>(285,946)</u>	<u>(170,541)</u>	<u>(1,232)</u>	<u>873</u>	<u>(287,178)</u>	<u>(169,668)</u>
Total net position	<u>(144,061)</u>	<u>(29,229)</u>	<u>16,697</u>	<u>18,144</u>	<u>(127,364)</u>	<u>(11,085)</u>
Total liabilities and net position	\$ <u>225,153</u>	\$ <u>220,878</u>	\$ <u>48,284</u>	\$ <u>45,129</u>	\$ <u>273,437</u>	\$ <u>266,007</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)

	Governmental <u>Activities</u>		Business-Type <u>Activities</u>		Totals	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:						
Program revenues						
Charges for services	\$ 12,741	\$ 13,155	\$ 12,350	\$ 12,737	\$ 25,091	\$ 25,892
Operating grants and contributions	74,214	69,207	23	8	74,237	69,215
Capital grants and contributions	2,048	6,003	-	-	2,048	6,003
General revenues						
Property Taxes	85,815	82,827	-	-	85,815	82,827
Excises	6,228	6,109	-	-	6,228	6,109
Local option meals tax	929	885	-	-	929	885
Interest and penalties	537	457	-	-	537	457
Grants and contributions not restricted to specific programs	7,366	10,099	-	-	7,366	10,099
Investment income	207	63	46	19	253	82
Other	384	478	-	5	384	483
Total revenues	190,469	189,283	12,419	12,769	202,888	202,052
Expenses:						
General government	16,606	16,731	-	-	16,606	16,731
Public safety	28,656	29,233	-	-	28,656	29,233
Education	132,143	128,724	-	-	132,143	128,724
Public works	11,812	11,621	-	-	11,812	11,621
Sanitation	3,168	3,019	-	-	3,168	3,019
Health and human services	1,485	1,625	-	-	1,485	1,625
Community development	2,117	2,042	-	-	2,117	2,042
Culture and recreation	1,728	2,684	-	-	1,728	2,684
Interest and costs	1,752	1,641	-	-	1,752	1,641
Enterprise services	-	-	11,607	12,434	11,607	12,434
Total expenses	199,467	197,320	11,607	12,434	211,074	209,754
Change in net position	(8,998)	(8,037)	812	335	(8,186)	(7,702)
Beginning net position, as restated	(135,063)	(21,192)	15,885	17,809	(119,178)	(3,383)
Ending net position	\$ (144,061)	\$ (29,229)	\$ 16,697	\$ 18,144	\$ (127,364)	\$ (11,085)

Fiscal year 2017 amounts were not restated as the City applied GASB 75 prospectively.

Governmental Activities - The City's governmental activities resulted in a change in net position of \$(8,997,848). Events contributing to the decrease in net position are as follows:

- The City's governmental share of net OPEB liability increased by \$5,460,654 from the previous year.
- The net pension liability (NPL) related to governmental activities decreased by \$2,555,136 primarily resulting from the investment earnings. The decreased 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 School Department's fiscal year 2018 over-expenditure of approximately \$4m also contributes to the reduction.

Business-type Activities - Business-type activities for the year resulted in a change in net position of \$811,158. Primary factor in the increase include debt service principal payments (raised in the rates) exceeding depreciation expense (reported for GAAP purposes but not raised in the rates). Unspent appropriations in the fund were nearly \$1m, which offset the fund's revenue shortfall of nearly \$840,000.

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 unassigned fund balance at June 30, 2018 was reduced, resulting primarily from the fiscal year 2018 over-expenditure by the School Department. Nonmajor governmental funds reflected a deficit of approximately \$3M because of financing of non-major capital project funds with bond anticipation notes. Once final project financing is issued, the deficits in the non-major capital project funds will be eliminated. The City is developing a financing plan to eliminate the general fund component of the unassigned fund balance deficit.

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>6/30/18</u>	<u>6/30/17</u>	<u>Change</u>
Committed	\$ 330	\$ -	\$ 330
Assigned	270	593	(323)
Unassigned - stabilization	1,828	992	836
Unassigned - deficits	<u>(1,497)</u>	<u>1,576</u>	<u>(3,073)</u>
Total Unassigned	<u>331</u>	<u>2,568</u>	<u>(2,237)</u>
Total fund balance	<u>\$ 931</u>	<u>\$ 3,161</u>	<u>\$ (2,230)</u>

E. GENERAL FUND BUDGETARY HIGHLIGHTS AND OTHER INFORMATION

FISCAL YEAR 2018

What started out as a promising year took a turn for the worse by the close of the Fiscal Year. Developing budgets for Fiscal Year 2018 was going to be difficult with limited revenue growth and a strong dependency on the Tax Levy and State Aid. Departments were asked to submit operating budgets that would reflect a level funded budget using their Fiscal year 2017 budget as a template. The challenge was met by all departments and we witnessed a total decrease of \$1.740 million in the Fiscal Year 2018 Operating Budget. The fiscal 2018 operating budget decline was largely due to a \$1.470 million or 2% reduction in education spending, which the School Department requested during the budget process.

The following summarizes the Fiscal Year 2017 and 2018 budgets:

	Fiscal Year <u>2017</u>	Fiscal Year <u>2018</u>	Increase/ (Decrease)	Percentage Increase/ (Decrease)
<u>General Government</u>				
Legislative and Administrative	\$1,860,130	\$2,011,779	\$151,649	8.15%
Financials	1,639,358	1,646,050	6,692	0.41%
Community Development	1,655,223	1,647,348	(7,875)	-0.48%
Human Resources	2,689,499	2,719,738	30,239	1.12%
Public Works	5,825,540	6,227,650	402,110	6.90%
Law Enforcement	12,655,761	12,876,124	220,363	1.74%
Fire Prevention	<u>9,962,191</u>	<u>10,055,634</u>	<u>93,443</u>	<u>0.94%</u>
Total General Fund	\$36,287,702	\$37,184,323	\$896,621	2.47%
Fixed Costs				
Debt	\$6,868,554	\$3,868,441	(\$3,000,113)	-43.68%
Employee Benefits	14,533,359	15,076,556	543,197	3.74%
Retirement	10,867,272	11,414,490	547,218	5.04%
Solid Waste & Tipping Fees	<u>3,010,000</u>	<u>3,110,000</u>	<u>100,000</u>	<u>3.32%</u>
Total Fixed Costs	\$35,279,185	\$33,469,487	(\$1,809,698)	-5.13%
Schools	\$73,470,127	\$72,000,000	(\$1,470,127)	-2.00%
Gr. Law. Reg. HS	3,424,710	3,166,197	(258,513)	-7.55%
Water and Sewer Enterprise Fund	10,761,931	11,318,774	556,843	5.17%
Overlay	450,000	425,000	(25,000)	-5.56%
Essex North Shore Agricultural School	511,896	415,000	(96,896)	-18.93%
County, State & Miscellaneous	1,902,020	2,362,647	460,627	24.22%
Restricted Use	<u>61,919</u>	<u>67,132</u>	<u>5,213</u>	<u>8.42%</u>
Total Operating Budget	<u>\$162,149,490</u>	<u>\$160,408,560</u>	<u>(\$1,740,930)</u>	<u>-1.07%</u>

However, late in Fiscal Year 2018, the City was notified that the School Department was projecting a significant budget gap in the amount of \$3.8 million dollars as a result of Special Education. The City was informed that the operating deficit was due to rising special education costs pushing education spending over budget. The deficit would likely deplete the City's available reserves. In order to restore financial flexibility, the City obtained authority to issue deficit financing notes to stabilize the balance sheet. Approval by the state of deficit financing is contingent on some state oversight and development of a plan to address the operating gap going forward.

On the upside Methuen's large \$5.2 billion tax base (2017-18 equalized value) will likely grow over the near term, returning to its pre-recession level of \$5.6 billion. Recent tax base growth has been driven by improving residential home values and growth from new development including condos and rental apartment units. The 2017-18 equalized value grew by a healthy 12.2% from 2015-16 after three consecutive valuation declines. The 2018 assessed value increased by 5.9%, the fifth year of expansion bringing the five-year compound annual growth rate to 3.2%. Building permits remain strong as well as annual

new growth revenue which is expected to total approximately \$1 million in 2019 although the City conservatively budgets for \$800,000. At the close of Fiscal Year 2018 building permits totaled \$75.7 million, the highest it's been in seven years.

The assessed valuation was set at \$5,329,524,351, an increase of \$234,805,854 in values in all classes which in turn adds \$970,238 in new tax growth. Our tax levy used to support the Fiscal Year 2018 budget was \$85,562,061 which is below our actual tax levy governed by Proposition 2½. The City of Methuen, after the adoption of the tax rate was \$136,214 below the levy limit.

The City's started off FY 2018 with a free cash certification of \$995,961 and our Stabilization Fund disclosed an opening balance of \$992,274 and ended with a balance of \$1,828,130. At the close of Fiscal Year 2018, local revenues which are conservatively estimated, yielded a \$1,136,006 over what was estimated. By the time Fiscal Year 2018 was closed, several financial factors still loom over the City. The administration and the legislative body of government need to work to resolve the Police Superiors Contract and the School Department needs to be closely monitored throughout Fiscal Year 2019 to avoid any situation the occurred in Fiscal Year 2018. The City appropriated \$78 million to the Schools' Operating Budget, which was an increase of \$6 million from Fiscal Year 2018, to assist in the rising costs of special needs. It would be prudent of the City of Methuen's administration to be involved with the School Department's finances and make the necessary adjustments throughout Fiscal Year 2019.

