

CITY OF METHUEN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2013

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MELANSON HEATH & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Methuen, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Methuen, Massachusetts, as of and for the year ended June 30, 2013, (except for the Methuen Contributory Retirement System, which is as of and for the year ended December 31, 2012) 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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

Melanson, Heath + Company P.C.

Andover, Massachusetts
March 28, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Methuen, we offer readers this narrative overview and analysis of the financial activities of the City of Methuen for the fiscal year ended June 30, 2013.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, highways and streets, sanitation, economic development, 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 funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. 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.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail.

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

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$76,186,356 (i.e., net position), a change of \$20,983,812 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances (deficit) of \$(8,254,360), a change of \$(7,579,852) in comparison to the prior year. The governmental funds deficit is primarily the result of the High School Revitalization major fund's \$15,000,000 bond anticipation note, and will be eliminated when permanently financed.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,987,359, a change of \$533,420 in comparison to the prior year.
- Total bonds and loans payable, including unamortized premium at the close of the current fiscal year were \$58,153,162, a change of \$3,571,489 in comparison to the prior year.
- Total notes payable at the close of the current fiscal year were \$15,000,000, a change of \$4,200,000 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

The largest portion of net position \$101,832,619 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 \$8,458,698 represents resources that are subject to external restrictions on how they may be used. The remaining amount is a deficit of \$(34,104,961).

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

Summary of Net Position (000s)						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 31,562	\$ 26,331	\$ 10,231	\$ 10,157	\$ 41,793	\$ 36,488
Capital assets	<u>136,770</u>	<u>93,758</u>	<u>37,822</u>	<u>38,915</u>	<u>174,592</u>	<u>132,673</u>
Total assets	<u>168,332</u>	<u>120,089</u>	<u>48,053</u>	<u>49,072</u>	<u>216,385</u>	<u>169,161</u>
Deferred outflows of resources	<u>281</u>	<u>422</u>	<u>-</u>	<u>-</u>	<u>281</u>	<u>422</u>
Total assets and deferred outflows or resources	168,613	120,511	48,053	49,072	216,666	169,583
Long-term liabilities	86,079	71,387	24,752	26,009	110,831	97,396
Other liabilities	<u>29,103</u>	<u>16,431</u>	<u>546</u>	<u>554</u>	<u>29,649</u>	<u>16,985</u>
Total liabilities	<u>115,182</u>	<u>87,818</u>	<u>25,298</u>	<u>26,563</u>	<u>140,480</u>	<u>114,381</u>
Net position:						
Net investment in capital assets	87,380	56,928	14,452	14,120	101,832	71,048
Restricted	7,500	8,305	959	811	8,459	9,116
Unrestricted	<u>(41,449)</u>	<u>(32,540)</u>	<u>7,344</u>	<u>7,578</u>	<u>(34,105)</u>	<u>(24,962)</u>
Total net position	\$ <u>53,431</u>	\$ <u>32,693</u>	\$ <u>22,755</u>	\$ <u>22,509</u>	\$ <u>76,186</u>	\$ <u>55,202</u>

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

Summary of Changes in Net Position (000s)

	<u>Governmental</u>		<u>Business-Type</u>		<u>Totals</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program revenues						
Charges for services	\$ 9,351	\$ 8,698	\$ 10,502	\$ 10,908	\$ 19,853	\$ 19,606
Operating grants and contributions	60,225	60,583	11	122	60,236	60,705
Capital grants and contributions	991	2,325	-	-	991	2,325
General revenues						
Property Taxes	67,780	64,458	-	-	67,780	64,458
Excises	5,020	4,731	-	-	5,020	4,731
Local option meals tax	580	-	-	-	580	-
Interest and Penalties	511	408	-	-	511	408
Grants and contributions not restricted to specific programs	36,944	14,108	-	-	36,944	14,108
Investment income	31	11	10	5	41	16
Other	559	447	-	-	559	447
Total revenues	181,992	155,769	10,523	11,035	192,515	166,804
Expenses:						
General government	16,200	14,573	-	-	16,200	14,573
Public safety	23,583	21,109	-	-	23,583	21,109
Education	107,325	104,985	-	-	107,325	104,985
Public works	8,082	8,492	-	-	8,082	8,492
Sanitation	2,392	2,463	-	-	2,392	2,463
Health and human services	1,585	1,463	-	-	1,585	1,463
Culture and recreation	1,889	1,745	-	-	1,889	1,745
Interest and costs	1,538	1,467	-	-	1,538	1,467
Enterprise services	-	-	8,937	8,422	8,937	8,422
Total expenses	162,594	156,297	8,937	8,422	171,531	164,719
Change in net position before transfers	19,398	(528)	1,586	2,613	20,984	2,085
Transfers in (out)	1,340	1,266	(1,340)	(1,266)	-	-
Change in net position	20,738	738	246	1,347	20,984	2,085
Beginning net position	32,693	31,955	22,509	21,162	55,202	53,117
Ending net position	\$ 53,431	\$ 32,693	\$ 22,755	\$ 22,509	\$ 76,186	\$ 55,202

Governmental Activities - The City's governmental activities resulted in a change in net position of \$20,737,701. The City's conservative approach to budgeting and the careful monitoring of expenses and revenue activity throughout the fiscal year allowed the City to react to tightening budgets and changing fiscal conditions. Property tax collections continued to remain strong. The City's revenues increased by 17 percent or \$26,223,203, while expenses increased by 4 percent or \$6,298,535.

