



CITY OF METHUEN, MASSACHUSETTS

Annual Financial Statements
For the Year Ended June 30, 2019

(With Independent Auditors' Report Thereon)

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, 2019, (except for the Methuen Contributory Retirement System, which is as of and for the year ended December 31, 2018) 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, 2019, 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 29, 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 certain Pension and OPEB schedules 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 January 3, 2020 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

January 3, 2020

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, 2019.

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 \$5,356,717, a change of \$5,026,302 in comparison to the prior year. \$4,000,000 of this increase results from recognizing the borrowing of monies from Chapter 278 of the Acts of 2018.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$10,513,523, a change of \$4,928,397 in comparison to the prior year. Most of this increase results from the \$4,000,000 discussed above.
- 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 \$(147,011,999) resulting in a negative net position (primarily from unfunded pension and OPEB liability), a change of \$(13,722,495).

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The largest portion of net position \$141,265,285 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 \$10,959,071 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position reflects a deficit of \$(299,236,355) primarily resulting from unfunded pension and OPEB liabilities.

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	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 37,520	\$ 34,843	\$ 11,449	\$ 12,752	\$ 48,969	\$ 47,595
Capital assets	<u>172,063</u>	<u>176,817</u>	<u>36,120</u>	<u>34,748</u>	<u>208,183</u>	<u>211,565</u>
Total assets	209,583	211,660	47,569	47,500	257,152	259,160
Deferred outflows of resources	<u>47,025</u>	<u>13,493</u>	<u>1,548</u>	<u>784</u>	<u>48,573</u>	<u>14,277</u>
Total assets and deferred outflows or resources	<u>\$ 256,608</u>	<u>\$ 225,153</u>	<u>\$ 49,117</u>	<u>\$ 48,284</u>	<u>\$ 305,725</u>	<u>\$ 273,437</u>
Long-term liabilities	\$ 406,202	\$ 351,161	\$ 26,325	\$ 26,414	\$ 432,527	\$ 377,575
Other liabilities	<u>14,015</u>	<u>16,770</u>	<u>4,227</u>	<u>4,596</u>	<u>18,242</u>	<u>21,366</u>
Total liabilities	420,217	367,931	30,552	31,010	450,769	398,941
Deferred inflows of resources	1,607	7,084	361	701	1,968	7,785
Net investment in capital assets	123,310	130,366	17,955	17,423	141,265	147,789
Restricted	10,827	11,519	132	506	10,959	12,025
Unrestricted	<u>(299,353)</u>	<u>(291,747)</u>	<u>117</u>	<u>(1,356)</u>	<u>(299,236)</u>	<u>(293,103)</u>
Total net position	<u>(165,216)</u>	<u>(149,862)</u>	<u>18,204</u>	<u>16,573</u>	<u>(147,012)</u>	<u>(133,289)</u>
Total liabilities and net position	<u>\$ 256,608</u>	<u>\$ 225,153</u>	<u>\$ 49,117</u>	<u>\$ 48,284</u>	<u>\$ 305,725</u>	<u>\$ 273,437</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 Activities		Business-Type Activities		Totals	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues						
Program revenues						
Charges for services	\$ 13,990	\$ 12,741	\$ 13,509	\$ 12,350	\$ 27,499	\$ 25,091
Operating grants and contributions	74,671	74,214	-	23	74,671	74,237
Capital grants and contributions	2,351	2,048	-	-	2,351	2,048
General revenues						
Property Taxes	89,420	85,815	-	-	89,420	85,815
Excises	6,638	6,228	-	-	6,638	6,228
Local option meals tax	981	929	-	-	981	929
Interest and penalties	483	537	-	-	483	537
Grants and contributions not restricted to specific programs	6,583	7,366	-	-	6,583	7,366
Investment income	733	207	105	46	838	253
Other	434	384	35	-	469	384
Total revenues	<u>196,284</u>	<u>190,469</u>	<u>13,649</u>	<u>12,419</u>	<u>209,933</u>	<u>202,888</u>
Expenses						
General government	18,766	16,606	-	-	18,766	16,606
Public safety	32,802	28,656	-	-	32,802	28,656
Education	135,812	132,143	-	-	135,812	132,143
Public works	11,975	11,812	-	-	11,975	11,812
Sanitation	3,627	3,168	-	-	3,627	3,168
Health and human services	3,250	1,485	-	-	3,250	1,485
Community development	1,911	2,117	-	-	1,911	2,117
Culture and recreation	1,775	1,728	-	-	1,775	1,728
Interest and costs	1,720	1,752	-	-	1,720	1,752
Enterprise services	-	-	12,018	11,607	12,018	11,607
Total expenses	<u>211,638</u>	<u>199,467</u>	<u>12,018</u>	<u>11,607</u>	<u>223,656</u>	<u>211,074</u>
Change in net position	(15,354)	(8,998)	1,631	812	(13,723)	(8,186)
Beginning net position, as restated	<u>(149,862)</u>	<u>(140,864)</u>	<u>16,573</u>	<u>15,761</u>	<u>(133,289)</u>	<u>(125,103)</u>
Ending net position	<u>\$ (165,216)</u>	<u>\$ (149,862)</u>	<u>\$ 18,204</u>	<u>\$ 16,573</u>	<u>\$ (147,012)</u>	<u>\$ (133,289)</u>

Governmental Activities - The City's governmental activities resulted in a change in net position of \$(15,354,107). Events contributing to the decrease in net position are as follows:

- The City's governmental share of net OPEB liability increased by \$11 million net of OPEB-related deferred outflows and inflows.
- The net pension liability (NPL) related to governmental activities increased by \$3 million net of pension-related deferred outflows and inflows of resources

Business-type Activities - Business-type activities for the year resulted in a change in net position of \$1.6 million. Primary factors in the increase include unspent appropriations of \$863,000 and the fund's favorable revenue performance of \$551,000.

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, 2019 increased from the issuance of the \$4 million note to fund our fiscal year 2018 School Department over-expenditure. Nonmajor governmental funds reflected a decrease in fund balances of approximately \$1.3 million 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 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>6/30/19</u>	<u>6/30/18</u>	<u>Change</u>
Restricted	\$ 215	\$ -	\$ 215
Committed	622	330	292
Assigned	980	270	710
Unassigned - stabilization	1,674	1,828	(154)
Unassigned (deficit)	<u>3,683</u>	<u>(1,497)</u>	<u>5,180</u> *
Total Unassigned	<u>5,357</u>	<u>331</u>	<u>5,026</u>
Total fund balance	<u>\$ 7,174</u>	<u>\$ 931</u>	<u>\$ 6,243</u>

*Primarily from the \$4 million note authorized by Chapter 278 of the Acts of 2018.

E. GENERAL FUND BUDGETARY HIGHLIGHTS AND OTHER INFORMATION

The amount of available funds or “free cash” as of July 1, 2019 was certified for the City at \$3,079,400 for the General Fund and \$4,562,397 in the Water/Sewer Fund. In addition, the general stabilization fund ended Fiscal Year 2019 with a balance of \$1,673,565, with restaurant meals tax revenue dedicated as a funding source going forward in Fiscal Year 2020. The City of Methuen is working on analyzing and implementing strengthened financial and administrative management policies and procedures, which will lead to stabilized financial performance.

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	
	2019	2018	2019	2018	2019	2018
Land improvements	\$ 3,593	\$ 3,915	\$ 46	\$ 49	\$ 3,639	\$ 3,964
Construction	139,572	142,866	23,950	24,394	163,522	167,260
Infrastructure	11,139	12,184	10,173	8,603	21,312	20,787
Machinery and equipment	4,025	3,906	987	1,110	5,012	5,016
Licensed vehicles	4,479	4,691	712	340	5,191	5,031
Land, easements, and right of way	9,210	9,210	252	252	9,462	9,462
Construction in progress	45	45	-	-	45	45
Total net capital assets	<u>\$ 172,063</u>	<u>\$ 176,817</u>	<u>\$ 36,120</u>	<u>\$ 34,748</u>	<u>\$ 208,183</u>	<u>\$ 211,565</u>

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

Governmental:

City Hall Energy Improvement Project \$761,926
School IT Infrastructure Improvements \$270,315
School Building Improvements \$192,375

Business-Type:

Water distribution improvements \$2,345,347

Major capital asset disposals during the current fiscal year consisted of DPW equipment and Public Safety vehicles.

Additional information on capital assets can be found in the Notes to the 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 \$61,040,103, all of which was backed by the full faith and credit of the government. Included in this amount is the \$4 million long term Bond Anticipation Note-Deficit Loan for the School Deficit borrowing. In August 2019, Standard & Poor's long-term rating was maintained from the prior year at AA, with an underlying rating of A, with a stable outlook.

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

During Fiscal Year 2019, the City of Methuen filed a Home Rule Petition (enacted as Chapter 278 Acts of 2018) with the State Legislature, in order to borrow a \$4 million loan to cover a Fiscal Year 2018 School Department budget deficit. Among the requirements of the Act, Chapter 278 requires that the City be assigned a State Fiscal Stability Officer to provide guidance in matters related to the City's finances for the life of the loan, in addition to changing the structure of the City Finance Department. The City has established the Department of Administration and Finance, led by the Chief Administrative and Financial Officer. This department is responsible for the overall budgetary and financial administration of all City departments, including the School Department. Further requirements of the Acts include additional reporting requirements, an annual capital improvement plan and long-term forecasting. The objective of these changes is to provide the necessary planning, transparency and oversight for stabilization of the City's financial performance. The process of implementing these changes, as well as the actual School deficit borrowing occurred during Fiscal Year 2019 and continues to be implemented during Fiscal Year 2020.