FISCAL YEAR 2019

Fiscal 2019 began the year with a 1/12 budget at least for the month of July until the City can approve and adopt a complete budget. Currently, City management anticipates a budget increase of 5% over Fiscal 2018, mostly to bring education costs in line with recent experience. Management expects the budget to result in a tax increase to the levy limit.

An additional budget challenge that the City did not anticipate when approving a new police union contract for superior officers was a significant spike in salaries for Superior Officers. The City and union could potentially renegotiate this contract; however, absent significant changes, increased police salaries could further pressure the City's strained financial position.

Since 2014, the City has depleted all of its \$3.4 million of unused levy capacity that had built up over the years. The unused levy capacity allowed the City to cover rising expenses in recent years. With that additional revenue source gone, the City has depleted most of its available fund balance. The City will also depend on deficit financing notes to stabilize its financial position. The deficit financing will allow the City to develop a plan to return to a structurally balanced budget that can operate within Proposition 2½. The authorized amount of deficit financing is not yet set, but the City expects it to cover the Fiscal 2018 deficit and fund operating reserves to support a transition to sustainably balanced operations.

The City has indicated that it is seeking authorization for approximately \$4 million which would be amortized over approximately 10 years.

The Water and Sewer Enterprise fund closed Fiscal Year 2018 with a shortfall in revenue collection of approximately \$840,000. Fortunately, the fund had in excess of \$1m of unspent Fiscal Year 2018 appropriations to mitigate the shortfall.

The City of Methuen's Health Insurance Trust Fund continues to remain healthy. The account is disclosing a June 30, 2018 balance of \$2,796,252 after reserving \$899,091 for incurred but not reported claims. Over the past two years the PEC made monumental concessions to reduce health care costs and at the same time maintain a Health Insurance plan that works for the employee and the employer.

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	
	2018	2017	2018	2017	2018	2017
Land improvements	\$ 3,915	\$ 3,345	\$ 49	\$ 51	\$ 3,964	\$ 3,396
Construction	142,866	144,638	24,394	23,863	167,260	168,501
Infrastructure	12,184	12,329	8,603	8,837	20,787	21,166
Machinery and equipment	3,906	3,701	1,110	1,156	5,016	4,857
Licensed vehicles	4,691	4,688	340	217	5,031	4,905
Land, easements, and right of way	9,210	9,210	252	252	9,462	9,462
Construction in progress	45	-	-	-	45	-
Total net capital assets	\$ 176,817	\$ 177,911	\$ 34,748	\$ 34,376	\$ 211,565	\$ 212,287

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 \$2,240,773 incurred in fiscal year 2018.

Other Capital Investments

The City invested in departmental equipment of \$423,453 in fiscal year 2018 that will ultimately be funded by a bond issuance as well as new Police vehicles and School department equipment.

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

Short-Term and Long-Term Debt. At the end of the current fiscal year, total bonded debt including long-term loans outstanding, bond anticipation notes, and unamortized premiums was \$71,153,879, 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. One June 29, 2018, Moody's downgraded the City's underlying general obligation rating to A3- from A2. On September 13, 2018 S&P Global Ratings downgraded the City's underlying long-term rating to A from AA-.

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

F. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES AND OTHER INFORMATION

On August 31, 2017, the City of Methuen, pursuant to the authority of its prior Chief Executive and Administrative Officer, Mayor Stephen N. Zanni, negotiated and entered into a Collective Bargaining Agreement (CBA) with the New England Police Benevolent Association, Local 17 (Local 17), which represents the Methuen Police Superior Officers (Superiors). On September 18, 2017, the CBA was subsequently presented to and approved by the Methuen City Council.

On July 18, 2018, the City of Methuen, pursuant to the authority of Chief Executive and Administrative Officer, current Mayor James P. Jajuga, negotiated and entered into a subsequent Memorandum of Understanding (MOU) with the Superiors, to clarify "their mutual understanding and agreement..." as to the applicable calculation of wages and compensation due the Superiors under their current CBA.

Accordingly, since the beginning of Fiscal Year 2019, the City has been paying the Superior Officers based upon the July 18th MOU.

The Methuen City Council, when deliberating the City's FY 2019 budget, reduced the Police Department Personal Services line-item by \$1.8M, pursuant to their authority under Massachusetts General Laws, Chapter 44, Sec. 32. The reduced amount (\$1.8M) was moved to the City's stabilization fund, where it currently remains.

Consequently, this reduction will lead to a deficit in the Police Department Personal Services account sometime later in FY 2019, absent further action by the City Council to fully fund the account via transfer; or by Mayor Jajuga by making sufficient reductions in other areas of the budget to avoid the creation of a deficit.

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, Massachusetts 01844

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Assets:			
Current:			
Cash and short-term investments	\$ 21,463,957	\$ 7,829,882	\$ 29,293,839
Receivables, net of allowance for uncollectibles:			
Property taxes	1,503,970	-	1,503,970
Excises	1,083,193	-	1,083,193
User fees	-	4,922,025	4,922,025
Assessments	154,416	-	154,416
Departmental and other	2,699,952	-	2,699,952
Intergovernmental	1,403,671	-	1,403,671
Loans	3,939,722	-	3,939,722
Total current assets	32,248,881	12,751,907	45,000,788
Noncurrent:			
Property taxes	2,593,966	-	2,593,966
Capital assets:			
Nondepreciable capital assets	9,255,952	251,550	9,507,502
Other capital assets, net of accumulated depreciation	167,561,417	34,496,166	202,057,583
Total noncurrent assets	179,411,335	34,747,716	214,159,051
TOTAL ASSETS	211,660,216	47,499,623	259,159,839
Deferred Outflows of Resources:			
Related to pensions	13,484,000	784,000	14,268,000
Related to OPEB	9,488	-	9,488
TOTAL DEFERRED OUTFLOWS OF RESOURCES	13,493,488	784,000	14,277,488
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 225,153,704	\$ 48,283,623	\$ 273,437,327
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
Liabilities:			
Current:			
Warrants and accounts payable	\$ 6,566,518	\$ 587,760	\$ 7,154,278
Accrued liabilities	1,562,380	268,645	1,831,025
Notes payable	6,248,753	3,740,000	9,988,753
Guaranteed deposits payable	1,451,904	-	1,451,904
Other current liabilities	941,258	-	941,258
Current portion of long-term liabilities:			
Bonds and loans payable	2,603,603	1,521,420	4,125,023
Other liabilities	3,360,325	-	3,360,325
Total current liabilities	22,734,741	6,117,825	28,852,566
Noncurrent:			
Bonds and loans payable, net of current portion	42,587,970	14,452,133	57,040,103
Net pension liability	108,098,000	6,194,000	114,292,000
Net OPEB liability	185,029,637	3,968,971	188,998,608
Other liabilities, net of current portion	3,680,325	153,030	3,833,355
Total noncurrent liabilities	339,395,932	24,768,134	364,164,066
TOTAL LIABILITIES	362,130,673	30,885,959	393,016,632
Deferred Inflows of Resources:			
Related to pensions	7,084,000	701,000	7,785,000
Net Position:			
Net investment in capital assets	130,366,364	17,422,506	147,788,870
Restricted externally or constitutionally for:			
Loan, grant programs, and other restrictions	11,102,005	-	11,102,005
Sewer mitigation	-	506,067	506,067
Permanent fund - nonexpendable	417,054	-	417,054
Unrestricted (deficit)	(285,946,392)	(1,231,909)	(287,178,301)
TOTAL NET POSITION	(144,060,969)	16,696,664	(127,364,305)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 225,153,704	\$ 48,283,623	\$ 273,437,327

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

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Expenses</u>	Program Revenues			Net (Expenses) <u>Revenues</u>
		Charges for <u>Services</u>	Operating Grants and <u>Contributions</u>	Capital Grants and <u>Contributions</u>	
Governmental Activities:					
General government	\$ 16,606,018	\$ 2,073,025	\$ 322,035	\$ -	\$ (14,210,958)
Public safety	28,656,087	4,916,590	499,137	-	(23,240,360)
Education	132,142,823	3,835,764	69,946,188	100,000	(58,260,871)
Public works	11,812,412	346,580	-	1,223,265	(10,242,567)
Sanitation	3,167,740	-	-	-	(3,167,740)
Health and human services	1,485,115	117,414	3,397,520	-	2,029,819
Community development	2,116,709	151,125	-	725,125	(1,240,459)
Culture and recreation	1,727,931	1,300,315	48,981	-	(378,635)
Interest	1,751,216	-	-	-	(1,751,216)
Total Governmental Activities	199,466,051	12,740,813	74,213,861	2,048,390	(110,462,987)
Business-Type Activities:					
Enterprise services	<u>11,607,620</u>	<u>12,349,920</u>	<u>22,602</u>	<u>-</u>	<u>764,902</u>
Total	<u>\$ 211,073,671</u>	<u>\$ 25,090,733</u>	<u>\$ 74,236,463</u>	<u>\$ 2,048,390</u>	<u>\$ (109,698,085)</u>

(continued)

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

(continued)