The cost of all governmental activities this year was \$162,595,174 compared to \$156,296,639 last year. However, as shown in the Statement of Activities in the accompanying financial statements, the amount that our taxpayers ultimately financed for these activities through property taxes was only \$67,779,603 primarily because some of the cost was paid by those who directly benefited from the programs, reported as charges for services of \$9,350,898, and by other governments and organizations that subsidized certain programs with operating and capital grants and contributions in the amount of \$61,215,998, as well as grants and contributions not restricted to specific programs of \$36,944,367. The City's tax rate increased from fiscal year 2012 to 2013 for residential and commercial properties from \$12.69 to \$13.04 and from \$22.91 to \$23.04, respectively. Overall, the City's total governmental revenues increased in current year principally due to Methuen High School construction grant reimbursement from Massachusetts School Business Authority in the amount of \$26,249,318. About half of the total revenues or 54 percent were derived from grants and contributions. The City paid for the remaining "public benefit" portion of governmental activities with property taxes and with other revenues, such as interest and general entitlements.

The table below presents the largest activities resulting in the change in governmental activities net position (in thousands).

General fund expenditures in excess of revenues	\$ (1,175)
Transfer in to general fund for enterprise indirect costs	1,340
MSBA grants for capital assets	26,249
Other capital asset additions funded by revenues	1,080
Debt service in excess of depreciation	2,912
Increase in net OPEB obligation	(9,399)
Internal service fund change in net position	(434)
Other	165
Total	<u><u>\$ 20,738</u></u>

Business-type Activities - Business-type activities for the year resulted in a change in net position of \$246,111. This change resulted primarily from unspent appropriations of \$759,749, use of retained earnings of \$570,000, and carry forward of \$1,173,885 of encumbered funds to next year primarily for capital improvements.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'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.

At the end of the current fiscal year, the governmental funds reported a combined fund deficit of \$(8,254,360) with a net change in fund balance of \$(7,579,852). Included in this change in fund balance are General Fund results described in the previous paragraph and capital expenditures of the High School Revitalization fund exceeding MSBA reimbursement and issuance of long-term debt by \$(8,145,955).

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>6/30/13</u>	<u>6/30/12</u>	<u>Change</u>	Balance % of Total General Fund Expenditures <u>6/30/13</u>
Committed	\$ 711	\$ 49	\$ 662	0.5%
Assigned	544	904	(360)	0.4%
Unassigned	<u>1,987</u>	<u>1,454</u>	<u>533</u>	<u>1.4%</u>
Total fund balance	\$ <u>3,242</u>	\$ <u>2,407</u>	\$ <u>835</u>	<u>2.3%</u>

Unassigned fund balance increased by \$533,420, primarily in attempt to increase the City's Free Cash position as part of our overall plan to increase the City's reserves. Revenues increased 4.0% over prior year while expenditures increased 3.7%. Increase in revenue was due to better than estimated collections in local revenues, primarily in the areas of Motor Vehicle Excise Tax, Ambulance Revenue (due to increased rates), and interest on Tax Liens due to a tax lien assignment sale.

Proprietary funds. Proprietary funds include the water and sewer enterprise fund found in business-type activities reported in the government-wide financial statements, and the health insurance internal service fund, with the governmental activities on the entity-wide financial statements. Factors concerning the finances of the enterprise fund have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

The City's started off FY 2013 with a free cash certification of \$989,140 and a Stabilization Fund balance of \$711,309. The overall budget increased by 2.71% or \$3,673,727 with a majority of the increase going to the Methuen Schools and Greater Lawrence Vocational Technical High School in the amount of \$2,313,000. The trend of annual appropriations of free cash and draws on available reserves such as the stabilization fund to balance operations has stopped. Once the new City Council was sworn in, they were informed that this practice must cease and we need turn our direction towards increasing the City of Methuen's reserves. By the time Fiscal Year 2013 was closed the City was in good working order due largely to an administration that is working with the legislative body to instill sound financial policies that will enhance the City's financial condition.