The following summarizes the original FY20 budget:

	Original Fiscal Year 2020 Budget
General Government	\$ 4,040,434
Community Development	1,665,201
Human Services	2,686,513
Public Works	6,346,895
Public Safety	23,352,503
Debt Service	4,258,791
Employee Benefits	16,400,152
Retirement	12,191,910
Solid Waste & Disposal	4,294,000
School	80,950,000
Regional School	2,770,307
Essex North Shore Agricultural School	415,000
Transfer out	200,000
County State & Miscellaneous	3,056,043
Subtotal General Fund	<u>162,627,749</u>
Enterprise	<u>14,098,537</u>
Total	<u>\$ 176,726,286</u>

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, the City paid the Superior Officers based upon the July 18th MOU. On February 1, 2019, the Office of the Inspector General (OIG) for the Commonwealth of Massachusetts issued a report expressing concerns with a number of issues about the Methuen Police Superior Officers Association’s 2017-2020 contract. On February 4, 2019, Mayor Jajuga notified the Methuen Police Superior Officers Association of his decision to no longer honor the MOU and his decision to revert to the previous contract (2014-2017). On February 7, 2019 the City Council voted to confirm its rejection of the MOU. The Superior Officers Association filed a class action grievance against the City on this matter

March 2019. The Police Chief waived his Step I grievance authority and forwarded the grievance to Step II. The Office of the Mayor met with the union in April 2019 and denied the grievance. The matter is currently scheduled for arbitration in March 2020. There is a potentially material financial impact on the City pending the outcome of this matter.

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:

Chief Administrative and Financial Officer

City of Methuen

41 Pleasant Street

Methuen, Massachusetts 01844

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2019

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets and Deferred Outflows of Resources			
Assets:			
Current:			
Cash and short-term investments	\$ 20,950,182	\$ 5,897,427	\$ 26,847,609
Receivables, net of allowance for uncollectibles:			
Property taxes	1,536,081	-	1,536,081
Excises	1,120,671	-	1,120,671
User fees	-	5,552,276	5,552,276
Assessments	135,511	-	135,511
Departmental and other	2,811,691	-	2,811,691
Intergovernmental	4,708,228	-	4,708,228
Loans	<u>3,586,644</u>	<u>-</u>	<u>3,586,644</u>
Total current assets	34,849,008	11,449,703	46,298,711
Noncurrent:			
Property taxes	2,671,268	-	2,671,268
Capital assets:			
Nondepreciable capital assets	9,255,952	251,550	9,507,502
Other capital assets, net of accumulated depreciation	<u>162,806,725</u>	<u>35,868,192</u>	<u>198,674,917</u>
Total noncurrent assets	<u>174,733,945</u>	<u>36,119,742</u>	<u>210,853,687</u>
Total Assets	209,582,953	47,569,445	257,152,398
Deferred Outflows of Resources:			
Related to pensions	17,025,000	904,000	17,929,000
Related to OPEB	<u>30,000,191</u>	<u>643,518</u>	<u>30,643,709</u>
Total Deferred Outflows of Resources	<u>47,025,191</u>	<u>1,547,518</u>	<u>48,572,709</u>
Total Assets and Deferred Outflows of Resources	\$ <u><u>256,608,144</u></u>	\$ <u><u>49,116,963</u></u>	\$ <u><u>305,725,107</u></u>

(continued)

(continued)

	Governmental Activities	Business-Type Activities	Total
Liabilities, Deferred Inflows of Resources, and Net Position			
Liabilities:			
Current:			
Warrants and accounts payable	\$ 3,018,144	\$ 167,525	\$ 3,185,669
Accrued liabilities	1,949,565	319,152	2,268,717
Notes payable	6,248,753	3,740,000	9,988,753
Guaranteed deposits payable	1,961,589	-	1,961,589
Other current liabilities	836,529	-	836,529
Current portion of long-term liabilities:			
Bonds and loans payable	2,418,603	1,528,462	3,947,065
Note payable (deficit financing)	386,000	-	386,000
Other liabilities	3,593,137	-	3,593,137
Total current liabilities	20,412,320	5,755,139	26,167,459
Noncurrent:			
Note payable (deficit financing)	3,614,000	-	3,614,000
Bonds and loans payable, net of current portion	40,169,367	12,923,671	53,093,038
Net pension liability	120,487,000	6,725,000	127,212,000
Net OPEB liability	231,660,988	4,969,235	236,630,223
Other liabilities, net of current portion	3,873,136	179,071	4,052,207
Total noncurrent liabilities	399,804,491	24,796,977	424,601,468
Total Liabilities	420,216,811	30,552,116	450,768,927
Deferred Inflows of Resources:			
Related to pensions	1,598,000	361,000	1,959,000
Related to OPEB	9,179	-	9,179
Total Deferred Inflows of Resources	1,607,179	361,000	1,968,179
Net Position:			
Net investment in capital assets	123,310,430	17,954,855	141,265,285
Restricted externally or constitutionally for:			
Loan, grant programs, and other restrictions	10,410,100	-	10,410,100
Sewer mitigation	-	131,916	131,916
Permanent fund - nonexpendable	417,055	-	417,055
Unrestricted (deficit)	(299,353,431)	117,076	(299,236,355)
Total Net Position	(165,215,846)	18,203,847	(147,011,999)
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 256,608,144	\$ 49,116,963	\$ 305,725,107

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

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

		Program Revenues			Net (Expenses) Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
	<u>Expenses</u>				
Governmental Activities					
General government	\$ 18,767,850	\$ 2,359,184	\$ 459,420	\$ -	\$ (15,949,246)
Public safety	32,801,754	5,945,064	303,892	-	(26,552,798)
Education	135,811,936	3,921,651	73,117,667	200,000	(58,572,618)
Public works	11,974,923	270,285	16,209	1,981,263	(9,707,166)
Sanitation	3,626,785	-	-	-	(3,626,785)
Health and human services	3,249,589	124,002	764,216	-	(2,361,371)
Community development	1,911,145	81,276	-	169,295	(1,660,574)
Culture and recreation	1,774,753	1,288,258	9,840	-	(476,655)
Interest	<u>1,719,754</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,719,754)</u>
Total Governmental Activities	211,638,489	13,989,720	74,671,244	2,350,558	(120,626,967)
Business-Type Activities					
Enterprise services	<u>12,016,333</u>	<u>13,508,573</u>	<u>-</u>	<u>-</u>	<u>1,492,240</u>
Total	<u>\$ 223,654,822</u>	<u>\$ 27,498,293</u>	<u>\$ 74,671,244</u>	<u>\$ 2,350,558</u>	<u>\$ (119,134,727)</u>

(continued)

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

(continued)

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Change in Net Position:			
Net (Expenses) revenue from previous page	\$ (120,626,967)	\$ 1,492,240	\$ (119,134,727)
General Revenues			
Property taxes	89,420,440	-	89,420,440
Excise taxes	6,638,001	-	6,638,001
Local option meals tax	981,145	-	981,145
Interest and penalties	482,753	-	482,753
Grants and contributions not restricted to specific programs	6,583,146	-	6,583,146
Investment income	733,056	104,531	837,587
Other	<u>434,319</u>	<u>34,841</u>	<u>469,160</u>
Total general revenues	<u>105,272,860</u>	<u>139,372</u>	<u>105,412,232</u>
Change in Net Position	(15,354,107)	1,631,612	(13,722,495)
Net Position			
Beginning of year, as restated	<u>(149,861,739)</u>	<u>16,572,235</u>	<u>(133,289,504)</u>
End of year	\$ <u><u>(165,215,846)</u></u>	\$ <u><u>18,203,847</u></u>	\$ <u><u>(147,011,999)</u></u>

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

CITY OF METHUEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2019

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Assets			
Cash and short-term investments	\$ 7,630,433	\$ 9,044,334	\$ 16,674,767
Receivables			
Property taxes	4,851,349	-	4,851,349
Excises	1,952,671	-	1,952,671
Assessments	135,511	-	135,511
Departmental and other	1,243,977	1,726,175	2,970,152
Intergovernmental	4,182,535	525,694	4,708,229
Loans	<u>-</u>	<u>3,586,644</u>	<u>3,586,644</u>
Total Assets	\$ <u>19,996,476</u>	\$ <u>14,882,847</u>	\$ <u>34,879,323</u>
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities			
Warrants and accounts payable	\$ 1,811,235	\$ 1,150,278	\$ 2,961,513
Accrued liabilities	1,074,385	181,143	1,255,528
Notes payable	-	6,248,753	6,248,753
Guaranteed deposits payable	1,961,589	-	1,961,589
Other liabilities	<u>61,799</u>	<u>-</u>	<u>61,799</u>
Total Liabilities	4,909,008	7,580,174	12,489,182
Deferred Inflows of Resources			
Unavailable revenues	7,913,405	3,963,213	11,876,618
Fund Balances			
Nonspendable	-	417,055	417,055
Restricted	215,000	6,781,014	6,996,014
Committed	622,020	550,000	1,172,020
Assigned	980,326	-	980,326
Unassigned (see Note 28)	<u>5,356,717</u>	<u>(4,408,609)</u>	<u>948,108</u>
Total Fund Balances	<u>7,174,063</u>	<u>3,339,460</u>	<u>10,513,523</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ <u>19,996,476</u>	\$ <u>14,882,847</u>	\$ <u>34,879,323</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, 2019

Total governmental fund balances	\$ 10,513,523
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	172,062,677
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 of resources	47,025,191
Deferred inflows of resources	(1,607,179)
Revenues are reported on the accrual basis of accounting and are not deferred until collection.	10,186,618
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.	3,499,593
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(694,038)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds payable	(42,587,970)
Note payable (long-term)	(4,000,000)
Net OPEB liability	(231,660,988)
Net pension liability	(120,487,000)
Landfill liability	(360,000)
Compensated absences liability	<u>(7,106,273)</u>
Net position of governmental activities (deficit)	\$ <u>(165,215,846)</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, 2019