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Change in Net Position:			
Net (Expenses) revenue from previous page	\$ (110,462,987)	\$ 764,902	\$ (109,698,085)
General Revenues:			
Property taxes	85,815,054	-	85,815,054
Excise taxes	6,228,180	-	6,228,180
Local option meals tax	929,136	-	929,136
Interest and penalties	537,210	-	537,210
Grants and contributions not restricted to specific programs	7,365,555	-	7,365,555
Investment income	206,836	45,709	252,545
Other	<u>383,668</u>	<u>47</u>	<u>383,715</u>
Total general revenues	<u>101,465,639</u>	<u>45,756</u>	<u>101,511,395</u>
Excess(deficiency) before transfers	(8,997,348)	810,658	(8,186,690)
Transfers, net	<u>(500)</u>	<u>500</u>	<u>-</u>
Change in Net Position	(8,997,848)	811,158	(8,186,690)
Net Position:			
Beginning of year, as restated	<u>(135,063,121)</u>	<u>15,885,506</u>	<u>(119,177,615)</u>
End of year	<u>\$ (144,060,969)</u>	<u>\$ 16,696,664</u>	<u>\$ (127,364,305)</u>

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

CITY OF METHUEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2018

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and short-term investments	\$ 8,212,050	\$ 9,551,064	\$ 17,763,114
Receivables:			
Property taxes	4,749,936	-	4,749,936
Excises	1,874,193	-	1,874,193
Assessments	154,416	-	154,416
Departmental and other	1,278,039	1,572,271	2,850,310
Intergovernmental	278,168	1,125,505	1,403,673
Loans	<u>-</u>	<u>3,939,722</u>	<u>3,939,722</u>
TOTAL ASSETS	<u>\$ 16,546,802</u>	<u>\$ 16,188,562</u>	<u>\$ 32,735,364</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Warrants and accounts payable	\$ 5,675,149	\$ 829,228	\$ 6,504,377
Accrued liabilities	863,096	109,605	972,701
Notes payable	<u>-</u>	<u>6,248,753</u>	<u>6,248,753</u>
Guaranteed deposits payable	1,451,904	<u>-</u>	1,451,904
Other liabilities	<u>42,167</u>	<u>-</u>	<u>42,167</u>
Total Liabilities	8,032,316	7,187,586	15,219,902
Deferred Inflows of Resources:			
Unavailable revenues	7,583,537	4,346,799	11,930,336
Fund Balances:			
Nonspendable	<u>-</u>	<u>417,054</u>	<u>417,054</u>
Restricted	<u>-</u>	<u>7,282,696</u>	<u>7,282,696</u>
Committed	330,045	<u>-</u>	330,045
Assigned	270,489	<u>-</u>	270,489
Unassigned (see Note 20)	<u>330,415</u>	<u>(3,045,573)</u>	<u>(2,715,158)</u>
Total Fund Balances	<u>930,949</u>	<u>4,654,177</u>	<u>5,585,126</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 16,546,802</u>	<u>\$ 16,188,562</u>	<u>\$ 32,735,364</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, 2018

Total governmental fund balances	\$ 5,585,126
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	176,817,369
• Deferred outflows and inflows of resources related to pension and OPEB are not financial resources nor are they available to pay current-period expenditures. Pension related outflows and inflows consist of:	
Deferred outflows	13,493,488
Deferred inflows	(7,084,000)
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	10,280,336
• 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.	2,796,252
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(589,680)
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds payable	(45,191,573)
Net OPEB obligation	(185,029,637)
Net pension liability	(108,098,000)
Landfill liability	(400,000)
Compensated absences liability	<u>(6,640,650)</u>
Net position of governmental activities (deficit)	<u>\$ (144,060,969)</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, 2018

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Property taxes	\$ 85,614,688	\$ -	\$ 85,614,688
Excise taxes	6,379,021	-	6,379,021
Local option meals tax	929,136	-	929,136
Licenses and permits	1,591,678	-	1,591,678
Intergovernmental	58,899,213	15,992,755	74,891,968
Charges for services	3,386,780	7,386,944	10,773,724
Interest and penalties	537,210	-	537,210
Investment income	205,908	930	206,838
Fines and forfeitures	295,152	-	295,152
Contributions	-	508,896	508,896
Other revenue	<u>117,132</u>	<u>177,934</u>	<u>295,066</u>
Total Revenues	<u>157,955,918</u>	<u>24,067,459</u>	<u>182,023,377</u>
Expenditures:			
Current:			
General government	28,339,902	227,877	28,567,779
Public safety	23,145,042	2,964,508	26,109,550
Education	89,926,639	14,290,250	104,216,889
Public works	7,910,537	64,185	7,974,722
Sanitation	3,166,038	1,702	3,167,740
Health and human services	1,107,028	1,329,317	2,436,345
Community development	1,499,222	872,887	2,372,109
Culture and recreation	1,278,088	1,133,040	2,411,128
Debt service:			
Principal	2,241,000	-	2,241,000
Interest	1,874,123	-	1,874,123
Capital outlay	<u>-</u>	<u>4,038,605</u>	<u>4,038,605</u>
Total Expenditures	<u>160,487,619</u>	<u>24,922,371</u>	<u>185,409,990</u>
Deficiency of revenues over expenditures	(2,531,701)	(854,912)	(3,386,613)
Other Financing Sources (Uses):			
Transfers in	301,229	-	301,229
Transfers out	<u>-</u>	<u>(301,729)</u>	<u>(301,729)</u>
Total Other Financing Sources (Uses)	<u>301,229</u>	<u>(301,729)</u>	<u>(500)</u>
Net change in fund balances	(2,230,472)	(1,156,641)	(3,387,113)
Fund Balances, at Beginning of Year	<u>3,161,421</u>	<u>5,810,818</u>	<u>8,972,239</u>
Fund Balances, at End of Year	<u>\$ 930,949</u>	<u>\$ 4,654,177</u>	<u>\$ 5,585,126</u>

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, 2018

Net changes in fund balances - Total governmental funds	\$ (3,387,113)
• 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:	
Capital outlay purchases, net of disposals	6,036,060
Depreciation	(7,129,537)
• 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.	80,232
• The issuance of long-term debt (e.g., bonds and loans) 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:	
Repayments of debt	2,241,000
Change in unamortized bond premium	88,603
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	122,907
• 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.	
Compensated absences change	(1,310,958)
Landfill liability change	40,000
Net OPEB liability change	(5,460,654)
Net pension liability change	2,555,136
OPEB related deferred outflows change	9,488
Pension related deferred outflows change	(787,502)
Pension related deferred inflows change	(3,475,200)
• 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.	1,379,690
Change in net position of governmental activities	<u>\$ (8,997,848)</u>

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, 2018

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues:				
Property tax	\$ 85,826,258	\$ 85,826,258	\$ 85,330,990	\$ (495,268)
Local revenue	12,388,500	12,388,500	13,524,506	1,136,006
Cherry sheet	48,538,844	48,538,844	48,936,531	397,687
Local option meals tax	929,136	929,136	929,136	-
Other	-	-	3,856	3,856
Total Revenues	147,682,738	147,682,738	148,725,019	1,042,281
Expenditures:				
Current:				
Legislative and administrative	2,011,779	2,047,048	1,959,000	88,048
Financial	1,646,050	1,609,677	1,601,202	8,475
Community development	1,647,348	1,628,826	1,628,826	-
Human services	2,719,738	2,592,345	2,567,658	24,687
Public safety	22,931,758	22,986,096	22,889,464	96,632
Public works	6,227,650	7,299,098	7,205,589	93,509
Insurance	15,076,556	15,025,322	15,003,450	21,872
Retirement	11,414,490	11,414,490	11,414,490	-
Sanitation	3,110,000	3,180,202	3,166,038	14,164
Debt service	3,868,441	3,856,828	3,835,591	21,237
Education	75,581,197	75,585,602	79,370,578	(3,784,976)
State assessments	2,379,343	2,502,501	2,487,706	14,795
Total Expenditures	148,614,350	149,728,035	153,129,592	(3,401,557)
Excess (deficiency) of revenues over expenditures	(931,612)	(2,045,297)	(4,404,573)	(2,359,276)
Other Financing Sources (Uses):				
Use of free cash	-	995,961	-	(995,961)
Transfers in	931,612	2,488,183	2,600,823	112,640
Transfers out	-	(1,259,181)	(1,259,181)	-
Overlay deficit	-	(179,666)	(179,666)	-
Total Other Financing Sources (Uses)	931,612	2,045,297	1,161,976	(883,321)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (3,242,597)	\$ (3,242,597)

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

CITY OF METHUEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2018

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
ASSETS		
Current:		
Cash and short-term investments	\$ 7,829,882	\$ 3,700,842
Accrued revenue	-	56,642
User fees receivable	<u>4,922,025</u>	<u>-</u>
Total current assets	12,751,907	3,757,484
Noncurrent:		
Capital assets:		
Nondepreciable capital assets	251,550	-
Other capital assets, net of accumulated depreciation	<u>34,496,166</u>	<u>-</u>
Total noncurrent assets	<u>34,747,716</u>	<u>-</u>
TOTAL ASSETS	47,499,623	-
DEFERRED OUTFLOWS OF RESOURCES		
Related to pensions	<u>784,000</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 48,283,623	\$ 3,757,484
LIABILITIES		
Current:		
Accounts payable	\$ 587,760	\$ 62,141
Accrued liabilities	268,645	-
Bond anticipation notes	3,740,000	-
Other current liabilities	-	899,091
Current portion of long-term liabilities:		
Bonds and loans payable	<u>1,521,420</u>	<u>-</u>
Total current liabilities	6,117,825	961,232
Noncurrent:		
Bonds and loans payable, net of current portion	14,452,133	-
Net pension liability	6,194,000	-
Net OPEB liability	3,968,971	-
Other liabilities, net of current portion	<u>153,030</u>	<u>-</u>
Total noncurrent liabilities	<u>24,768,134</u>	<u>-</u>
TOTAL LIABILITIES	30,885,959	961,232
DEFERRED INFLOWS OF RESOURCES		
Related to pensions	701,000	-
NET POSITION		
Net investment in capital assets	17,422,506	-
Restricted	506,067	-
Unrestricted	<u>(1,231,909)</u>	<u>2,796,252</u>
TOTAL NET POSITION	<u>16,696,664</u>	<u>2,796,252</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 48,283,623	\$ 3,757,484