In Fiscal Year 2013 the Methuen High School Project remained the focus of the City. As the project is nearing completion and the official opening is on the horizon, nothing will have a greater impact on our residents – both students and adults – as the opening of our new High School. This state of the art facility is a \$100 million dollar investment in our children's education. On time and on budget, this project is scheduled to be completed by the start of the next school year. The \$100 million High School Renovation funding for this project was accepted by the Commonwealth of Massachusetts' Qualified Bond Program. By qualifying and utilizing the State Qualified Bond program, the City is issuing its own debt however it is enhancing its debt by pledging our state aid receipts to be automatically used to pay the bondholder. In turn the bondholder will automatically get paid the cash at the maturity of the bond. By issuing the City's notes and bonds pursuant to the program, the City will save ½ of 1 percent of interest cost on its debt, thus with the school debt ultimately coming on the books, the program will likely save the City millions of dollars of interest costs in the long term. It should also be noted the increase cost for the High School Debt will not have an effect on the taxpayer. The City of Methuen adopted a local option increase of the meals tax from 6.25% to 7%. The 0.75% increase will yield approximately \$700,000 yearly in new revenues. In Fiscal year 2013 the Methuen City Council instituted a policy that these additional revenues will be streamlined to the Stabilization Fund with the understanding that once the High School Debt is issued, any increase in the City's indebtedness will be offset by the use of these revenues in the Stabilization Fund. This increase in debt will remain for two years beginning in Fiscal Year 2016 and Fiscal Year 2017. During these two years the Stabilization Fund will be used as an "Other Funding Source" to cover the increase costs. In Fiscal Year 2018, the debt on three grammar school projects will be retired and the Stabilization Fund will be held harmless and will begin to flourish.

The City of Methuen's Health Insurance Trust Fund continues to remain solvent with a Trust Fund Balance of \$1,435,550 after reserving \$1,251,582 for incurred but not reported claims. Health insurance continues to have a significant impact on the operating budget with an appropriation of \$9,874,447. The City continues to pursue alternatives to cut health insurance costs by working with the Public

Employees Committee. Over the past two years the PEC made monumental concessions to reduce health care costs and at the same maintain a Health Insurance plan that works for the employee and the employer as evident by the remarkable turnaround in the Health Insurance Trust Fund from years past.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total capital assets for governmental and business-type activities at year-end amounted to \$174,591,724 (net of accumulated depreciation), a change of \$41,919,212 from the prior year. This 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)						
	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Totals</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land improvements	\$ 2,012	\$ 2,227	\$ 3	\$ 6	\$ 2,015	\$ 2,233
Construction	55,949	57,994	26,714	27,423	82,663	85,417
Infrastructure	7,918	7,832	9,720	9,963	17,638	17,795
Machinery and equipment	2,593	1,114	860	931	3,453	2,045
Licensed vehicles	2,010	1,207	273	340	2,283	1,547
Land, easements, and right of way	9,210	9,210	252	252	9,462	9,462
Construction in progress	<u>57,078</u>	<u>14,173</u>	<u>-</u>	<u>-</u>	<u>57,078</u>	<u>14,173</u>
Total net capital assets	<u>\$ 136,770</u>	<u>\$ 93,757</u>	<u>\$ 37,822</u>	<u>\$ 38,915</u>	<u>\$ 174,592</u>	<u>\$ 132,672</u>

Major capital asset acquisitions during the current fiscal year consist of the following (in thousands):

Governmental	
Departmental equipment	\$ 1,688
High School renovation	42,906
Chapter 90 highway improvements	809
Business-Type:	
Sewer rehabilitation	\$ 28

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

Long-Term Debt. At the end of the current fiscal year, total bonded debt including long-term loans outstanding and unamortized premiums was \$58,153,162, all of which was backed by the full faith and credit of the government. Moody's assigned an A1 rating to the City in July 2012 with negative outlook. Moody's downgraded the rating to A2 in July 2013, but removed the negative outlook.

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

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City is slowly emerging from difficult financial times. Contracts with all unions have been satisfied up until Fiscal Year 2015. The Administration and Legislative unit of this government are focused on building reserves. Two very exciting projects are underway within the City that will have positive long-term impacts to the City's ability to attract new commercial activity. Although not directly related to economic development, the \$66 million reconstruction of the I-93 Rotary and the \$100 million renovation of Methuen High School, represent major investments in the community that will set the stage for future business growth. The rotary project will improve traffic flow and capacity and open potential development opportunities that were previously turned away due to access issues. More than 100 acres of developable land area exists west of the rotary and there is renewed interest in potential development sites. The High School project that was long overdue and a needed component to a high quality school system necessary to attract employers and their families to the community. The rotary is expected to be complete in 2016 and the high school in 2014.

General Fund Budget

	FY 2013		FY 2014		Increase (Decrease)	% Change
City	\$ 60,771	(1)	\$ 63,540	(1)	\$ 2,769	4.56%
School	66,687		69,477		2,790	4.18%
County	1,701		1,886		185	10.88%
Enterprise Fund	9,662	(2)	9,906	(2)	244	2.53%
Total Budget	<u>\$ 138,821</u>		<u>\$ 144,809</u>		<u>\$ 5,988</u>	<u>4.31%</u>

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

(2) Excludes indirect costs.