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 89,236,370	\$ -	\$ 89,236,370
Excise taxes	6,600,522	-	6,600,522
Local option meals tax	981,145	-	981,145
Licenses and permits	1,884,435	-	1,884,435
Intergovernmental	61,422,483	14,168,253	75,590,736
Charges for services	3,638,969	8,499,551	12,138,520
Interest and penalties	482,753	-	482,753
Investment income	731,625	1,433	733,058
Fines and forfeitures	291,255	-	291,255
Contributions	-	343,271	343,271
Other revenue	<u>131,046</u>	<u>214,669</u>	<u>345,715</u>
Total Revenues	165,400,603	23,227,177	188,627,780
Expenditures			
Current:			
General government	29,997,680	672,229	30,669,909
Public safety	22,942,185	3,332,292	26,274,477
Education	92,054,305	13,688,644	105,742,949
Public works	7,166,274	104,359	7,270,633
Sanitation	3,626,785	-	3,626,785
Health and human services	1,155,101	1,824,677	2,979,778
Community development	1,434,434	331,692	1,766,126
Culture and recreation	1,316,430	911,048	2,227,478
Debt service:			
Principal	2,515,000	-	2,515,000
Interest	1,615,396	-	1,615,396
Capital outlay	<u>-</u>	<u>3,310,852</u>	<u>3,310,852</u>
Total Expenditures	<u>163,823,590</u>	<u>24,175,793</u>	<u>187,999,383</u>
Excess (Deficiency) of revenues over expenditures	1,577,013	(948,616)	628,397
Other Financing Sources (Uses)			
Deficit note proceeds	4,000,000	-	4,000,000
Transfers in	1,116,101	450,000	1,566,101
Transfers out	<u>(450,000)</u>	<u>(816,101)</u>	<u>(1,266,101)</u>
Total Other Financing Sources (Uses)	<u>4,666,101</u>	<u>(366,101)</u>	<u>4,300,000</u>
Net change in fund balances	6,243,114	(1,314,717)	4,928,397
Fund Balances, at Beginning of Year	<u>930,949</u>	<u>4,654,177</u>	<u>5,585,126</u>
Fund Balances, at End of Year	\$ <u><u>7,174,063</u></u>	\$ <u><u>3,339,460</u></u>	\$ <u><u>10,513,523</u></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, 2019

Net changes in fund balances - total governmental funds	\$ 4,928,397
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	2,617,797
Depreciation	(7,372,489)
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.	(93,718)
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:	
Issuance of Note-payable (long-term)	(4,000,000)
Repayments of debt	2,515,000
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.	(104,358)
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	(465,623)
Landfill liability change	40,000
Net OPEB liability change	(40,830,581)
Net pension liability change	(12,389,000)
OPEB related deferred outflows change	29,990,703
OPEB related deferred inflows change	(9,179)
Pension related deferred outflows change	3,541,000
Pension related deferred inflows change	5,486,000
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.	<u>703,341</u>
Change in net position of governmental activities	<u>\$ (15,354,107)</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, 2019

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues				
Property tax	\$ 88,950,196	\$ 88,950,196	\$ 89,075,465	\$ 125,269
Local revenue	12,681,000	12,681,000	13,898,236	1,217,236
Intergovernmental	51,101,296	51,101,296	51,157,929	56,633
Local option meals tax	981,145	981,145	981,145	-
Other	<u>-</u>	<u>-</u>	<u>331,017</u>	<u>331,017</u>
Total Revenues	153,713,637	153,713,637	155,443,792	1,730,155
Expenditures				
Legislative and administrative	1,746,947	1,822,847	1,760,569	62,278
Financial	1,662,081	1,741,870	1,715,493	26,377
Community development	1,530,680	1,490,680	1,434,434	56,246
Human services	2,694,436	2,704,606	2,633,504	71,102
Public safety	21,718,078	23,431,069	23,159,631	271,438
Public works	6,680,797	6,701,130	6,412,782	288,348
Insurance	15,735,152	15,904,630	15,851,408	53,222
Retirement	11,963,012	11,963,012	11,963,012	-
Sanitation	3,704,500	3,779,500	3,771,052	8,448
Debt service	3,866,119	3,866,119	3,865,552	567
Education	81,243,869	81,338,359	81,296,115	42,244
State assessments	<u>2,776,961</u>	<u>2,776,961</u>	<u>2,797,857</u>	<u>(20,896)</u>
Total Expenditures	<u>155,322,632</u>	<u>157,520,783</u>	<u>156,661,409</u>	<u>859,374</u>
Excess (deficiency) of revenues over expenditures	(1,608,995)	(3,807,146)	(1,217,617)	2,589,529
Other Financing Sources (Uses)				
Transfers in	1,732,160	4,296,456	4,303,902	7,446
Transfers out	(123,165)	(1,804,310)	(1,804,310)	-
Transfer for prior year school deficit	-	4,000,000	4,000,000	-
School deficit spending	-	(3,785,000)	(3,785,000)	-
Use of free cash for:				
City capital projects	-	450,000	-	(450,000)
Police patrolmen	-	400,000	-	(400,000)
Compensated absence reserve	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>(250,000)</u>
Total Other Financing Sources (Uses)	<u>1,608,995</u>	<u>3,807,146</u>	<u>2,714,592</u>	<u>(1,092,554)</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,496,975</u>	\$ <u>1,496,975</u>

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

CITY OF METHUEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2019

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
Assets and Deferred Outflows of Resources		
Assets:		
Current:		
Cash and short-term investments	\$ 5,897,427	\$ 4,275,415
Accrued revenue	-	55,540
User fees receivable	<u>5,552,276</u>	<u>-</u>
Total current assets	11,449,703	4,330,955
Noncurrent:		
Capital assets:		
Nondepreciable capital assets	251,550	-
Other capital assets, net of accumulated depreciation	<u>35,868,192</u>	<u>-</u>
Total noncurrent assets	<u>36,119,742</u>	<u>-</u>
Total Assets	47,569,445	4,330,955
Deferred Outflows of Resources:		
Related to pensions	904,000	-
Related to OPEB	<u>643,518</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>1,547,518</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 49,116,963</u>	<u>\$ 4,330,955</u>
Liabilities, Deferred Inflows of Resources, and Net Position		
Liabilities:		
Current:		
Accounts payable	\$ 167,525	\$ 56,632
Accrued liabilities	319,152	-
Bond anticipation notes	3,740,000	-
Other current liabilities	-	774,730
Current portion of long-term liabilities:		
Bonds and loans payable	<u>1,528,462</u>	<u>-</u>
Total current liabilities	5,755,139	831,362
Noncurrent:		
Bonds and loans payable, net of current portion	12,923,671	-
Net pension liability	6,725,000	-
Net OPEB liability	4,969,235	-
Other liabilities, net of current portion	<u>179,071</u>	<u>-</u>
Total noncurrent liabilities	<u>24,796,977</u>	<u>-</u>
Total Liabilities	30,552,116	831,362
Deferred Inflows of Resources:		
Related to pensions	361,000	-
Net Position:		
Net investment in capital assets	17,954,855	-
Restricted	131,916	-
Unrestricted	<u>117,076</u>	<u>3,499,593</u>
Total Net Position	<u>18,203,847</u>	<u>3,499,593</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 49,116,963</u>	<u>\$ 4,330,955</u>

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

CITY OF METHUEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2019

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
Operating Revenues		
Charges for services	\$ 13,301,581	\$ -
Contributions	-	20,964,750
Permits and fees	<u>206,992</u>	<u>-</u>
Total Operating Revenues	13,508,573	20,964,750
Operating Expenses		
Personal services	4,428,230	-
Materials	2,440,401	-
Depreciation	1,235,354	-
Sanitary district assessment	3,476,699	-
Employee benefits	<u>-</u>	<u>19,961,409</u>
Total Operating Expenses	<u>11,580,684</u>	<u>19,961,409</u>
Operating Income	1,927,889	1,003,341
Nonoperating Revenues (Expenses)		
Investment income	104,531	-
Miscellaneous revenue	34,841	-
Interest expense	<u>(435,649)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(296,277)</u>	<u>-</u>
Income before Transfers	1,631,612	1,003,341
Transfers		
Transfers out	<u>-</u>	<u>(300,000)</u>
Change in Net Position	1,631,612	703,341
Net Position at Beginning of Year, as restated	<u>16,572,235</u>	<u>2,796,252</u>
Net Position at End of Year	\$ <u><u>18,203,847</u></u>	\$ <u><u>3,499,593</u></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, 2019