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, 2018

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
Operating Revenues:		
Charges for services	\$ 12,156,219	\$ -
Contributions	-	20,754,524
Permits and fees	<u>193,701</u>	<u>-</u>
Total Operating Revenues	12,349,920	20,754,524
Operating Expenses:		
Personal services	4,698,857	-
Materials	2,114,118	-
Depreciation	1,146,198	-
Sanitary district assessment	3,240,485	-
Employee benefits	<u>-</u>	<u>19,374,834</u>
Total Operating Expenses	<u>11,199,658</u>	<u>19,374,834</u>
Operating Income	1,150,262	1,379,690
Nonoperating Revenues (Expenses):		
Intergovernmental revenue	22,602	-
Investment income	45,709	-
Miscellaneous revenue	47	-
Interest expense	<u>(407,962)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(339,604)</u>	<u>-</u>
Income before Transfers	810,658	1,379,690
Transfer in	<u>500</u>	<u>-</u>
Change in Net Position	811,158	1,379,690
Net Position at Beginning of Year, as restated	<u>15,885,506</u>	<u>1,416,562</u>
Net Position at End of Year	<u>\$ 16,696,664</u>	<u>\$ 2,796,252</u>

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, 2018

SEE ASSET DISPOSAL PROBLEM	Business-Type Activities		Governmental Activities	
	Enterprise Fund	Internal Service Fund	Internal Service Fund	Internal Service Fund
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 12,013,972		\$ -	
Employer contributions and stop loss reimbursements	-		13,595,209	
Employee contributions	-		7,104,286	
Payments of employee salaries, benefits, and related expenses	(4,082,420)		(19,681,571)	
Payments to vendors	(2,617,014)		-	
Payments to other governments	(3,240,485)		-	
Net Cash Provided By Operating Activities	2,074,053		1,017,924	
<u>Cash Flows From Noncapital Financing Activities:</u>				
Commonwealth of Massachusetts rate relief	22,602		-	
Transfer in from other funds	500		-	
Net Cash Provided By Noncapital Activities	23,102		-	
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets	(1,517,773)		-	
Proceeds of bond anticipation notes	3,740,000		-	
Principal payments on bonds and loans	(1,515,908)		-	
Other	47		-	
Interest expense	(383,564)		-	
Net Cash Provided By Capital and Related Financing Activities	322,802		-	
<u>Cash Flows From Investing Activities:</u>				
Investment income	45,709		-	
Net Cash Provided By Investing Activities	45,709		-	
Net Change in Cash and Short-Term Investments	2,465,666		1,017,924	
Cash and Short-Term Investments, Beginning of Year	5,364,216		2,682,918	
Cash and Short-Term Investments, End of Year	\$ 7,829,882		\$ 3,700,842	
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>				
Operating income	\$ 1,150,262		\$ 1,379,690	
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	1,146,198		-	
Changes in assets, deferred outflows and liabilities:				
User fees	(335,948)		-	
Other receivables	-		(55,029)	
Deferred outflows - related to pensions	19,498		-	
Accounts payable	(502,896)		(75,590)	
Accrued liabilities	(2,546)		-	
Other liabilities	-		(231,147)	
Compensated absences	20,395		-	
Net pension liability	(35,864)		-	
Net OPEB liability	117,134		-	
Deferred inflows - related to pensions	497,820		-	
Net Cash Provided By Operating Activities	\$ 2,074,053		\$ 1,017,924	

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

CITY OF METHUEN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2018

	Pension Trust Fund (For the Year Ended <u>December 31, 2017</u>)	Other Post Employment Benefits Trust Fund	Private Purpose Trust Fund	Agency Fund
ASSETS				
Non-pooled cash and short-term investments	\$ 748,577	\$ 803	\$ 416,515	\$ 128,453
Investments, at fair value:				
PRIT Fund	150,898,344	-	-	-
Pooled alternative investments	478,186	-	-	-
Fixed income mutual funds	-	150,534	-	-
Equity mutual funds	-	266,718	-	-
Receivables	<u>94,199</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	152,219,306	418,055	416,515	128,453
LIABILITIES AND NET POSITION				
Other liabilities	<u>62,684</u>	<u>-</u>	<u>-</u>	<u>128,453</u>
Total Liabilities	<u>62,684</u>	<u>-</u>	<u>-</u>	<u>128,453</u>
NET POSITION				
Restricted for pension purposes	152,156,622	-	-	-
Restricted for OPEB purposes	-	418,055	-	-
Restricted for other purposes	<u>-</u>	<u>-</u>	<u>416,515</u>	<u>-</u>
Total Net Position	<u>\$ 152,156,622</u>	<u>\$ 418,055</u>	<u>\$ 416,515</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, 2018

	Pension Trust Fund (For the Year Ended December 31, 2017)	Other Post Employment Benefits Trust Fund	Private Purpose Trust Fund
Additions:			
Contributions:			
Employers	\$ 11,696,400	\$ 4,215,286	\$ -
Plan members	3,884,221	-	-
Commonwealth of Massachusetts and other systems	235,191	-	-
Other	6,953	-	-
Total contributions	<u>15,822,765</u>	<u>4,215,286</u>	<u>-</u>
Investment Income:			
Change in fair value of investments	22,670,781	18,699	7,653
Less: management fees	<u>(782,499)</u>	<u>-</u>	<u>-</u>
Net investment income	<u>21,888,282</u>	<u>18,699</u>	<u>7,653</u>
Total additions	<u>37,711,047</u>	<u>4,233,985</u>	<u>7,653</u>
Deductions:			
Benefit payments to plan members and beneficiaries	13,860,537	4,215,286	-
Refunds to plan members	258,234	-	-
Transfers to other systems	74,254	-	-
Administrative expenses	211,324	-	-
Other	-	-	4,000
Total deductions	<u>14,404,349</u>	<u>4,215,286</u>	<u>4,000</u>
Net increase	<u>23,306,698</u>	<u>18,699</u>	<u>3,653</u>
Net position restricted for pensions and other purposes:			
Beginning of year	<u>128,849,924</u>	<u>399,356</u>	<u>412,862</u>
End of year	<u>\$ 152,156,622</u>	<u>\$ 418,055</u>	<u>\$ 416,515</u>

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, certain expenditures such as debt service, claims and judgments, compensated absences, OPEB, and pension 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 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 City reports the following major proprietary funds:

- 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 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 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 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 2018 tax levy reflected an excess capacity of approximately \$136,000.

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 5402 (City Resolution 2018-16) 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 empowered 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)	\$ 157,955,918	\$ 160,487,619
Other financing sources/uses (GAAP Basis)	301,229	-
Subtotal (GAAP Basis)	158,257,147	160,487,619
To raise prior year overlay deficit	-	179,666
Reverse beginning of year appropriation carryforwards from expenditures	-	(592,527)
To book current year appropriation carryforwards	-	270,489
To gross up employee benefits grant allocations	408,970	408,970
To gross up indirect fees from the Enterprise fund	1,430,748	1,430,748
To reverse GASB 85 MTRS on behalf payments made by the State	(8,867,735)	(8,867,735)
To adjust for stabilization activity	85,803	1,251,209
Other	10,909	-
Budgetary Basis	\$ <u>151,325,842</u>	\$ <u>154,568,439</u>

D. Deficit Fund Equity

The following funds or projects within the funds had deficits as of June 30, 2018:

Nonmajor Governmental Funds:

Grant funds	\$ 420,618
Stadium Improvement Project	100,000
Energy improvements - Ameresco	1,781,579
Departmental equipment	335,289
City Hall Improvements	15,055
Police Outside Detail	393,032
	\$ <u>3,045,573</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, 2018, \$9,371,462 of the City's bank balances of \$31,874,663 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 \$9,371,462, 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 than 10% of the City's cash. To maintain adequate cash flow, the City's balances as of June 30, 2018 were deposited in MMDT and bank accounts (checking, savings, and money market accounts).