Tax Levy

	FY 2013	FY 2014	Increase (Decrease)	% Change
General Government	\$ 20,348	\$ 21,867	\$ 1,519	7.47%
Fixed Costs	19,867	19,576	(291)	-1.46%
School	27,577	29,236	1,659	6.02%
Overlay	332	382	50	15.06%
Total Levy	<u>\$ 68,124</u>	<u>\$ 71,061</u>	<u>\$ 2,937</u>	<u>4.31%</u>

Tax Rate

	FY 2013	FY 2014	Increase (Decrease)	% Change
Residential	\$ 14.40	\$ 14.85	\$ 0.45	3.13%
Commercial	\$ 24.12	\$ 24.81	\$ 0.69	2.86%

Valuation by Classification

<u>Classification</u>	FY 2013	FY 2014	Increase (Decrease)	% Change
Residential	\$ 3,564,107	\$ 3,605,020	\$ 40,913	1.15%
Commercial	398,674	404,752	6,078	1.52%
Industrial	144,844	146,594	1,750	1.21%
Personal Property	153,032	155,082	2,050	1.34%
	<u>\$ 4,260,657</u>	<u>\$ 4,311,448</u>	<u>\$ 50,791</u>	<u>1.19%</u>

Utility Fund Budget

	FY 2013	FY 2014	Increase (Decrease)	% Change
Water & Sewer Enterprise Fund	\$ 11,003	\$ 11,260	\$ 257	2.34%

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 government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED			
OUTFLOWS OF RESOURCES			
Assets:			
Current:			
Cash and short-term investments	\$ 13,868,025	\$ 5,689,756	\$ 19,557,781
Receivables, net of allowance for uncollectibles:			
Property taxes	3,545,098	-	3,545,098
Excises	1,249,469	-	1,249,469
User fees	-	4,485,006	4,485,006
Assessments	306,688	-	306,688
Departmental and other	2,030,560	-	2,030,560
Intergovernmental	6,872,341	56,423	6,928,764
Loans	3,161,762	-	3,161,762
Total current assets	31,033,943	10,231,185	41,265,128
Noncurrent:			
Property taxes	528,104	-	528,104
Capital assets:			
Nondepreciable capital assets	66,288,425	251,550	66,539,975
Other capital assets, net of accumulated depreciation	70,481,121	37,570,628	108,051,749
Total noncurrent assets	137,297,650	37,822,178	175,119,828
TOTAL ASSETS	168,331,593	48,053,363	216,384,956
Deferred Outflows of Resources	281,193	-	281,193
TOTAL ASSETS AND DEFERRED			
OUTFLOWS OF RESOURCES	<u>\$ 168,612,786</u>	<u>\$ 48,053,363</u>	<u>\$ 216,666,149</u>
LIABILITIES AND NET POSITION			
Liabilities:			
Current:			
Warrants and accounts payable	\$ 10,302,480	\$ 253,939	\$ 10,556,419
Accrued liabilities	1,338,360	291,838	1,630,198
Notes payable	15,000,000	-	15,000,000
Other current liabilities	2,461,680	-	2,461,680
Current portion of long-term liabilities:			
Bonds and loans payable	6,607,424	1,430,233	8,037,657
Other liabilities	1,906,480	93,779	2,000,259
Total current liabilities	37,616,424	2,069,789	39,686,213
Noncurrent:			
Bonds and loans payable, net of current portion	28,222,937	21,892,568	50,115,505
Net OPEB obligation	46,786,126	1,045,755	47,831,881
Other liabilities, net of current portion	2,556,185	290,009	2,846,194
Total noncurrent liabilities	77,565,248	23,228,332	100,793,580
TOTAL LIABILITIES	115,181,672	25,298,121	140,479,793
Net Position:			
Net investment in capital assets	87,380,302	14,452,317	101,832,619
Restricted externally or constitutionally for:			
Loan and grant programs and other restrictions	7,067,033	-	7,067,033
Sewer mitigation	-	958,848	958,848
Permanent fund - nonexpendable	432,817	-	432,817
Unrestricted (deficit)	(41,449,038)	7,344,077	(34,104,961)
TOTAL NET POSITION	53,431,114	22,755,242	76,186,356
TOTAL LIABILITIES AND NET POSITION	<u>\$ 168,612,786</u>	<u>\$ 48,053,363</u>	<u>\$ 216,666,149</u>