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
Cash Flows From Operating Activities		
Receipts from customers and users	\$ 12,878,322	\$ -
Employer contributions and stop loss reimbursements	-	14,143,577
Employee contributions	-	6,822,275
Payments of employee salaries, benefits, and related expenses	(4,095,475)	(20,091,279)
Payments to vendors	(2,860,636)	-
Payments to other governments	<u>(3,476,699)</u>	<u>-</u>
Net Cash Provided By Operating Activities	2,445,512	874,573
Cash Flows From Noncapital Financing Activities		
Transfers out	<u>-</u>	<u>(300,000)</u>
Net Cash Used By Noncapital Activities	-	(300,000)
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(2,607,381)	-
Proceeds of bond anticipation notes	3,470,000	-
Payment of bond anticipation notes	(3,470,000)	-
Principal payments on bonds and loans	(1,521,420)	-
Other	34,843	-
Interest expense	<u>(388,540)</u>	<u>-</u>
Net Cash Used By Capital and Related Financing Activities	(4,482,498)	-
Cash Flows From Investing Activities		
Investment income	<u>104,531</u>	<u>-</u>
Net Cash Provided By Investing Activities	104,531	-
Net Change in Cash and Short-Term Investments	(1,932,455)	574,573
Cash and Short-Term Investments, Beginning of Year	<u>7,829,882</u>	<u>3,700,842</u>
Cash and Short-Term Investments, End of Year	\$ <u><u>5,897,427</u></u>	\$ <u><u>4,275,415</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 1,927,889	\$ 1,003,341
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,235,354	-
Changes in assets, deferred outflows and liabilities:		
User fees	(630,251)	-
Other receivables	-	1,102
Deferred outflows - related to pensions	(120,000)	-
Deferred outflows - related to OPEB	(643,518)	-
Accounts payable	(420,235)	(5,509)
Accrued liabilities	3,397	-
Other liabilities	-	(124,361)
Compensated absences	26,041	-
Net pension liability	531,000	-
Net OPEB liability	875,835	-
Deferred inflows - related to pensions	<u>(340,000)</u>	<u>-</u>
Net Cash Provided By Operating Activities	\$ <u><u>2,445,512</u></u>	\$ <u><u>874,573</u></u>

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

CITY OF METHUEN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2019

	Pension and OPEB <u>Trust Funds</u>	Private Purpose Trust <u>Fund</u>	Agency <u>Fund</u>
Assets			
Non-pooled cash and short-term investments	\$ 454,799	\$ 459,229	\$ 185,639
Investments, at fair value:			
PRIT Fund	149,125,908	-	-
Pooled alternative investments	251,737	-	-
Fixed income mutual funds	135,770	-	-
Equity mutual funds	<u>305,757</u>	<u>-</u>	<u>-</u>
Total Investments	149,819,172	-	-
Receivables	<u>79,899</u>	<u>-</u>	<u>-</u>
Total Assets	\$ <u><u>150,353,870</u></u>	\$ <u><u>459,229</u></u>	\$ <u><u>185,639</u></u>
 Liabilities and Net Position			
Liabilities:			
Other liabilities	\$ 31,241	\$ -	\$ <u><u>185,639</u></u>
 Net position:			
Restricted for pension purposes	149,880,216	-	
Restricted for OPEB purposes	442,413	-	
Restricted for other purposes	<u>-</u>	<u>459,229</u>	
Total Net Position	<u><u>150,322,629</u></u>	<u><u>459,229</u></u>	
Total Liabilities and Net Position	\$ <u><u>150,353,870</u></u>	\$ <u><u>459,229</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, 2019

	<u>Pension and OPEB Trust Funds</u>	<u>Private Purpose Trust Fund</u>
Additions		
Contributions:		
Employers	\$ 18,031,597	\$ -
Plan members	3,959,454	-
Commonwealth of Massachusetts and other systems	347,624	-
Other	<u>9,223</u>	<u>34,829</u>
Total contributions	22,347,898	34,829
Investment Income (loss):		
Investment earnings (loss)	(2,790,350)	11,135
Less: management fees	<u>(824,824)</u>	<u>-</u>
Net investment income (loss)	<u>(3,615,174)</u>	<u>11,135</u>
Total additions	18,732,724	45,964
Deductions		
Benefit payments to plan members and beneficiaries	20,300,724	-
Refunds to plan members	188,245	-
Transfers to other systems	244,674	-
Administrative expenses	251,129	-
Other	<u>-</u>	<u>3,250</u>
Total deductions	<u>20,984,772</u>	<u>3,250</u>
Net increase (decrease)	(2,252,048)	42,714
Net position restricted for pensions and other purposes		
Beginning of year	<u>152,574,677</u>	<u>416,515</u>
End of year	\$ <u><u>150,322,629</u></u>	\$ <u><u>459,229</u></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 nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues 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 nonoperating 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 and Other Post-Employment Benefit trust fund accounts for resources for post-employment benefits.
- 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% (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2019 tax levy reflected an excess capacity of approximately \$168,000.

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 5 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</u>	<u>Expenditures</u>	Other Financing Uses <u>Sources/Uses</u>
GAAP Basis	\$ 165,400,603	\$ 163,823,590	\$ 4,666,101
Reverse beginning of year appropriation carryforwards from expenditures	-	(270,489)	-
To book current year appropriation carryforwards	-	980,326	-
To gross up employee benefits grant allocations	(357,446)	-	(357,446)
To gross up indirect fees from the Enterprise fund	-	1,445,305	(1,445,305)
To reverse GASB 85 MTRS on behalf payments made by the State	(9,258,623)	(9,258,623)	-
To adjust for stabilization activity	(415,400)	(109,320)	168,670
Other	<u>74,658</u>	<u>50,620</u>	<u>(317,428)</u>
Budgetary Basis	\$ <u><u>155,443,792</u></u>	\$ <u><u>156,661,409</u></u>	\$ <u><u>2,714,592</u></u>

D. Deficit Fund Equity

The following funds or projects within the funds had deficits as of June 30, 2019:

Nonmajor Governmental Funds:

Grant funds	\$ 594,332
Energy improvements - Ameresco	2,543,505
Departmental equipment	807,050
City Hall Improvements	104,331
Police Outside Detail	<u>359,391</u>
	\$ <u><u>4,408,609</u></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 60% 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, 2019, \$1,548,317 of the City's bank balances of \$30,878,122 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 was invested in the Massachusetts Municipal Depository Trust (MMDT), which is not considered an uncollateralized product under Government Accounting Standards Board (GASB) Statement 40. Per the City's policy, the City may invest in MMDT, U.S. Treasury and Agencies up to one-year maturity, bank accounts and Certificates of Deposits, which are fully insured by FDIC, DIF, SIF or collateralized through a third-party agreement, and certain mutual funds, under Chapter 44, Sec. 55 of MGL, as amended by Chapter 314 of the Acts of 1996. Unsecured deposits are limited to no more than 5% of an institution's assets and no more the 10% of the City's cash. To maintain adequate cash flow, the City's balances as of June 30, 2019 were deposited in MMDT and bank accounts (checking, savings, and money market accounts).

As of December 31, 2018, the System's bank balances of \$499,497 were not exposed to custodial credit risk.

Fair Value of Short Term Investments

The City 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 - OPEB Trust Fund

The following is a summary of the OPEB Trust Fund's investments as of June 30, 2019:

<u>Investment Type</u>	<u>Amount</u>
Equity mutual funds	\$ 305,757
Fixed income mutual funds	<u>135,770</u>
Total investments	<u>\$ 441,527</u>

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. State law employs the prudent person rule whereby investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The OPEB Trust Fund does not have formal investment policies related to credit risk.

Presented below is the actual rating as of year-end for each debt-related investment type of the OPEB Trust Fund. (All federal agency securities have an implied credit rating of AAA.):

<u>Investment Type</u>	<u>Amount</u>	<u>Rating as of Year End</u>			
		<u>AAA - A</u>	<u>BBB-B</u>	<u>< B</u>	<u>Unrated</u>
Fixed income mutual funds	\$ <u>135,770</u>	\$ <u>82,956</u>	\$ <u>43,053</u>	\$ <u>7,522</u>	\$ <u>2,239</u>
Total	\$ <u>135,770</u>	\$ <u>82,956</u>	\$ <u>43,053</u>	\$ <u>7,522</u>	\$ <u>2,239</u>

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 OPEB Trust Fund does not have formal investment policies related to custodial credit risk. The OPEB Trust Fund custodian has Securities Investor Protection Corporation (SIPC) and excess SIPC coverage.

As of June 30, 2019, the OPEB Trust Fund's total investments were held by the OPEB Trust Fund's brokerage firm, which is also the counterparty to these securities. Investments were held by the counterparty's agent in the City's name.

C. Concentration of Credit Risk

The OPEB Trust Fund places no limit on the amount the OPEB Trust Fund may invest in any one issuer. The OPEB Trust Fund does not have formal investment policies related to concentration of credit risk exposure.

Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from concentration of credit disclosure.

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 OPEB Trust Fund does not have formal investment policies limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The OPEB Trust Fund's investments have an average duration of 3.78 years as of June 30, 2019.

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 OPEB Trust Fund does not have formal investment policies related to foreign currency risk.

F. Fair Value

The OPEB Trust Fund 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). The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.

- Level 2 – inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as level 2.
- Level 3 – unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

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 OPEB Plan's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The OPEB Trust Fund has the following fair value measurements as of June 30, 2019:

		Fair Value Measurements Using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<u>Investment Type</u>	<u>Amount</u>			
Investments by fair value level:				
Equity mutual funds	\$ 305,757	\$ 305,757	\$ -	\$ -
Fixed income mutual funds	<u>135,770</u>	-	135,770	-
Total	<u>\$ 441,527</u>			

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features, and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quote prices. Level 2 debt securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market.

5. Investments - Pension Trust Fund (The System)

The following is a summary of the System's investments as of December 31, 2018:

<u>Investment Type</u>	<u>Amount</u>
PRIT	\$ 149,125,908
Pooled alternative investments	<u>251,737</u>
Total investments	<u>\$ 149,377,645</u>

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

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. Massachusetts General Law, Chapter 32, Section 23, limits the investment of 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. PRIT Fund is not rated.

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 System does not have formal investment policies related to custodial credit risk

The System's investments of \$251,737 were exposed to custodial credit risk as uninsured and uncollateralized by the counterparty not in the City's name. Additionally, \$149,125,908 of the System's investments were held in the State investment pool (PRIT).

Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

C. Concentration of Credit Risk

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund. Investments in external investment pools and other pooled investments are excluded from concentration of credit disclosure.

As of December 31, 2018, the System did not have any investments subject to concentration of credit risk.

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 System does not have investments exposed to interest rate risk.

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 System does not have formal investment policies related to foreign currency risk.

F. Fair Value

The System 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 System does not have investments that fall under the level 1, 2, or 3 of fair value hierarchy.

The net asset value (NAV) per share is the amount of net assets attributable to each share of capital stock outstanding at the close of the period. Investments measured at the NAV for fair value are not subject to level classification.

<u>Investment Type</u>	<u>Amount</u>	<u>Unfunded Commitments</u>	<u>Redemption</u>	
			<u>Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
External investment pool	\$ 149,125,908	\$ -	Monthly	30 Days
Pooled alternative investment*	\$ 251,737	\$ -	-	-

**The fair value of this investment has been determined using the NAV per share (or its equivalent) of the System's ownership in partner's capital. Distributions from this fund will be received as the underlying investments of this fund are liquidated. It is expected that the underlying assets of this fund will be liquidated over the next year.*

6. 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, 2019 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	Current Portion	Long- Term Portion
Real estate taxes	\$ 1,448,349	\$ -	\$ 1,448,349	\$ -
Personal property taxes	332,732	245,000	87,732	-
Tax liens	<u>3,070,268</u>	<u>399,000</u>	<u>-</u>	<u>2,671,268</u>
Total property taxes	<u>\$ 4,851,349</u>	<u>\$ 644,000</u>	<u>\$ 1,536,081</u>	<u>\$ 2,671,268</u>
Motor vehicle excise	\$ 1,950,697	\$ 832,000	\$ 1,118,697	
Boat excise	<u>1,974</u>	<u>-</u>	<u>1,974</u>	
Total excises	<u>\$ 1,952,671</u>	<u>\$ 832,000</u>	<u>\$ 1,120,671</u>	

7. 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 lienied in a similar manner as property taxes, described in Note 6.

8. Departmental and Other Receivables

The City's departmental and other receivables at June 30, 2019 consist of the following:

	Fire <u>Ambulance</u>	Police Outside <u>Detail</u>	<u>Other*</u>	<u>Total</u>
Gross	\$ 1,055,137	\$ 376,569	\$ 1,593,986	\$ 3,025,692
Less: Allowance for doubtful accounts	<u>(158,000)</u>	<u>(56,000)</u>	<u>-</u>	<u>(214,000)</u>
Total	<u>\$ 897,137</u>	<u>\$ 320,569</u>	<u>\$ 1,593,986</u>	<u>\$ 2,811,692</u>

*Includes receivable in the Internal Service Fund.

9. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2019.

10. 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.

11. Interfund Transfers

The City reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposed. The following is an analysis of interfund transfers made in fiscal year 2019:

	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Governmental Funds</u>		
General fund	\$ 1,116,101	\$ 450,000
Nonmajor funds:		
Special revenue funds:		
Revolving funds	-	755,931
Other special revenue funds	-	10,170
Expendable trust	-	50,000
Capital project funds:		
General government capital projects	<u>450,000</u>	<u>-</u>
Subtotal nonmajor funds	450,000	816,101
<u>Proprietary Funds</u>		
Internal Service fund	<u>-</u>	<u>300,000</u>
Grand Total	<u>\$ 1,566,101</u>	<u>\$ 1,566,101</u>

Transfers into the general fund represent the annual transfer from the City's MCTV Revolving fund. The \$450,000 transferred out of the general fund represents our funding of capital projects with certified free cash.

12. Capital Assets

Capital asset activity for the year ended June 30, 2019 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, being depreciated:				
Land improvements	\$ 10,373	\$ -	\$ -	\$ 10,373
Construction	213,699	1,136	-	214,835
Infrastructure	34,507	(89)	-	34,418
Machinery and equipment	13,299	838	(138)	13,999
Licensed vehicles	16,838	737	(4,542)	13,033
Total capital assets, being depreciated	288,716	2,622	(4,680)	286,658
Less accumulated depreciation for:				
Land improvements	(6,458)	(322)	-	(6,780)
Construction	(70,833)	(4,430)	-	(75,263)
Infrastructure	(22,323)	(956)	-	(23,279)
Machinery and equipment	(9,393)	(715)	134	(9,974)
Licensed vehicles	(12,147)	(949)	4,542	(8,554)
Total accumulated depreciation	(121,154)	(7,372)	4,676	(123,850)
Total capital assets, being depreciated, net	167,562	(4,750)	(4)	162,808
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	9,255	-	-	9,255
Governmental activities capital assets, net	\$ <u>176,817</u>	\$ <u>(4,750)</u>	\$ <u>(4)</u>	\$ <u>172,063</u>
Business-Type Activities				
Capital assets, being depreciated:				
Land improvements	\$ 272	\$ -	\$ -	\$ 272
Construction	35,684	316	-	36,000
Infrastructure	26,485	1,811	-	28,296
Machinery and equipment	3,303	-	(20)	3,283
Licensed vehicles	1,026	480	(120)	1,386
Total capital assets, being depreciated	66,770	2,607	(140)	69,237
Less accumulated depreciation for:				
Land improvements	(223)	(3)	-	(226)
Construction	(11,290)	(760)	-	(12,050)
Infrastructure	(17,882)	(241)	-	(18,123)
Machinery and equipment	(2,193)	(123)	20	(2,296)
Licensed vehicles	(686)	(108)	120	(674)
Total accumulated depreciation	(32,274)	(1,235)	140	(33,369)
Total capital assets, being depreciated, net	34,496	1,372	-	35,868
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	\$ <u>34,748</u>	\$ <u>1,372</u>	\$ <u>-</u>	\$ <u>36,120</u>

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

Governmental Activities	
General government	\$ 169,677
Public safety	707,493
Education	4,815,906
Public works	1,656,648
Health and human services	15,265
Culture and recreation	<u>7,500</u>
Total governmental activities	<u>\$ 7,372,489</u>
Business-Type Activities	
Enterprise	<u>\$ 1,235,354</u>

13. 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.

14. Warrants and Accounts Payable

Warrants payable represent 2019 expenditures paid by July 15, 2019 as permitted by law. Accounts payable represent additional 2019 expenditures paid after July 15, 2019.

15. Accrued Liabilities

The City had the following accrued liabilities as of June 30, 2019:

	Governmental Activities	Business-Type Activities
Salaries and wages	\$ 1,054,332	\$ 63,706
Interest on debt	694,038	231,285
Tailings	<u>201,195</u>	<u>24,161</u>
Total accrued liabilities	<u>\$ 1,949,565</u>	<u>\$ 319,152</u>

16. Bond Anticipation Notes Payable

The City had the following note outstanding at June 30, 2019:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/19</u>
Bond anticipation note	3.00%	09/28/18	09/27/19	\$ 9,988,753

The following summarizes activity in notes payable during fiscal year 2019:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Departmental equipment	\$ 1,260,000	\$ 1,260,000	\$ (1,260,000)	\$ 1,260,000
City Hall renovation	2,350,000	2,350,000	(2,350,000)	2,350,000
School energy efficiency improvements	2,638,753	2,638,753	(2,638,753)	2,638,753
Water system improvements	3,740,000	3,740,000	(3,740,000)	3,740,000
	<u>\$ 9,988,753</u>	<u>\$ 9,988,753</u>	<u>\$ (9,988,753)</u>	<u>\$ 9,988,753</u>

17. Other Current Liabilities

Other current liabilities as of June 30, 2019 consist of the following:

	<u>Governmental Activities</u>
IBNR (see Note 27)	\$ 774,730
Employee withholdings and other	<u>61,799</u>
Total other current liabilities	<u>\$ 836,529</u>

18. 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.

Governmental activities also include a general obligation state qualified deficit financing bond anticipation note pursuant to Chapter 278 of the Acts of 2018 approved in November 2018 and renewed in September 2019. The City expects to renew this note until permanently financed or paid off through annual appropriations and therefore, the note is presented as long-term note.

B. General Obligation Bonds and Other Long-Term Debt

General obligation bonds and loans currently outstanding are as follows:

	Original Issue Amount	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of 6/30/19
<u>Governmental Activities</u>				
Library	\$ 4,800,000 *	10/15/19	5.00%	\$ 250,000
Landfill Closure	85,000	09/01/21	3.91%	15,000
Road and Surface Drains	3,500,000	08/15/22	4.30%	135,000
High School	35,585,000	09/01/43	variable	32,105,000
Departmental Equipment	5,713,000	09/01/22	variable	2,935,000
Dileo Judgment	594,000	09/01/29	variable	410,000
Athletic Facilities Projects	2,583,000	09/01/30	variable	2,275,000
Energy Efficiency Improvements	3,400,000	09/01/36	variable	3,200,000
Subtotal bonds				41,325,000
State Qualified Deficit Bond Financing	4,000,000	09/01/20	3.00%	4,000,000
Total Governmental Activities				<u>\$ 45,325,000</u>

*Partially refunded, original amount shown.