As of December 31, 2017, \$662,817 of the System's bank balances of \$912,817 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 \$301,129 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):

Investment Type	Fair Value	Ratings as of Year End			
		Aaa-A3	Baa1-B3	Caa1-C	Other/Unrated
Debt related:					
Fixed income mutual funds	\$ 150,534	\$ 100,601	\$ 34,764	\$ 5,807	\$ 9,362
Total debt securities	150,534	\$ 100,601	\$ 34,764	\$ 5,807	\$ 9,362
Equities:					
Equity mutual funds		266,718			
Total equities		266,718			
Total investments	\$ 417,252				

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, 2017, the System maintained its investments in the State Investment Pool (PRIT)*, and BlackRock with fair values of \$150,898,343, and \$478,186, 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, 2018, the entire City's investment balance of, \$417,252 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, 2017, the System's investment in pooled funds of \$151,376,530 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, \$150,898,343 is invested in the State Investment Pool (PRIT) and \$478,186 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	\$ 150,534	3.88

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, 2018:

<u>Description</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using:</u>		
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level:				
Debt securities:				
Fixed income mutual funds	\$ 150,534	\$ -	\$ 150,534	\$ -
Equity securities:				
Equity mutual funds	<u>266,718</u>	<u>266,718</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 417,252</u>	<u>\$ 266,718</u>	<u>\$ 150,534</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, 2017:

	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>	
				<u>(1)</u>	<u>30 days</u>
Investments measured at the net asset value (NAV):					
Pension Reserves Investment Trust (PRIT)	\$ 150,898,344	\$ -	Monthly		
Diversified private equity funds	<u>478,186</u>	<u>-</u>	Quarterly	⁽¹⁾	30 days
Total investments	<u>\$ 151,376,530</u>				

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

5. Property 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, 2018 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	\$ 1,455,993	\$ -	\$ 1,455,993
Personal property	311,977	(264,000)	47,977
Tax liens	2,981,966	(388,000)	2,593,966
Excises	<u>1,874,193</u>	<u>(791,000)</u>	<u>1,083,193</u>
Total	<u>\$ 6,624,129</u>	<u>\$ (1,443,000)</u>	<u>\$ 5,181,129</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, 2018 consist of the following:

	Police				
	Fire	Outside			
	Ambulance	Detail	Other*		Total
Gross	\$ 970,134	\$ 407,077	\$ 1,529,741	\$ 2,906,952	
Less: Allowance for doubtful accounts	<u>(146,000)</u>	<u>(61,000)</u>	<u>-</u>	<u>(207,000)</u>	
Total	<u>\$ 824,134</u>	<u>\$ 346,077</u>	<u>\$ 1,529,741</u>	<u>\$ 2,699,952</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 2018.

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 purposes. The following is an analysis of interfund transfers made in fiscal year 2018:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 301,229	\$ -
Nonmajor funds:		
Special revenue funds:		
Revolving funds	-	80,000
State grants	-	171,729
Other special revenue funds	<u>-</u>	<u>50,000</u>
Subtotal nonmajor funds	-	301,729
Enterprise Funds:		
Water/Sewer	<u>500</u>	<u>-</u>
Grand Total	<u>\$ 301,729</u>	<u>\$ 301,729</u>

Transfers into the general fund represent funding reimbursements to the general (stabilization) fund because funds had been temporarily moved to cover deficits in state grant funds.

11. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 9,491	\$ 882	\$ -	\$ 10,373
Construction	211,145	2,554	-	213,699
Infrastructure	33,713	794	-	34,507
Machinery and equipment	12,483	838	(22)	13,299
Licensed vehicles	<u>15,912</u>	<u>950</u>	<u>(24)</u>	<u>16,838</u>
Total capital assets, being depreciated	282,744	6,018	(46)	288,716
Less accumulated depreciation for:				
Land improvements	(6,146)	(312)	-	(6,458)
Construction	(66,507)	(4,326)	-	(70,833)
Infrastructure	(21,384)	(939)	-	(22,323)
Machinery and equipment	(8,782)	(627)	16	(9,393)
Licensed vehicles	<u>(11,224)</u>	<u>(926)</u>	<u>3</u>	<u>(12,147)</u>
Total accumulated depreciation	(114,043)	(7,130)	19	(121,154)
Total capital assets, being depreciated, net	168,701	(1,112)	(27)	167,562
Capital assets, not being depreciated:				
Land, easements and right of way	9,210	-	-	9,210
Construction in progress	-	45	-	45
Total capital assets, not being depreciated	<u>9,210</u>	<u>45</u>	<u>-</u>	<u>9,255</u>
Governmental activities capital assets, net	<u>\$ 177,911</u>	<u>\$ (1,067)</u>	<u>\$ (27)</u>	<u>\$ 176,817</u>

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 272	\$ -	\$ -	\$ 272
Construction	34,442	1,242	-	35,684
Infrastructure	26,476	9	-	26,485
Machinery and equipment	3,235	74	(6)	3,303
Licensed vehicles	832	194	-	1,026
Total capital assets, being depreciated	65,257	1,519	(6)	66,770
Less accumulated depreciation for:				
Land improvements	(221)	(2)	-	(223)
Construction	(10,579)	(711)	-	(11,290)
Infrastructure	(17,639)	(243)	-	(17,882)
Machinery and equipment	(2,079)	(119)	5	(2,193)
Licensed vehicles	(615)	(71)	-	(686)
Total accumulated depreciation	(31,133)	(1,146)	5	(32,274)
Total capital assets, being depreciated, net	34,124	373	(1)	34,496
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	\$ 34,376	\$ 373	\$ (1)	\$ 34,748

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

Governmental Activities:

General government	\$ 92,421
Public safety	669,981
Education	4,800,947
Public works	1,543,423
Health and human services	15,265
Culture and recreation	7,500
Total depreciation expense - governmental activities	\$ 7,129,537

Business-Type Activities:

Enterprise	\$ 1,146,198
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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 and OPEB, in accordance with GASB Statements No. 68 and 75, are more fully discussed in the corresponding pension and OPEB notes.

13. Warrants and Accounts Payable

Warrants payable represent 2018 expenditures paid by July 15, 2018 as permitted by law. Accounts payable represent additional 2018 expenditures paid after July 15, 2018.

14. Accrued Liabilities

The City had the following accrued liabilities as of June 30, 2018:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Salaries and wages	\$ 822,965	\$ 60,309
Interest on debt	589,680	203,030
Tailings	<u>149,735</u>	<u>5,306</u>
Total accrued liabilities	<u>\$ 1,562,380</u>	<u>\$ 268,645</u>

15. Bond Anticipation Notes Payable

The City had the following notes outstanding at June 30, 2018:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/18</u>
Bond anticipation note	1.50%	09/29/17	09/28/18	\$ 4,988,753
Bond anticipation note	2.25%	12/15/17	09/28/18	<u>5,000,000</u>
Total				<u>\$ 9,988,753</u>

The following summarizes activity in notes payable during fiscal year 2018:

<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	\$ 2,915,000	\$ -	\$ (2,915,000)	\$ -
Departmental equipment	-	1,260,000	-	1,260,000
City Hall Renovation	-	2,350,000	-	2,350,000
School energy efficiency improvements	-	2,638,753	-	2,638,753
Water system improvements	<u>-</u>	<u>3,740,000</u>	<u>-</u>	<u>3,740,000</u>
	<u>\$ 2,915,000</u>	<u>\$ 9,988,753</u>	<u>\$ (2,915,000)</u>	<u>\$ 9,988,753</u>

16. Other Current Liabilities

Other current liabilities as of June 30, 2018 consist of the following:

	<u>Governmental Activities</u>
IBNR (see Note 25)	\$ 899,091
Employee withholdings and other	<u>42,167</u>
Total other current liabilities	<u>\$ 941,258</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.

B. General Obligation Bonds and Other Long-Term Debt

General obligation bonds and loans currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Original Issue Amount</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of 6/30/18</u>
Library	\$ 4,800,000 *	10/15/19	5.00%	\$ 500,000
Landfill Closure	85,000	09/01/21	3.91%	20,000
Road and Surface Drains	3,500,000	08/15/22	4.30%	180,000
High School	35,585,000	09/01/43	variable	33,135,000
Departmental Equipment	5,713,000	09/01/22	variable	3,775,000
Dileo Judgment	594,000	09/01/29	variable	445,000
Athletic Facilities Projects	2,583,000	09/01/30	variable	2,450,000
Energy Efficiency Improvements	3,400,000	09/01/36	variable	3,335,000
Total Governmental Activities				<u>\$ 43,840,000</u>

*Partially refunded, original amount shown.

	Original Issue Amount	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of 6/30/18
<u>Business-Type Activities:</u>				
Sewer (MWPAT)	\$ 395,100 *	08/01/18	variable	\$ 25,677
Storm Water Management (MWPAT)	468,063 *	08/01/23	variable	170,389
Water Distribution System (MWPAT)	5,786,500 *	07/15/25	2.00%	2,605,869
Water Distribution System	700,000	08/15/27	4.16%	425,000
Water Treatment Plant	1,250,000	08/15/27	4.16%	750,000
Water Distribution System (MWPAT)	18,550,000 *	07/15/27	2.00%	10,214,599
Storm Water Management (MWPAT)	200,000 *	07/15/27	2.00%	102,382
Water Tank (MWPAT)	750,000 *	07/15/27	2.00%	269,572
Sewer Rehabilitation and Replacement (MWPAT)	1,117,204 *	07/15/28	2.00%	634,938
Storm Water Management (MWPAT)	12,243	07/15/27	2.00%	7,699
Water Treatment Plant Improvement (MWPAT)	650,000	07/15/30	2.00%	434,379
Sewer Rehabilitation (MWPAT)	452,604	07/15/32	2.00%	333,049
Total Business-Type Activities				\$ <u>15,973,553</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, 2018 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 2,515,000	\$ 1,520,963	\$ 4,035,963
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	1,905,000	1,168,756	3,073,756
2024 - 2028	9,825,000	4,740,300	14,565,300
2029 - 2033	9,525,000	3,201,231	12,726,231
2034 - 2038	7,880,000	1,710,259	9,590,259
2039 - 2043	<u>5,580,000</u>	<u>510,875</u>	<u>6,090,875</u>
Total	<u>\$ 43,840,000</u>	<u>\$ 16,871,084</u>	<u>\$ 60,711,084</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,521,420	\$ 348,594	\$ 1,870,014
2020	1,528,462	313,757	1,842,219
2021	1,566,480	278,318	1,844,798
2022	1,594,837	242,269	1,837,106
2023	1,628,517	205,666	1,834,183
2024 - 2028	7,836,570	469,840	8,306,410
2029 - 2033	<u>297,267</u>	<u>11,011</u>	<u>308,278</u>
Total	<u>\$ 15,973,553</u>	<u>\$ 1,869,455</u>	<u>\$ 17,843,008</u>

D. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2018 are as follows:

<u>Date Authorized</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	338,279
09/19/17	Water system improvements	<u>11,225,000</u>
	Total	\$ <u>11,912,870</u>

E. Changes in Long-Term Liabilities

During the year ended June 30, 2018, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/17	Additions	Reductions	Total Balance 6/30/18	Less Current Portion	Equals Long-Term Portion 6/30/18
Governmental Activities						
General obligation debt	\$ 46,081	\$ -	\$ (2,241)	\$ 43,840	\$ (2,515)	\$ 41,325
Unamortized bond premium	1,441	-	(89)	1,352	(89)	1,263
Subtotal	<u>47,522</u>	<u>-</u>	<u>(2,330)</u>	<u>45,192</u>	<u>(2,604)</u>	<u>42,588</u>
Net pension liability	110,653	-	(2,555)	108,098	-	108,098
Net OPEB liability	179,569	5,461	-	185,030	-	185,030
Other:						
Landfill closure	440	-	(40)	400	(40)	360
Accrued employee benefits	5,330	3,656	(2,346)	6,640	(3,320)	3,320
Subtotal	<u>5,770</u>	<u>3,656</u>	<u>(2,386)</u>	<u>7,040</u>	<u>(3,360)</u>	<u>3,680</u>
Totals	<u>\$ 343,514</u>	<u>\$ 9,117</u>	<u>\$ (7,271)</u>	<u>\$ 345,360</u>	<u>\$ (5,964)</u>	<u>\$ 339,396</u>

	Total Balance 7/1/17	Additions	Reductions	Total Balance 6/30/18	Less Current Portion	Equals Long-Term Portion 6/30/18
Business-Type Activities						
General obligation debt and MWPAT loans	\$ 17,466	\$ -	\$ (1,493)	\$ 15,973	\$ (1,521)	\$ 14,452
Net pension liability	6,230	-	(36)	6,194	-	6,194
Net OPEB liability	3,852	117	-	3,969	-	3,969
Other:						
Accrued employee benefits	<u>134</u>	<u>144</u>	<u>(125)</u>	<u>153</u>	<u>-</u>	<u>153</u>
Subtotal	<u>134</u>	<u>144</u>	<u>(125)</u>	<u>153</u>	<u>-</u>	<u>153</u>
Totals	<u>\$ 27,682</u>	<u>\$ 261</u>	<u>\$ (1,654)</u>	<u>\$ 26,289</u>	<u>\$ (1,521)</u>	<u>\$ 24,768</u>

For more information related to net pension liability and net OPEB liability, see separate Notes.

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 \$400,000 is reported as landfill postclosure care liability at June 30, 2018. 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, 2018 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, 2018:

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, 2018:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable			
Nonexpendable perpetual care permanent fund	\$ <u> -</u>	\$ <u>417,054</u>	\$ <u>417,054</u>
Total Nonspendable	-	417,054	417,054
Restricted			
Bonded projects:			
High school revitalization	-	988	988
School renovation	-	471,225	471,225
Other bonded projects	-	55,277	55,277
Special revenue funds:			
Revolving fund - City/Verizon CIP	-	317,210	317,210
Revolving fund - MPS before and after school program	-	625,432	625,432
Revolving fund - MCTV	-	452,421	452,421
Revolving fund - state SPED reimbursement	-	50,000	50,000
Revolving fund - Energy rebate	-	363,026	363,026
Revolving fund - MGEP	-	383,263	383,263
Revolving fund - building safety task force	-	271,040	271,040
Revolving funds - all remaining	-	739,308	739,308
State grants - Rail trail	-	1,740,398	1,740,398
State grants - Smart growth	-	350,000	350,000
State grants - all remaining	-	120,547	120,547
Federal grants - all remaining	-	414,577	414,577
School lunch	-	218,780	218,780
Other special revenue funds	-	162,592	162,592
Expendable special revenue trust fund	-	458,412	458,412
Other special revenue trust fund	<u>-</u>	<u>88,200</u>	<u>88,200</u>
Total Restricted	-	7,282,696	7,282,696
Committed			
Public safety stabilization	<u>330,045</u>	<u>-</u>	<u>330,045</u>
Total Committed	330,045	-	330,045
Assigned			
Encumbrances:			
General government	44,976	-	44,976
Public safety	13,205	-	13,205
Education	25,311	-	25,311
Public works	<u>186,997</u>	<u>-</u>	<u>186,997</u>
Total Assigned	270,489	-	270,489
Unassigned - general stabilization	1,828,131	-	1,828,131
Unassigned - deficits	<u>(1,497,716)</u>	<u>(3,045,573)</u>	<u>(4,543,289)</u>
Total Unassigned	<u>330,415</u>	<u>(3,045,573)</u>	<u>(2,715,158)</u>
Total Fund Balance	\$ <u>930,949</u>	\$ <u>4,654,177</u>	\$ <u>5,585,126</u>

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, 2017 (the latest actuarial valuation):

Retired members and beneficiaries	449
Inactive members entitled to a return of employee contributions	90
Inactive members with a vested right to a deferred or immediate benefit	15
Active plan members	<u>651</u>
Total	<u>1,205</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 100 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, 2018 was \$11,414,490, which was equal to its annual required contribution.

B. Investment Rate of Return

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 15.58%. 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, 2018.

The components of the net pension liability of the participating employers at June 30, 2018 were as follows:

Net Pension Liability of Employers

Total pension liability	\$ 269,476,000
Plan fiduciary net position	<u>152,157,000</u>
Employers' net pension liability	<u>\$ 117,319,000</u>
Plan fiduciary net position as a percentage of total pension liability	56.5%

Actuarial Assumptions

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

Valuation Date	1/1/2018
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	7.35%
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 \$16,000

Actuarial valuation of the ongoing System 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 valuation were based on the results of the most recent actuarial experience study, dated January 1, 2016, which was for the period January 1, 2012 through December 31, 2014, with the exception of the investment return assumption, which was reduced to 7.35%, and slightly adjusted mortality assumption.

Mortality rates were based on pre-retirement rates that reflect the RP-2000 Employees table projected generationally with Scale BB and a base year 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). The actuarial liability based on these assumptions was increased by 0.75% to reflect the anticipated impact of the assumption change to be made after the local system retiree mortality study is completed.

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>
Large Cap Equities	14.5%	7.50%
Small/Mid Cap Equities	3.5%	7.75%
International Equities	16.0%	7.80%
Emerging International Equities	6.0%	9.30%
Subtotal Global Equity	40.0%	
Core Bonds	5.0%	3.75%
20+ Yr. Treasury STRIPS	2.0%	3.50%
TIPS	5.0%	3.75%
Subtotal Core Fixed Income	12.0%	
High-Yield Bonds	1.5%	5.50%
Bank Loans	2.5%	5.50%
EMD (External)	1.0%	5.00%
EMD (Local Currency)	0.0%	6.50%
Distressed Debt	3.0%	8.80%
Private Debt	2.0%	6.50%
Subtotal Value-Added Fixed Income	10.0%	
Private Equity	11.0%	9.50%
Real Estate	10.0%	6.70%
Timberland	4.0%	6.25%
Hedge Funds and Portfolio Completion	13.0%	6.40%
Grand Total	<u>100.0%</u>	7.70%

Discount Rate: The discount rate used to measure the total pension liability was 7.35%. 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 7.35 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 (6.35%) or 1 percentage-point higher (8.35%) than the current rate (in thousands):

Year Ended	Current		
	1% Decrease (6.35%)	Discount Rate (7.35%)	1% Increase (8.35%)
December 31, 2017	\$ 144,015,986	\$ 114,292,000	\$ 89,089,616

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

At June 30, 2018, the City reported a liability of \$114,292,000 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. The City's proportion of the net pension liability 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, 2018, the City's proportion was 97.42 percent.

For the year ended June 30, 2018, the City recognized pension expense of approximately \$13,580,000. In addition, the City reported deferred outflows and inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (6,597,000)
Difference between expected and actual experience	260,000	-
Change in assumption	12,434,000	-
Change in proportion	1,574,000	(1,188,000)
Total	\$ 14,268,000	\$ (7,785,000)

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

Year ended June 30:	Deferred Outflows (Inflows) <u>of Resources</u>
2019	\$ 1,900,000
2020	1,918,000
2021	468,000
2022	433,000
2023	<u>1,764,000</u>
Total	\$ <u>6,483,000</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, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. This valuation used the following assumptions:

- (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 White Collar Employees Table projected generationally with Scale MP-2016 (gender distinct).
 - Post-retirement – reflects RP-2014 White Collar Healthy Annuitant Table projected generationally with Scale MP-2016 (gender distinct).
 - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2014 set forward 4 years.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	40.0%	5.0%
Portfolio completion strategies	13.0%	3.6%
Core fixed income	12.0%	1.1%
Private equity	11.0%	6.6%
Real estate	10.0%	3.8%
Value added fixed income	10.0%	3.6%
Timber/natural resources	4.0%	3.2%
Hedge funds	0.0%	3.6%
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, 2017. 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):

Fiscal Year Ended	1% Decrease to 6.50%	Current Discount Rate 7.50%	1% Increase to 8.50%
June 30, 2018	\$ 28,424,300	\$ 22,885,391	\$ 18,193,400

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 \$164,256,667 and \$17,143,946 respectively, based on a proportionate share of 0.717736%. As required by GASB 85, the City has recognized its portion of the Commonwealth's contribution as both a revenue and expenditure in the general fund, and its portion of the collective pension expense as both a revenue and expense in the governmental activities.