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

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

		Program Revenues		
		Charges for	Operating	Capital
	<u>Expenses</u>	<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>
			<u>Contributions</u>	<u>Contributions</u>
Governmental Activities:				
General government	\$ 16,200,255	\$ 1,579,275	\$ 69,007	\$ -
Public safety	23,583,097	3,351,464	618,152	-
Education	107,325,186	3,094,846	59,353,004	-
Public works	8,082,025	249,014	-	991,175
Sanitation	2,392,423	-	-	-
Health and human services	1,584,827	117,885	184,660	-
Culture and recreation	1,889,100	958,414	-	-
Interest	<u>1,538,261</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	162,595,174	9,350,898	60,224,823	991,175
Business-Type Activities:				
Enterprise services	<u>8,936,796</u>	<u>10,502,683</u>	<u>10,860</u>	<u>-</u>
Total	<u>\$ 171,531,970</u>	<u>\$ 19,853,581</u>	<u>\$ 60,235,683</u>	<u>\$ 991,175</u>
General Revenues and Transfers:				
Property taxes				
Excise taxes				
Local option meals tax				
Interest and penalties				
Grants and contributions not restricted to specific programs				
Investment income				
Other				
Transfers, net				
Total general revenues and transfers				
Change in Net Position				
Net Position:				
Beginning of year				
End of year				

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

Net (Expenses) Revenues and Changes in Net Position		
Governmental Activities	Business- Type Activities	Total
\$ (14,551,973)	\$ -	\$ (14,551,973)
(19,613,481)	-	(19,613,481)
(44,877,336)	-	(44,877,336)
(6,841,836)	-	(6,841,836)
(2,392,423)	-	(2,392,423)
(1,282,282)	-	(1,282,282)
(930,686)	-	(930,686)
<u>(1,538,261)</u>	<u>-</u>	<u>(1,538,261)</u>
(92,028,278)	-	(92,028,278)
<u>-</u>	<u>1,576,747</u>	<u>1,576,747</u>
(92,028,278)	1,576,747	(90,451,531)
67,779,603	-	67,779,603
5,019,857	-	5,019,857
579,748	-	579,748
511,468	-	511,468
36,944,367	-	36,944,367
31,503	9,838	41,341
558,959	-	558,959
<u>1,340,474</u>	<u>(1,340,474)</u>	<u>-</u>
<u>112,765,979</u>	<u>(1,330,636)</u>	<u>111,435,343</u>
20,737,701	246,111	20,983,812
<u>32,693,413</u>	<u>22,509,131</u>	<u>55,202,544</u>
<u>\$ 53,431,114</u>	<u>\$ 22,755,242</u>	<u>\$ 76,186,356</u>

CITY OF METHUEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2013

	<u>General</u>	<u>High School Revitalization</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 6,156,124	\$ 1,391,030	\$ 3,661,965	\$ 11,209,119
Receivables:				
Property taxes	4,440,874	-	-	4,440,874
Excises	1,545,351	-	-	1,545,351
Assessments	306,688	-	-	306,688
Departmental and other	1,995,134	-	336,021	2,331,155
Intergovernmental	-	5,592,503	1,279,838	6,872,341
Loans	-	-	3,161,762	3,161,762
TOTAL ASSETS	<u>\$ 14,444,171</u>	<u>\$ 6,983,533</u>	<u>\$ 8,439,586</u>	<u>\$ 29,867,290</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)				
Liabilities:				
Warrants and accounts payable	\$ 1,800,830	\$ 5,642,271	\$ 774,887	\$ 8,217,988
Accrued liabilities	697,796	-	118,707	816,503
Retainage payable	-	2,084,497	-	2,084,497
Notes payable	-	15,000,000	-	15,000,000
Other liabilities	<u>1,210,097</u>	<u>-</u>	<u>-</u>	<u>1,210,097</u>
TOTAL LIABILITIES	3,708,723	22,726,768	893,594	27,329,085
Deferred Inflows of Resources	7,493,290	-	3,299,275	10,792,565
Fund Balances:				
Nonspendable	-	-	432,817	432,817
Restricted	-	-	3,975,691	3,975,691
Committed	711,309	-	-	711,309
Assigned	543,490	-	-	543,490
Unassigned	<u>1,987,359</u>	<u>(15,743,235)</u>	<u>(161,791)</u>	<u>(13,917,667)</u>
TOTAL FUND BALANCES (DEFICIT)	<u>3,242,158</u>	<u>(15,743,235)</u>	<u>4,246,717</u>	<u>(8,254,360)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)	<u>\$ 14,444,171</u>	<u>\$ 6,983,533</u>	<u>\$ 8,439,586</u>	<u>\$ 29,867,290</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, 2013