	Original Issue Amount	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of 6/30/19
<u>Business-Type Activities</u>				
Water Distribution System	700,000	08/15/27	4.16%	\$ 390,000
Water Treatment Plant	1,250,000	08/15/27	4.16%	685,000
Subtotal bonds				1,075,000
Storm Water Management (MWPAT)	\$ 468,063 *	08/01/23	variable	145,389
Water Distribution System (MWPAT)	5,786,500 *	07/15/25	2.00%	2,302,475
Water Distribution System (MWPAT)	18,550,000 *	07/15/27	2.00%	9,282,596
Storm Water Management (MWPAT)	200,000 *	07/15/27	2.00%	93,040
Water Tank (MWPAT)	750,000 *	07/15/27	2.00%	244,976
Sewer Rehabilitation and Replacement (MWPAT)	1,117,204 *	07/15/28	2.00%	582,814
Storm Water Management (MWPAT)	12,243	07/15/27	2.00%	6,996
Water Treatment Plant Improvement (MWPAT)	650,000	07/15/30	2.00%	404,816
Sewer Rehabilitation (MWPAT)	452,604	07/15/32	2.00%	314,031
Subtotal direct borrowings				<u>13,377,133</u>
Total Business-Type Activities				<u>\$ 14,452,133</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, 2019 are as follows:

		<u>Bonds</u>	
<u>Governmental</u>	<u>Principal</u>		<u>Interest</u>
2020	\$ 2,716,000	\$	1,512,046
2021	5,769,000		1,447,501
2022	2,125,000		1,250,906
2023	1,905,000		1,168,756
2024	1,975,000		1,094,538
2025 - 2029	9,825,000		4,398,219
2030 - 2034	9,525,000		2,910,738
2035 - 2039	7,085,000		1,445,972
2040 - 2044	4,400,000		313,200
Total	\$ 45,325,000	\$	15,541,876

<u>Business-Type</u>	<u>Bonds</u>		<u>Loans - Direct Borrowing</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 100,000	\$ 42,495	\$ 1,428,462	\$ 271,262
2021	110,000	38,240	1,456,480	240,078
2022	110,000	33,730	1,484,837	208,539
2023	115,000	29,118	1,513,517	176,548
2024	120,000	24,300	1,542,972	144,253
2025 - 2029	520,000	44,730	5,776,932	261,622
2030 - 2034	-	-	173,933	5,946
Total	\$ 1,075,000	\$ 212,613	\$ 13,377,133	\$ 1,308,248

D. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2019 are as follows:

<u>Date</u>	<u>Purpose</u>	<u>Amount</u>
07/05/06	Sewer rehab and East Capital St. project	\$ 202,796
11/03/10	Sewer system rehab projects	146,795
10/02/14	Energy efficiency improvements	338,279
10/05/17	Water system improvements	9,485,000
Total		\$ 10,172,870

E. Changes in Long-Term Liabilities

During the year ended June 30, 2019, the following changes occurred in long-term liabilities (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Less Current Portion	Equals Long-Term Portion
Governmental Activities						
General obligation debt	\$ 43,840	\$ -	\$ (2,515)	\$ 41,325	\$ (2,330)	\$ 38,995
Unamortized bond premium	<u>1,352</u>	<u>-</u>	<u>(89)</u>	<u>1,263</u>	<u>(89)</u>	<u>1,174</u>
Subtotal	45,192	-	(2,604)	42,588	(2,419)	40,169
Note payable	-	4,000	-	4,000	(386)	3,614
Net pension liability	108,098	12,389	-	120,487	-	120,487
Net OPEB liability	190,831	40,830	-	231,661	-	231,661
Other:						
Landfill closure	400	-	(40)	360	(40)	320
Accrued employee benefits	<u>6,640</u>	<u>3,656</u>	<u>(3,190)</u>	<u>7,106</u>	<u>(3,553)</u>	<u>3,553</u>
Subtotal	<u>7,040</u>	<u>3,656</u>	<u>(3,230)</u>	<u>7,466</u>	<u>(3,593)</u>	<u>3,873</u>
Totals	<u>\$ 351,161</u>	<u>\$ 60,875</u>	<u>\$ (5,834)</u>	<u>\$ 406,202</u>	<u>\$ (6,398)</u>	<u>\$ 399,804</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Less Current Portion	Equals Long-Term Portion
Business-Type Activities						
General obligation debt	\$ 1,175	\$ -	\$ (100)	\$ 1,075	\$ (100)	\$ 975
MWPAT direct borrowings	14,798	-	(1,421)	13,377	(1,428)	11,949
Net pension liability	6,194	531	-	6,725	-	6,725
Net OPEB liability	4,093	876	-	4,969	-	4,969
Other:						
Accrued employee benefits	<u>153</u>	<u>164</u>	<u>(138)</u>	<u>179</u>	<u>-</u>	<u>179</u>
Totals	<u>\$ 26,413</u>	<u>\$ 1,571</u>	<u>\$ (1,659)</u>	<u>\$ 26,325</u>	<u>\$ (1,528)</u>	<u>\$ 24,797</u>

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

19. 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 \$360,000 is reported as landfill postclosure care liability at June 30, 2019. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

20. 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 22.

Deferred inflows of resources at June 30, 2019 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.

21. 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, 2019:

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.

Committed – This fund balance classification includes general fund stabilization accounts established by City Council and dedicated for specific purposes.

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, 2019:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Nonspendable			
Nonexpendable perpetual care			
permanent fund	\$ -	\$ 417,055	\$ 417,055
Total Nonspendable	-	417,055	417,055
Restricted			
Bonded projects:			
School renovation	-	278,850	278,850
Other bonded projects	-	55,277	55,277
Special revenue funds:			
Revolving fund - MPS before and			
after school program	-	494,222	494,222
Revolving fund - MCTV	-	584,882	584,882
Revolving fund - MCTV/Comcast	-	112,551	112,551
Revolving fund - MCTV/Verizon	-	298,155	298,155
Revolving fund - state SPED			
reimbursement	-	1,036,644	1,036,644
Revolving fund - building safety			
task force	-	273,412	273,412
Revolving funds - all remaining	-	726,037	726,037
State grants - Rail trail	-	831,119	831,119
State grants - Smart growth	-	332,570	332,570
State grants - all remaining	-	195,454	195,454
Federal grants - all remaining	-	237,062	237,062
School lunch	-	477,181	477,181
Other special revenue funds	-	273,469	273,469
Expendable special revenue trust fund	-	485,739	485,739
Other special revenue trust fund	-	88,390	88,390
Chapter 278 of the Acts of 2018	215,000	-	215,000
Total Restricted	215,000	6,781,014	6,996,014
Committed			
Stadium improvement capital project	-	100,000	100,000
General government capital projects	-	450,000	450,000
Public safety stabilization	480,393	-	480,393
Compensated absences stabilization	141,627	-	141,627
Total Committed	622,020	550,000	1,172,020
Assigned			
Encumbrances:			
General government	82,766	-	82,766
Public safety	230,652	-	230,652
Education	361,155	-	361,155
Public works	305,753	-	305,753
Total Assigned	980,326	-	980,326
Unassigned - general stabilization	1,673,565	-	1,673,565
Unassigned	3,683,152		3,683,152
Deficits	-	(4,408,609)	(4,408,609)
Total Unassigned	5,356,717	(4,408,609)	948,108
Total Fund Balance	\$ 7,174,063	\$ 3,339,460	\$ 10,513,523

22. 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/terminated plan members entitled to but not yet receiving benefits	90
Inactive members with a vested right to a deferred or immediate benefit	15
Active plan members	<u>651</u>
Total	<u><u>1,205</u></u>
Number of participating employers	2

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.

Participant Retirement Benefits

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.

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest 5-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%, 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.

There are four classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the Massachusetts State Police. The other three classes are as follows:

- Group 1 – General employees, including clerical, administrative, technical, and all other employees not otherwise classified.
- Group 2 – Certain specified hazardous duty positions.
- Group 4 – Police officers, firefighters, and other specified hazardous positions.

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.

Methods of Payment

A member may elect to receive his or her retirement allowance in one of three forms of payment as follows:

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the members death.
- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.
- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the

allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

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%.

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, 2019 was \$11,963,012, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended June 30, 2019 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. 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.

Investments

Investment Policy

Investments are reported at fair value in accordance with PERAC requirements. System assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

Rate of Return

For the year ended December 31, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was (2.36)%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

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 fiduciary net position of the System and additions to/deductions from System's fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

C. Net Pension Liability of Participating Employers

The net pension liability was based on an actuarial valuation dated January 1, 2018 rolled forward to December 31, 2018.

Net Pension Liability of Employers

The components of the net pension liability of the participating employers at June 30, 2019 were as follows:

Total pension liability	\$ 280,716,000
Plan fiduciary net position	<u>149,880,000</u>
Employers' net pension liability	<u><u>\$ 130,836,000</u></u>
Plan fiduciary net position as a percentage of total pension liability	53.4%

D. 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.

E. 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>
Domestic Equity	17.50%	7.62%
International Equities	15.50%	7.80%
Emerging International Equities	6.00%	9.31%
Subtotal Global Equity	39.00%	
Core Bonds	5.00%	4.37%
20+ Yr. Treasury STRIPS	2.00%	3.50%
TIPS	5.00%	4.00%
Subtotal Core Fixed Income	12.00%	
Value-Added Fixed Income	10.00%	7.58%
Private Equity	12.00%	11.15%
Real Estate	10.00%	6.59%
Timberland	4.00%	7.00%
Portfolio Completion (PCS)	13.00%	6.83%
Grand Total	100.00%	8.10%

F. 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.

G. 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%, 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 one percentage-point lower or one percentage-point higher than the current rate (in thousands):

1% Decrease (6.35%)	Current Discount Rate (7.35%)	1% Increase (8.35%)
\$ 158,114,454	\$ 127,212,000	\$ 101,008,358

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

At June 30, 2019, the City reported a liability of \$127,212,000 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018, 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, 2019, the City's proportion was 97.23%.