23. Other Post-Employment Benefits (GASB 75)

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, replaces the requirements of *Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

All the following OPEB disclosures are based on a measurement date of June 30, 2017.

A. General Information about the OPEB Plan

Plan Description

The City provides post-employment healthcare benefits for retired employees through the City's plan. The City provides health insurance coverage through a variety of plans. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

Benefits Provided

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

Plan Membership

At June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	1,184
Active employees	<u>767</u>
Total	<u><u>1,951</u></u>

B. Actuarial Assumptions and Other Inputs

The net 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:

Cost methodology	Entry Age Normal
Investment rate of return	3.75%, net of OPEB plan investment expense
Municipal bond rate	3.75%
Discount rate	3.75%
Healthcare cost trend rates	6.0% for 2017, fluctuating .5%, to an ultimate rate of 4.5% as of 2020 and later years
Retirees' share of benefit-related costs	20%-36%

Mortality rates were based on RP-2014 Blue Collar Mortality with Scale MP-2015, fully generational. Mortality for retired Group 1 and 2 is represented by the RP-2014 Blue Collar Mortality Table set forward five years for males and three 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 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. Generationally adjusting is based on Scale MP-2015.

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study as of July 1, 2016.

C. Discount Rate

The discount rate used to measure the net OPEB liability was 3.75% as the City selected it as representative of the 20-year, high-quality municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. With minimal Plan assets as a percentage of the liability, target asset allocation and long-term expected rate of return data is not provided as the City expects to continue to use the 20-year, high-quality municipal bond rate.

D. Net OPEB Liability

The components of the net OPEB liability, measured as of June 30, 2017, 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>

E. Changes in the Net OPEB Liability

	Increase (Decrease)		
	Plan Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances, beginning of year	\$ 183,620,820	\$ 200,000	\$ 183,420,820
Changes for the year:			
Service cost	3,114,955	-	3,114,955
Interest	6,695,955	-	6,695,955
Contributions - employer	-	4,233,766	(4,233,766)
Net investment income(loss)	-	(644)	644
Benefit payments	<u>(4,033,766)</u>	<u>(4,033,766)</u>	-
Net Changes	<u>5,777,144</u>	<u>199,356</u>	<u>5,577,788</u>
Balances, end of year	<u>\$ 189,397,964</u>	<u>\$ 399,356</u>	<u>\$ 188,998,608</u>

F. 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 one percentage-point lower or one percentage-point higher than the current discount rate:

	Current	
1%	Discount	1%
Decrease	Rate	Increase
\$ 230,739,766	\$ 188,998,608	\$ 157,546,496

G. 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 one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

	Current	
1%	Healthcare	1%
Decrease	Cost Trend	Increase
\$ 155,830,668	\$ 188,998,608	\$ 233,162,899

H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City recognized an OPEB expense of \$10,027,540. At June 30, 2018, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred	Deferred
	Outflows of	Inflows of
	Resources	Resources
Net difference between projected and actual OPEB investment earnings	\$ 9,488	\$ -
Total	<u>\$ 9,488</u>	<u>\$ -</u>

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

<u>Year Ended June 30:</u>	
2019	\$ 2,372
2020	2,372
2021	2,372
2022	<u>2,372</u>
Total	\$ <u>9,488</u>

24. Other Post-Employment Benefits (GASB 74)

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), replaces the requirements of Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This applies if a trust fund has been established to fund future OPEB costs. Several years ago, the City established an OPEB Trust Fund to provide funding for future employee health care costs.

All the following OPEB disclosures are based on a measurement date of June 30, 2018.

A. Investments

The OPEB trust fund assets consist of equities, fixed income, and money market accounts.

Rate of return. For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 4.6%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

B. Actuarial Assumptions and Other Inputs

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Cost methodology	Entry Age Normal
Investment rate of return	3.75%, net of OPEB plan investment expense
Municipal bond rate	3.75%
Discount rate	3.75%
Healthcare cost trend rates	6.0% for 2017, fluctuating .5%, to an ultimate rate of 4.5% as of 2020 and later years
Retirees' share of benefit-related costs	20%-36%

Mortality rates were based on RP-2014 Blue Collar Mortality with Scale MP-2015, fully generational. Mortality for retired Group 1 and 2 is represented by the RP-2014 Blue Collar Mortality Table set forward five years for males and three 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 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. Generationally adjusting is based on Scale MP-2015.

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study as of July 1, 2016.

C. Discount Rate

The discount rate used to measure the net OPEB liability was 3.75% as the City selected it as representative of the 20-year, high-quality municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. With minimal Plan assets as a percentage of the liability, target asset allocation and long-term expected rate of return data is not provided as the City expects to continue to use the 20-year, high-quality municipal bond rate

D. Net OPEB Liability

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

Total OPEB liability	\$ 195,341,862
Plan fiduciary net position	<u>418,055</u>
Net OPEB liability	\$ <u>194,923,807</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.21%

E. 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 one percentage-point lower or one percentage-point higher than the current discount rate:

1% Decrease (2.75%)	Discount Rate (3.75%)	1% Increase (4.75%)
\$ 237,052,252	\$ 194,923,807	\$ 163,045,780

F. 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 one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

Current Healthcare Cost		
1% Decrease (5%)	Trend Rates (6%)	1% Increase (7%)
\$ 159,784,268	\$ 194,923,807	\$ 241,750,817

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, 2018 are as follows:

	<u>Year Ended June 30, 2018</u>	<u>Year Ended June 30, 2017</u>
Unpaid claims, beginning of fiscal year	\$ 1,130,238	\$ 600,000
Claims incurred (including IBNRs)	19,374,834	19,731,724
Claims paid	<u>(19,605,981)</u>	<u>(19,201,486)</u>
Unpaid claims, end of fiscal year	<u>\$ 899,091</u>	<u>\$ 1,130,238</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; and
- 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 \$172,162 under agreements entered into by the City during fiscal year 2018.

28. Subsequent Events

Deficit Financing

On October 31, 2018, the Commonwealth of Massachusetts approved Chapter 278 of the *Acts of 2018, An Act Providing for the Financial Stability of the City of Methuen*. Among other things, the legislation authorizes the City, with the approval of the Director of Accounts in the Department of Revenue, to issue up to \$4m to achieve balanced budgets for fiscal years 2019 and 2020. Section 6 of the Law requires the Secretary of Administration and Finance to appoint a Fiscal Stability Officer for the City to advise the City on managing its fiscal challenges. Section 9 of the Law outlines the criteria in which the Secretary of Administration and Finance shall abolish the Fiscal Stability Officer and appoint a Finance Control Board. That criteria includes if the fiscal overseer concludes that the City: "(i) is unable to achieve a balanced budget, (ii) faces a fiscal crisis that poses an imminent danger to the safety of the citizens of the City and their property; or (iii) will not achieve fiscal stability without the assistance of a finance control board."

On December 12, 2018, the City expects to issue a preliminary official statement \$4,000,000 in general obligation State Qualified Deficit Financing Bond Anticipation Notes to achieve a balanced budget for fiscal year 2019. Repayment of the notes will be over a 10-year period.

Police Contractual

On August 31, 2017, the City of Methuen, pursuant to the authority of its prior Chief Executive and Administrative Officer, Mayor Stephen N. Zanni, negotiated and entered into a Collective Bargaining Agreement (CBA) with the New England Police Benevolent Association, Local 17 (Local 17), which represents the Methuen Police Superior Officers (Superiors). On September 18, 2017, the CBA was subsequently presented to and approved by the Methuen City Council.

On July 18, 2018, the City of Methuen, pursuant to the authority of Chief Executive and Administrative Officer, current Mayor James P. Jajuga, negotiated and entered into a subsequent Memorandum of Understanding (MOU) with the Superiors, to clarify "their mutual understanding and agreement..." as to the applicable calculation of wages and compensation due the Superiors under their current CBA.

Accordingly, since the beginning of Fiscal Year 2019, the City has been paying the Superior Officers based upon the July 18th MOU.

The Methuen City Council, when deliberating the City's FY 2019 budget, reduced the Police Department Personal Services line-item by \$1.8M, pursuant to their authority under Massachusetts General Laws, Chapter 44, Sec. 32. The reduced amount (\$1.8M) was moved to the City's stabilization fund, where it currently remains.

Consequently, this reduction will lead to a deficit in the Police Department Personal Services account sometime later in FY 2019, absent further action by the City Council to fully fund the account via transfer; or by Mayor Jajuga by making sufficient reductions in other areas of the budget to avoid the creation of a deficit.

Other Debt Issuances

On September 28, 2018, the City issued \$9,988,753 general obligation bond anticipation notes maturing on September 27, 2019 with an interest rate of 2.0 percent to refund the bond anticipation notes discussed in Note 15.