Total governmental fund balances (deficit)	\$ (8,254,360)
<ul style="list-style-type: none"> Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 	136,769,546
<ul style="list-style-type: none"> Deferred debt expense for refunding is net of amortization on the statement of net position, whereas all debt expense is reported when paid in the governmental funds. 	281,193
<ul style="list-style-type: none"> Revenues are reported on the accrual basis of accounting and are not deferred until collection. 	9,800,190
<ul style="list-style-type: none"> Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position. 	1,435,550
<ul style="list-style-type: none"> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	(521,854)
<ul style="list-style-type: none"> Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. 	
Bonds payable	(34,830,361)
Capital lease payable	(434,076)
Net OPEB obligation	(46,786,126)
Landfill liability	(600,000)
Compensated absences liability	<u>(3,428,588)</u>
Net position of governmental activities	\$ <u>53,431,114</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, 2013

	<u>General</u>	<u>High School Revitalization</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 67,371,828	\$ -	\$ -	\$ 67,371,828
Excise taxes	4,950,006	-	-	4,950,006
Local option meals tax	579,748	-	-	579,748
Departmental	2,294,996	-	-	2,294,996
Licenses and permits	1,137,181	-	-	1,137,181
Intergovernmental	61,497,764	26,249,318	10,289,674	98,036,756
Charges for services	79,152	-	5,230,800	5,309,952
Interest and penalties	511,468	-	-	511,468
Investment income	30,084	-	1,419	31,503
Fines and forfeitures	348,897	-	-	348,897
Contributions	-	-	104,646	104,646
Other revenue	314,418	10,369	735,528	1,060,315
Total Revenues	<u>139,115,542</u>	<u>26,259,687</u>	<u>16,362,067</u>	<u>181,737,296</u>
Expenditures:				
Current:				
General government	24,413,750	-	264,673	24,678,423
Public safety	18,113,931	-	3,489,945	21,603,876
Education	79,110,904	42,905,642	12,415,796	134,432,342
Public works	6,299,291	-	1,452,814	7,752,105
Sanitation	2,379,910	-	12,514	2,392,424
Health and human services	1,173,781	-	266,111	1,439,892
Culture and recreation	1,078,550	-	829,604	1,908,154
Debt service:				
Principal	6,360,000	-	-	6,360,000
Interest	1,360,295	-	-	1,360,295
Total Expenditures	<u>140,290,412</u>	<u>42,905,642</u>	<u>18,731,457</u>	<u>201,927,511</u>
Excess (deficiency) of revenues over expenditures	(1,174,870)	(16,645,955)	(2,369,390)	(20,190,215)
Other Financing Sources (Uses):				
Issuance of long-term debt	-	8,500,000	2,300,000	10,800,000
Proceeds of lease	469,889	-	-	469,889
Transfers in (see note 22)	1,540,474	-	-	1,540,474
Transfers out	-	-	(200,000)	(200,000)
Total Other Financing Sources (Uses)	<u>2,010,363</u>	<u>8,500,000</u>	<u>2,100,000</u>	<u>12,610,363</u>
Net change in fund balances	835,493	(8,145,955)	(269,390)	(7,579,852)
Fund Balances (Deficit), at Beginning of Year	<u>2,406,665</u>	<u>(7,597,280)</u>	<u>4,516,107</u>	<u>(674,508)</u>
Fund Balances (Deficit), at End of Year	<u>\$ 3,242,158</u>	<u>\$ (15,743,235)</u>	<u>\$ 4,246,717</u>	<u>\$ (8,254,360)</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, 2013

Net changes in fund balances - Total governmental funds	\$ (7,579,852)																										
<ul style="list-style-type: none"> Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table> <tr> <td>Capital outlay purchases, net of disposals</td><td style="text-align: right;">46,465,365</td></tr> <tr> <td>Depreciation</td><td style="text-align: right;">(3,448,482)</td></tr> <tr> <td>Net effect from disposal of capital assets</td><td style="text-align: right;">(4,911)</td></tr> </table> Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <div style="text-align: right;">762,465</div> The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table> <tr> <td>Issuance of debt</td><td style="text-align: right;">(10,800,000)</td></tr> <tr> <td>Repayments of debt</td><td style="text-align: right;">6,360,000</td></tr> <tr> <td>Deferred debt amortization</td><td style="text-align: right;">(140,595)</td></tr> <tr> <td>Bond premium</td><td style="text-align: right;">(534,785)</td></tr> <tr> <td>Bond premium amortization</td><td style="text-align: right;">33,424</td></tr> <tr> <td>Financing of capital assets</td><td style="text-align: right;">(469,889)</td></tr> <tr> <td>Payments of capital leases</td><td style="text-align: right;">155,633</td></tr> </table> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <div style="text-align: right;">(183,962)</div> Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table> <tr> <td>Compensated absences</td><td style="text-align: right;">(83,624)</td></tr> <tr> <td>Landfill</td><td style="text-align: right;">40,000</td></tr> <tr> <td>Net OPEB obligation</td><td style="text-align: right;">(9,399,230)</td></tr> </table> Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. <div style="text-align: right;">(433,856)</div> 	Capital outlay purchases, net of disposals	46,465,365	Depreciation	(3,448,482)	Net effect from disposal of capital assets	(4,911)	Issuance of debt	(10,800,000)	Repayments of debt	6,360,000	Deferred debt amortization	(140,595)	Bond premium	(534,785)	Bond premium amortization	33,424	Financing of capital assets	(469,889)	Payments of capital leases	155,633	Compensated absences	(83,624)	Landfill	40,000	Net OPEB obligation	(9,399,230)	
Capital outlay purchases, net of disposals	46,465,365																										
Depreciation	(3,448,482)																										
Net effect from disposal of capital assets	(4,911)																										
Issuance of debt	(10,800,000)																										
Repayments of debt	6,360,000																										
Deferred debt amortization	(140,595)																										
Bond premium	(534,785)																										
Bond premium amortization	33,424																										
Financing of capital assets	(469,889)																										
Payments of capital leases	155,633																										
Compensated absences	(83,624)																										
Landfill	40,000																										
Net OPEB obligation	(9,399,230)																										
Change in net position of governmental activities	\$ <u>20,737,701</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, 2013