For the year ended June 30, 2019, the City recognized pension expense of approximately \$15,381,000. In addition, the City reported deferred outflows and (inflows) of resources related to pension from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred (Inflows) of <u>Resources</u>
Net difference between projected and actual investment earnings on pension plan investments	\$ 5,944,000	\$ -
Difference between expected and actual experience	289,000	-
Change in assumption	9,647,000	-
Change in proportion	<u>2,049,000</u>	<u>(1,959,000)</u>
Total	\$ <u>17,929,000</u>	\$ <u>(1,959,000)</u>

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

Year ended June 30:	Deferred Outflows (Inflows) of Resources
2020	\$ 4,773,000
2021	3,328,000
2022	3,292,000
2023	4,612,000
2024	<u>(35,000)</u>
Total	<u>\$ 15,970,000</u>

23. 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 3-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the

basis of the last 5 years or any 5 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 10 years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 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, 2018 measurement date was determined by an actuarial valuation as of January 1, 2018 rolled forward to June 30, 2018. This valuation used the following assumptions:

- (a) 7.35% 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.

E. Target Allocations

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, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	39.00%	5.00%
Portfolio completion strategies	13.00%	3.70%
Core fixed income	12.00%	0.90%
Private equity	12.00%	6.60%
Real estate	10.00%	3.80%
Value added fixed income	10.00%	3.80%
Timber/natural resources	4.00%	3.40%
Total	<u>100.00%</u>	

F. 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 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.

G. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. 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):

1% Decrease to 6.35%	Current Discount Rate 7.35%	1% Increase to 8.35%
\$ 29,482,300	\$ 23,711,289	\$ 18,771,300

H. 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* 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.

I. City Proportions

In fiscal year 2018 (the most recent measurement period), the City's proportionate share of the MTRS' collective net pension liability was approximately \$166,973,472 based on a proportionate share of 0.704194%. As required by GASB 68, the City has recognized its portion of the Commonwealth's contribution of approximately \$9,258,623 as both a revenue and expenditure in the general fund, and its portion of the collective pension expense of approximately \$16,920,344 as both a revenue and expense in the governmental activities.

24. 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, 2019.

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, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefit payments	1,153
Active employees	<u>953</u>
Total	<u><u>2,106</u></u>

Funding Policy

The City's funding policy includes financing the implicit subsidy on a pay-as-you-go basis, as required by statute. Additional contributions are based on annual budget limitations/authorizations.

B. Actuarial Assumptions and Other Inputs

The net OPEB liability was determined by an actuarial valuation as of July 1, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified and displayed in Note 25.

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, 2019, were as follows:

Total OPEB liability	\$ 237,072,636
Plan fiduciary net position	<u>442,413</u>
Net OPEB liability	<u><u>\$ 236,630,223</u></u>

The fiduciary net position has been determined on the same basis used by the OPEB Plan. For this purpose, the Plan recognizes benefit payments when due and payable.

E. Changes in the Net OPEB Liability

The following summarizes the changes in the net OPEB liability for the past year.

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances, beginning of year	\$ 195,341,862	\$ 418,055	\$ 194,923,807
Changes for the year:			
Service cost	3,846,227	-	3,846,227
Interest	7,353,031	-	7,353,031
Contributions - employer	-	5,750,397	(5,750,397)
Net investment income (loss)	-	24,358	(24,358)
Differences between expected and actual experience	36,803,747	-	36,803,747
Benefit payments	<u>(6,272,231)</u>	<u>(5,750,397)</u>	<u>(521,834)</u>
Net Changes	<u>41,730,774</u>	<u>24,358</u>	<u>41,706,416</u>
Balances, end of year	<u><u>\$ 237,072,636</u></u>	<u><u>\$ 442,413</u></u>	<u><u>\$ 236,630,223</u></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:

1% <u>Decrease</u>	Current Discount <u>Rate</u>	1% <u>Increase</u>
\$ 286,038,294	\$ 236,630,223	\$ 198,823,979

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:

<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
\$ 197,930,163	\$ 236,630,223	\$ 287,890,247

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

For the year ended June 30, 2019, the City recognized an OPEB expense of \$17,348,254. At June 30, 2019, the City reported deferred outflows and (inflows) of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Difference between expected and actual experience	\$ 30,638,965	\$ -
Net difference between projected and actual OPEB investment earnings	<u>4,744</u>	<u>(9,179)</u>
Total	<u>\$ 30,643,709</u>	<u>\$ (9,179)</u>

Other 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>	
2020	\$ 6,164,673
2021	6,164,673
2022	6,162,301
2023	6,163,045
2023	<u>5,979,838</u>
Total	<u>\$ 30,634,530</u>

25. 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, 2019.

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, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 5.8%. 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, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method	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	5% for 2019, 4.5% 2020+
Retirees' share of benefit-related costs	21% - 36.5%
Participation rate	95 of future retiree teachers are assumed to participate in the retiree medical plan, 95% of future non-teacher retirees are expected to participate in the retiree medical plan and 80% of future retirees are expected to elect life insurance

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 5 years for males and 3 for females, fully generational. Mortality for retired members for Group 4 is represented by the RP-2014 Blue Collar Mortality Table set forward 3 years for males and 6 for females, fully generational. Mortality for disabled members for Group 1 and 2 is represented

by the RP-2000 Mortality Table set forward 6 years. Mortality for disabled members for Group 4 is represented by the RP-2000 Mortality Table set forward 2 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, 2019.

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, 2019, were as follows:

Total OPEB liability	\$ 237,072,636
Plan fiduciary net position	<u>442,413</u>
Net OPEB liability	<u><u>\$ 236,630,223</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.19%

26. Consolidation of Pension and OPEB Trust Funds

The Methuen Contributory Retirement System and the Methuen OPEB Trust Fund are presented in a single column in the accompanying fiduciary fund financial statements. Details of the financial position and changes in net position are as follows:

	Pension Trust Fund (December 31, 2018)	Other Post-Employment Benefits Trust Fund	Pension and OPEB Trust Funds
Assets			
Non-pooled cash and short term investments	\$ 453,913	\$ 886	\$ 454,799
Investments, at fair value			
PRIT Fund	149,125,908	-	149,125,908
Pooled alternative	251,737	-	251,737
Fixed income mutual funds	-	135,770	135,770
Equity mutual fund	-	305,757	305,757
Accounts receivable	79,899	-	79,899
Total Assets	149,911,457	442,413	150,353,870
Liabilities			
Other liabilities	31,241	-	31,241
Total Liabilities	31,241	-	31,241
Net Position			
Restricted for pensions	149,880,216	-	149,880,216
Restricted for OPEB purposes	-	442,413	442,413
Total Net Position	\$ 149,880,216	\$ 442,413	\$ 150,322,629
Additions			
Contributions:			
Employers	\$ 12,281,200	\$ 5,750,397	\$ 18,031,597
Plan members	3,959,454	-	3,959,454
Other systems and Commonwealth of Massachusetts	347,624	-	347,624
Other	9,223	-	9,223
Total contributions	16,597,501	5,750,397	22,347,898
Investment Income (Loss):			
Investment income	(2,814,708)	24,358	(2,790,350)
Less: management fees	(824,824)	-	(824,824)
Net investment income (loss)	(3,639,532)	24,358	(3,615,174)
Total additions	12,957,969	5,774,755	18,732,724
Deductions			
Benefit payments to plan members and beneficiaries	14,550,327	5,750,397	20,300,724
Refunds to plan members	188,245	-	188,245
Transfers to other systems	244,674	-	244,674
Administrative expenses	251,129	-	251,129
Total deductions	15,234,375	5,750,397	20,984,772
Net increase (decrease)	(2,276,406)	24,358	(2,252,048)
Net position restricted for pensions and OPEB purposes			
Beginning of year	152,156,622	418,055	152,574,677
End of year	\$ 149,880,216	\$ 442,413	\$ 150,322,629

27. 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, 2019 are as follows:

	Year Ended <u>June 30, 2019</u>	Year Ended <u>June 30, 2018</u>
Unpaid claims, beginning of fiscal year	\$ 899,091	\$ 1,130,238
Claims incurred (including IBNRs)	19,961,409	19,374,834
Claims paid	<u>(20,085,770)</u>	<u>(19,605,981)</u>
Unpaid claims, end of fiscal year	\$ <u>774,730</u> *	\$ <u>899,091</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.

28. Deficit Financing (Chapter 278 of the Acts of 2018)

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."

29. Commitments and Contingencies

Outstanding Legal Issues - On an ongoing basis, there are typically pending legal issues in which the City is involved. In Methuen Police Superior Officers' Assoc. Local 17 v. City of Methuen, AAA Case 01-19-0001-3281, an arbitration hearing is pending with the Superior Officers Union regarding alleged wages that are not being paid. An arbitration hearing is currently scheduled for March 9th, 10th, and 11th, 2020 and the City is arguing on numerous legal, equitable, municipal finance and municipal contracting authority grounds that said contract is invalid and unenforceable. A complaint has also been filed with the Ethics Commission seeking to invalidate the contract and is pending. If the Arbitrator ruled in favor of the Union completely, the potential damages could far exceed \$2,000,000. The City cannot determine the likelihood of the outcome at this time.

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.

Encumbrances – At year-end the City's general fund has \$980,326 in encumbrances that will be honored in the next fiscal year.

30. Tax Abatement Agreements

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

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

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

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

- Will be consistent with the City's economic development objectives

- Has the means to undertake and complete the proposed project
- Will have a reasonable chance of increasing or retaining employment opportunities as advanced in the proposal
- Will not overburden the municipality's infrastructure and other supporting resources
- A description of the local tax incentive together with a copy of the fully executed tax increment financing agreement.

Property tax revenues were reduced by \$140,553 under agreements entered into by the City during fiscal year 2019.