29. Beginning Net Position Restatement

The beginning (July 1, 2017) net position of the City has been restated as follows:

	Business- Type Activities	
	Governmental Activities	Enterprise Fund
As previously reported	\$ (29,229,465)	\$ 18,144,312
Implementation of GASB 75 OPEB	<u>(105,833,656)</u>	<u>(2,258,806)</u>
As restated	<u>\$ (135,063,121)</u>	<u>\$ 15,885,506</u>
	High School Revitalization	Nonmajor Governmental Funds
As previously reported, June 30, 2017	\$ 988	\$ 5,809,830
To reclass to non-major	<u>(988)</u>	<u>988</u>
As restated, July 1, 2017	<u>\$ -</u>	<u>\$ 5,810,818</u>

CITY OF METHUEN, MASSACHUSETTS

**SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (GASB 68)**

JUNE 30, 2018

(in thousands)
(Unaudited)

Methuen Contributory Retirement System

Fiscal <u>Year</u>	Measurement <u>Date</u>	Proportion of the Net Pension <u>Liability</u>	Proportionate Share of the Net Pension <u>Liability</u>	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2018	December 30, 2017	97.42%	\$114,292	\$ 43,169	264.75%
June 30, 2017	December 30, 2016	97.38%	\$116,883	\$ 43,400	269.32%
June 30, 2016	December 30, 2015	97.03%	\$107,992	\$ 41,242	261.85%
June 30, 2015	December 30, 2014	96.81%	\$101,811	\$ 40,441	251.75%

Massachusetts Teachers' Retirement System

Fiscal <u>Year</u>	Measurement <u>Date</u>	Proportion of the Net Pension <u>Liability</u>	Proportionate Share of the Net Pension <u>Liability</u>	Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the City	Total Net Pension Liability Associated with the City	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2018	June 30, 2017	0.72%	\$ -	\$ 164,257	\$ 164,257	\$ 46,883	0%	54.25%
June 30, 2017	June 30, 2016	0.74%	\$ -	\$ 164,774	\$ 164,774	\$ 46,472	0%	52.73%
June 30, 2016	June 30, 2015	0.73%	\$ -	\$ 150,565	\$ 150,565	\$ 45,475	0%	55.38%
June 30, 2015	June 30, 2014	0.73%	\$ -	\$ 116,314	\$ 116,314	\$ 45,376	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)

JUNE 30, 2018

(in thousands)
(Unaudited)

Methuen Contributory Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	Contractually Required Contribution	Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2018	December 31, 2017	\$ 11,701	\$ 11,701	\$ -	\$ 43,169	27.11%
June 30, 2017	December 31, 2016	\$ 10,867	\$ 10,867	\$ -	\$ 43,400	25.04%
June 30, 2016	December 31, 2015	\$ 9,585	\$ 9,585	\$ -	\$ 41,242	23.24%
June 30, 2015	December 31, 2014	\$ 8,804	\$ 8,804	\$ -	\$ 40,441	21.77%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	Contractually Required Contribution Provided by Commonwealth	Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2018	June 30, 2017	\$ 17,143	\$ 17,143	\$ -	\$ 46,883	0.00%
June 30, 2017	June 30, 2016	\$ 16,808	\$ 16,808	\$ -	\$ 46,472	0.00%
June 30, 2016	June 30, 2015	\$ 12,212	\$ 12,212	\$ -	\$ 45,475	0.00%
June 30, 2015	June 30, 2014	\$ 8,081	\$ 8,081	\$ -	\$ 45,376	0.00%

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

See Independent Auditors' Report.

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

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

(in thousands)
(Unaudited)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability				
Service cost	\$ 5,610	\$ 5,368	\$ 4,802	\$ 4,595
Interest on unfunded liability - time value of \$	18,566	17,183	16,978	16,248
Differences between expected and actual experience	2,956	(3,242)	-	-
Changes of benefit terms	1,140	962	-	-
Changes of assumptions	6,210	11,200	-	-
Benefit payments, including refunds of member contributions	<u>(13,884)</u>	<u>(12,656)</u>	<u>(11,970)</u>	<u>(11,297)</u>
Net change in total pension liability	20,598	18,815	9,810	9,546
Total pension liability - beginning	<u>248,878</u>	<u>230,063</u>	<u>220,253</u>	<u>210,707</u>
Total pension liability - ending (a)	<u>\$ 269,476</u>	<u>\$ 248,878</u>	<u>\$ 230,063</u>	<u>\$ 220,253</u>
Plan fiduciary net position*				
Contributions - employer	\$ 11,701	\$ 11,147	\$ 10,623	\$ 9,834
Contributions - member	3,810	3,022	3,495	3,041
Net investment income	21,886	8,780	1,791	8,330
Benefit payments, including refunds of member contributions	<u>(13,884)</u>	<u>(12,656)</u>	<u>(11,970)</u>	<u>(11,297)</u>
Administrative expense	(209)	(210)	(263)	(160)
Other	3	2	2	29
Net change in plan fiduciary net position	23,307	10,085	3,678	9,777
Plan fiduciary net position - beginning	<u>128,850</u>	<u>118,765</u>	<u>115,087</u>	<u>105,310</u>
Plan fiduciary net position - ending (b)	<u>\$ 152,157</u>	<u>\$ 128,850</u>	<u>\$ 118,765</u>	<u>\$ 115,087</u>
Net pension liability - ending (a-b)	<u>\$ 117,319</u>	<u>\$ 120,028</u>	<u>\$ 111,298</u>	<u>\$ 105,166</u>

*May reflect certain rounding and immaterial classification differences from page 28.

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

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

See Independent Auditors' Report.

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

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

(in thousands)
(Unaudited)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Schedule of Net Pension Liability				
Total pension liability	\$ 269,476	\$ 248,878	\$ 230,063	\$ 220,253
Plan fiduciary net position	<u>152,157</u>	<u>128,850</u>	<u>118,765</u>	<u>115,087</u>
Net pension liability (asset)	<u>\$ 117,319</u>	<u>\$ 120,028</u>	<u>\$ 111,298</u>	<u>\$ 105,166</u>
Plan fiduciary net position as a percentage of the total pension liability	56.5%	51.8%	51.6%	52.3%
Covered payroll	\$ 36,394	\$ 34,459	\$ 32,256	\$ 32,256
Participating employer net pension liability (asset) as a percentage of covered employee payroll	322.4%	348.3%	345.0%	326.0%
Schedule of Contributions				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 11,701	\$ 10,387	\$ 9,879	\$ 9,094
Contributions in relation to the actuarially determined contribution	<u>11,701</u>	<u>10,387</u>	<u>9,879</u>	<u>9,094</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 36,394	\$ 34,459	\$ 32,256	\$ 32,256
Contributions as a percentage of covered payroll	32.2%	30.1%	30.6%	28.2%

Schedule of Investment Returns

Year ended December 31

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money weighted rate of return, net of investment expense	15.58%	7.50%	0.56%	7.76%

*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
OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Schedule of Changes in the Net OPEB Liability (GASB 74 and 75)

(Unaudited)

	<u>2018</u>	<u>2017</u>
Total OPEB liability		
Service cost	\$ 3,255,128	\$ 3,114,955
Interest on unfunded liability - time value of \$	6,904,056	6,695,955
Changes of benefit terms	-	-
Differences between expected and actual experience	-	-
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	<u>(4,215,286)</u>	<u>(4,033,766)</u>
Net change in total OPEB liability	5,943,898	5,777,144
Total OPEB liability - beginning	<u>189,397,964</u>	<u>183,620,820</u>
Total OPEB liability - ending (a)	<u>\$ 195,341,862</u>	<u>\$ 189,397,964</u>
 Plan fiduciary net position*		
Contributions - employer	\$ 4,215,286	\$ 4,233,766
Contributions - member	-	-
Net investment income	18,699	(644)
Benefit payments, including refunds of member contributions	(4,215,286)	(4,033,766)
Administrative expense	-	-
Other	-	-
Net change in plan fiduciary net position	18,699	199,356
Plan fiduciary net position - beginning	<u>399,356</u>	<u>200,000</u>
Plan fiduciary net position - ending (b)	<u>\$ 418,055</u>	<u>\$ 399,356</u>
 Net OPEB liability - ending (a-b)	<u>\$ 194,923,807</u>	<u>\$ 188,998,608</u>

*May reflect certain rounding and immaterial classification differences with the Fiduciary Fund Statement of Changes in Fiduciary Net Position.

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 and 75)

(Unaudited)

Schedule of Net OPEB Liability

	<u>2018</u>	<u>2017</u>
Total OPEB liability	\$ 195,341,862	\$ 189,397,964
Plan fiduciary net position	<u>418,055</u>	<u>399,356</u>
Net OPEB liability (asset)	<u>\$ 194,923,807</u>	<u>\$ 188,998,608</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.214%	0.211%
Covered employee payroll	76,891,704	74,291,502
Net OPEB liability as a percentage of covered employee payroll	253.5%	254.4%

Schedule of Contributions

	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 12,871,991	\$ 12,180,320
Contributions in relation to the actuarially determined contribution	<u>-</u>	<u>200,000</u>
Contribution deficiency (excess)	<u>\$ 12,871,991</u>	<u>\$ 11,980,320</u>
Covered employee payroll	76,891,704	74,291,502
Contributions as a percentage of covered employee payroll	0.000%	0.269%

Schedule of Investment Returns

	<u>2018</u>	<u>2017</u>
Annual money weighted rate of return, net of investment expense	4.6%	-0.3%

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