	<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	\$ 67,611,836	\$ 67,611,836	\$ 67,611,836	\$ -
Local revenue	9,219,300	9,219,300	10,171,302	952,002
Cherry sheet	49,249,090	49,249,090	49,553,515	304,425
Local option meals tax	500,000	500,000	579,748	79,748
Other	<u>500,000</u>	<u>749,643</u>	<u>575,594</u>	<u>(174,049)</u>
Total Revenues	127,080,226	127,329,869	128,491,995	1,162,126
Expenditures:				
Current:				
General government	25,224,680	24,598,303	24,598,303	-
Intergovernmental	1,700,816	1,721,805	1,721,805	-
Public safety	17,487,752	18,072,740	18,072,740	-
Education	66,687,619	66,738,013	66,738,013	-
Public works	4,725,765	5,254,922	5,254,922	-
Sanitation	2,470,010	2,399,910	2,399,910	-
Library	1,423,416	1,423,416	1,423,416	-
Health and human services	966,160	1,081,329	1,081,329	-
Debt service	<u>7,374,804</u>	<u>7,374,868</u>	<u>7,374,868</u>	<u>-</u>
Total Expenditures	<u>128,061,022</u>	<u>128,665,306</u>	<u>128,665,306</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	(980,796)	(1,335,437)	(173,311)	1,162,126
Other Financing Sources (Uses):				
Use of free cash	-	155,748	155,748	-
Transfers in	1,480,796	1,679,689	1,679,890	201
Transfers out	<u>(500,000)</u>	<u>(500,000)</u>	<u>(500,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>980,796</u>	<u>1,335,437</u>	<u>1,335,638</u>	<u>201</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,162,327</u>	\$ <u>1,162,327</u>

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

CITY OF METHUEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2013

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
ASSETS		
Current:		
Cash and short-term investments	\$ 5,689,756	\$ 2,658,906
User fees receivable	4,485,006	-
Intergovernmental receivable	56,423	-
Other receivable	-	28,226
Total current assets	10,231,185	2,687,132
Noncurrent:		
Capital assets:		
Nondepreciable capital assets	251,550	-
Other capital assets, net of accumulated depreciation	37,570,628	-
Total noncurrent assets	37,822,178	-
TOTAL ASSETS	48,053,363	2,687,132
LIABILITIES		
Current:		
Accounts payable	253,939	-
Accrued liabilities	291,838	-
Other current liabilities	-	1,251,582
Current portion of long-term liabilities:		
Bonds and loans payable	1,430,233	-
Other liabilities	93,779	-
Total current liabilities	2,069,789	1,251,582
Noncurrent:		
Bonds and loans payable, net of current portion	21,892,568	-
Net OPEB obligation	1,045,755	-
Other liabilities, net of current portion	290,009	-
Total noncurrent liabilities	23,228,332	-
TOTAL LIABILITIES	25,298,121	1,251,582
NET POSITION		
Net investment in capital assets	14,452,317	-
Restricted	958,848	-
Unrestricted	7,344,077	1,435,550
TOTAL NET POSITION	\$ 22,755,242	\$ 1,435,550