31. Subsequent Events

Deficit Financing

On September 3, 2019, the City paid the \$4,000,000 bond anticipation note related to deficit spending and re-issued a BAN (one year) for \$3,614,000.

Other Debt Issuances

On September 28, 2019, the City issued \$9,988,753 general obligation bond anticipation notes maturing on September 27, 2020 with an interest rate of 2.0% to refund the bond anticipation notes discussed in Note 16. Subsequent to year-end, the City acquired Reading Curriculum for \$634,388 through a capital lease financing agreement to be repaid over 6 years. The City also acquired Chromebooks for \$666,421 through a capital financing agreement to be repaid over 4 years.

32. Beginning Net Position Restatement

The beginning (July 1, 2018) net position of the City has been restated as follows:

		Business- Type Activities
	Governmental Activities	Enterprise Fund
As previously reported	\$ (144,060,969)	\$ 16,696,664
Restate GASB 75 Measurement date	<u>(5,800,770)</u>	<u>(124,429)</u>
As restated	<u>\$ (149,861,739)</u>	<u>\$ 16,572,235</u>

33. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 84, *Fiduciary Activities*, effective for the City beginning with its fiscal year ending June 30, 2020. This statement establishes guidance on how to address the categorization of fiduciary activities for financial reporting and how fiduciary activities are to be reported, and may require reclassification of certain funds.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 87, *Leases*, effective for the City beginning with its fiscal year ending June 30, 2021. This statement establishes new reporting and disclosure requirements, including the recording of various operating leases in the financial statements.

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

JUNE 30, 2019

(in thousands)
(Unaudited)

Methuen Contributory Retirement System						
<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2019	December 30, 2018	97.23%	\$127,212	\$ 36,610	347.48%	53.4%
June 30, 2018	December 30, 2017	97.42%	\$114,292	\$ 43,169	264.75%	56.5%
June 30, 2017	December 30, 2016	97.38%	\$116,883	\$ 43,400	269.32%	51.8%
June 30, 2016	December 30, 2015	97.03%	\$107,992	\$ 41,242	261.85%	51.6%
June 30, 2015	December 30, 2014	96.81%	\$101,811	\$ 40,441	251.75%	51.6%

Massachusetts Teachers' Retirement System								
<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the City</u>	<u>Total Net Pension Liability Associated with the City</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2019	June 30, 2018	0.70%	\$ -	\$ 166,973	\$ 166,973	\$ 45,676	0%	54.84%
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 See Independent Auditors' Report.

CITY OF METHUEN, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

JUNE 30, 2019

(in thousands)
(Unaudited)

Methuen Contributory Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution Provided by Commonwealth</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2019	December 31, 2018	\$ 11,963	\$ 11,963	-	\$ 36,610	32.68%
June 30, 2018	December 31, 2017	\$ 11,415	\$ 11,415	-	\$ 43,169	26.44%
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>	<u>Contractually Required Contribution Provided by Commonwealth</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2019	June 30, 2018	\$ 16,920	\$ 16,920	\$ -	\$ 45,676	37.04%
June 30, 2018	June 30, 2017	\$ 17,143	\$ 17,143	\$ -	\$ 46,883	36.57%
June 30, 2017	June 30, 2016	\$ 16,808	\$ 16,808	\$ -	\$ 46,472	36.17%
June 30, 2016	June 30, 2015	\$ 12,212	\$ 12,212	\$ -	\$ 45,475	26.85%
June 30, 2015	June 30, 2014	\$ 8,081	\$ 8,081	\$ -	\$ 45,376	17.81%

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
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY (GASB 67)

	(in thousands) (Unaudited)				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability					
Service cost	\$ 5,918	\$ 5,610	\$ 5,368	\$ 4,802	\$ 4,595
Interest on unfunded liability - time value of \$	19,713	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>(14,391)</u>	<u>(13,884)</u>	<u>(12,656)</u>	<u>(11,970)</u>	<u>(11,297)</u>
Net change in total pension liability	11,240	20,598	18,815	9,810	9,546
Total pension liability - beginning	<u>269,476</u>	<u>248,878</u>	<u>230,063</u>	<u>220,253</u>	<u>210,707</u>
Total pension liability - ending (a)	280,716	269,476	248,878	230,063	220,253
Plan Fiduciary Net Position					
Contributions - employer	12,281	11,701	11,147	10,623	9,834
Contributions - member	3,715	3,810	3,022	3,495	3,041
Net investment income	(3,639)	21,886	8,780	1,791	8,330
Benefit payments, including refunds of member contributions	(14,391)	(13,884)	(12,656)	(11,970)	(11,297)
Administrative expense	(251)	(209)	(210)	(263)	(160)
Other	<u>8</u>	<u>3</u>	<u>2</u>	<u>2</u>	<u>29</u>
Net change in plan fiduciary net position	(2,277)	23,307	10,085	3,678	9,777
Plan fiduciary net position - beginning	<u>152,157</u>	<u>128,850</u>	<u>118,765</u>	<u>115,087</u>	<u>105,310</u>
Plan fiduciary net position - ending (b)	<u>149,880</u>	<u>152,157</u>	<u>128,850</u>	<u>118,765</u>	<u>115,087</u>
Net pension liability - ending (a-b)	<u>\$ 130,836</u>	<u>\$ 117,319</u>	<u>\$ 120,028</u>	<u>\$ 111,298</u>	<u>\$ 105,166</u>

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

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

See Independent Auditors' Report.

METHUEN CONTRIBUTORY RETIREMENT SYSTEM
CITY OF METHUEN, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF NET PENSION LIABILITY, CONTRIBUTIONS, AND INVESTMENT RETURNS (GASB 67 AND 68)

(in thousands)
(Unaudited)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Schedule of Net Pension Liability					
Total pension liability	\$ 280,716	\$ 269,476	\$ 248,878	\$ 230,063	\$ 220,253
Plan fiduciary net position	<u>149,880</u>	<u>152,157</u>	<u>128,850</u>	<u>118,765</u>	<u>115,087</u>
Net pension liability (asset)	<u>\$ 130,836</u>	<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	53.4%	56.5%	51.8%	51.6%	52.3%
Covered payroll	\$ 36,394 *	\$ 36,394	\$ 34,459	\$ 32,256	\$ 32,256
Participating employer net pension liability (asset) as a percentage of covered employee payroll	359.5%	322.4%	348.3%	345.0%	326.0%

**Reflects compensation in January 1, 2018 actuarial valuation.*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Schedule of Contributions					
Contractually required contribution	\$ 12,281	\$ 11,701	\$ 11,147	\$ 10,623	\$ 9,834
Contributions in relation to the contractually required contribution	<u>12,281</u>	<u>11,701</u>	<u>11,147</u>	<u>10,623</u>	<u>9,834</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 36,394	\$ 36,394	\$ 34,459	\$ 32,256	\$ 32,256
Contributions as a percentage of covered payroll	33.7%	32.2%	32.3%	32.9%	30.5%

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Schedule of Investment Returns					
<i>Year ended December 31</i>					
Annual money weighted rate of return, net of investment expense	-2.36%	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)
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY (GASB 74 AND 75)

(Unaudited)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability			
Service cost	\$ 3,846,227	\$ 3,255,128	\$ 3,114,955
Interest on unfunded liability - time value of \$	6,831,197	6,904,056	6,695,955
Changes of benefit terms	-	-	-
Differences between expected and actual experience	36,803,747	-	-
Changes of assumptions	-	-	-
Benefit payments, including refunds of member contributions	<u>(5,750,397)</u>	<u>(4,215,286)</u>	<u>(4,033,766)</u>
Net change in total OPEB liability	41,730,774	5,943,898	5,777,144
Total OPEB liability - beginning	<u>195,341,862</u>	<u>189,397,964</u>	<u>183,620,820</u>
Total OPEB liability - ending (a)	237,072,636	195,341,862	189,397,964
Plan Fiduciary Net Position			
Contributions - employer	5,750,397	4,215,286	4,233,766
Contributions - member	-	-	-
Net investment income	24,358	18,699	(644)
Benefit payments, including refunds of member contributions	(5,750,397)	(4,215,286)	(4,033,766)
Administrative expense	-	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	24,358	18,699	199,356
Plan fiduciary net position - beginning	<u>418,055</u>	<u>399,356</u>	<u>200,000</u>
Plan fiduciary net position - ending (b)	<u>442,413</u>	<u>418,055</u>	<u>399,356</u>
Net OPEB liability - ending (a-b)	<u>\$ 236,630,223</u>	<u>\$ 194,923,807</u>	<u>\$ 188,998,608</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.187%	0.214%	0.211%
Covered employee payroll	\$ 79,582,913	\$ 76,891,704	\$ 74,291,502
Net OPEB liability as a percentage of covered employee payroll	297.3%	253.5%	254.4%

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)
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF CONTRIBUTIONS, AND INVESTMENT RETURNS (GASB 74)

(Unaudited)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Schedule of Contributions			
Actuarially determined contribution	\$ 13,563,662	\$ 12,871,991	\$ 12,180,320
Contributions in relation to the actuarially determined contribution*	<u>5,750,397</u>	<u>4,215,286</u>	<u>4,233,766</u>
Contribution deficiency (excess)	<u>\$ 7,813,265</u>	<u>\$ 8,656,705</u>	<u>\$ 7,946,554</u>
 Covered employee payroll	 79,582,913	 76,891,704	 74,291,502
Contributions as a percentage of covered employee payroll	7.226%	5.482%	5.699%

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Schedule of Investment Returns			
Annual money weighted rate of return, net of investment expense	5.8%	4.6%	-0.3%

*Estimated and includes only the implicit subsidy, which is required to be grossed up by GASB 74, and not an amount required to fully fund the plan over time.

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

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

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