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, 2013

	Business-Type Activities <u>Enterprise Fund</u>	Governmental Activities <u>Internal Service Fund</u>
Operating Revenues:		
Charges for services	\$ 10,270,913	\$ -
Contributions	-	16,413,480
Permits and fees	<u>231,770</u>	<u>-</u>
Total Operating Revenues	10,502,683	16,413,480
Operating Expenses:		
Personal services	2,338,555	-
Materials	2,225,673	-
Depreciation	1,120,691	-
Sanitary district assessment	2,712,557	-
Employee benefits	<u>-</u>	<u>16,847,336</u>
Total Operating Expenses	<u>8,397,476</u>	<u>16,847,336</u>
Operating Income (Loss)	2,105,207	(433,856)
Nonoperating Revenues (Expenses):		
Intergovernmental revenue	10,860	-
Investment income	9,838	-
Interest expense	<u>(539,320)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(518,622)</u>	<u>-</u>
Income (Loss) Before Transfers	1,586,585	(433,856)
Transfers out	<u>(1,340,474)</u>	<u>-</u>
Change in Net Position	246,111	(433,856)
Net Position at Beginning of Year	<u>22,509,131</u>	<u>1,869,406</u>
Net Position at End of Year	<u>\$ 22,755,242</u>	<u>\$ 1,435,550</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, 2013

	Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers and users	\$ 10,502,145	\$ -
Employer contributions and stop loss reimbursements	-	10,851,964
Employee contributions	-	5,561,813
Payments of employee salaries, benefits, and related expenses	(2,140,582)	(16,994,886)
Payments to vendors	(2,221,316)	-
Payments to other governments	(2,712,557)	-
Net Cash Provided (Used) By Operating Activities	3,427,690	(581,109)
<u>Cash Flows From Noncapital Financing Activities:</u>		
Transfers to other funds	(1,340,474)	-
Net Cash (Used For) Noncapital Financing Activities	(1,340,474)	-
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Acquisition and construction of capital assets	(27,931)	-
Proceeds from notes (MWPAT reimbursements)	10,740	-
Principal payments on bonds and notes	(1,363,871)	-
Principal payments on capital leases	(88,900)	-
Interest expense	(553,527)	-
Net Cash (Used For) Capital and Related Financing Activities	(2,023,489)	-
<u>Cash Flows From Investing Activities:</u>		
Investment income	9,838	-
Net Cash Provided By Investing Activities	9,838	-
Net Change in Cash and Short-Term Investments	73,565	(581,109)
Cash and Short-Term Investments, Beginning of Year	5,616,191	3,240,015
Cash and Short-Term Investments, End of Year	\$ 5,689,756	\$ 2,658,906
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u>		
Operating income (loss)	\$ 2,105,207	\$ (433,856)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,120,691	-
Changes in assets and liabilities:		
User fees	(538)	-
Other receivables	-	296
Accounts payable	4,357	(159,440)
Accrued liabilities	1,889	-
Other liabilities	-	11,891
Compensated absences	4,263	-
OPEB liability	191,821	-
Net Cash Provided (Used) By Operating Activities	\$ 3,427,690	\$ (581,109)

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

CITY OF METHUEN, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013

	Pension Trust Fund (As of <u>December 31, 2012</u>)	Private Purpose Trust Fund	Agency Fund
<u>ASSETS</u>			
Non-pooled cash and short-term investments	\$ 601,054	\$ 369,172	\$ 154,428
Investments, at fair value:			
Pooled alternative investments	2,442,688	-	-
Pooled real estate funds	2,276,540	-	-
PRIT Fund	85,449,632	-	-
Receivables	<u>66,236</u>	<u>-</u>	<u>-</u>
Total Assets	90,836,150	369,172	154,428
<u>LIABILITIES AND NET POSITION</u>			
Other liabilities	<u>552</u>	<u>-</u>	<u>154,428</u>
Total Liabilities	<u>552</u>	<u>-</u>	<u>154,428</u>
<u>NET POSITION</u>			
Total net position held in trust for pension benefits and other purposes	<u>\$ 90,835,598</u>	<u>\$ 369,172</u>	<u>\$ -</u>

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

CITY OF METHUEN, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	Pension Trust Fund (For the Year Ended <u>December 31, 2012</u>)	Private Purpose Trust Fund
Additions:		
Contributions:		
Employers	\$ 8,201,418	\$ -
Other systems and Commonwealth of Massachusetts	327,513	-
Plan members	3,458,476	-
Other	35,983	-
Total contributions	<u>12,023,390</u>	<u>-</u>
Investment Income:		
Change in fair value of investments	11,019,563	597
Less: management fees	(465,535)	-
Net investment income	<u>10,554,028</u>	<u>597</u>
Total additions	22,577,418	597
Deductions:		
Benefit payments to plan members and beneficiaries	10,732,152	-
Refunds to plan members	161,558	-
Transfers to other systems	231,696	-
Administrative expenses	183,419	-
Other	-	20,917
Total deductions	<u>11,308,825</u>	<u>20,917</u>
Net increase (decrease)	11,268,593	(20,320)
Net position:		
Beginning of year	<u>79,567,005</u>	<u>389,492</u>
End of year	<u>\$ 90,835,598</u>	<u>\$ 369,172</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. The following is a summary of the more significant policies:

A. Reporting Entity

The government 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.

In the Fiduciary Funds: The Methuen Contributory Retirement 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. Additional financial information of the System can be obtained by contacting the System located at 41 Pleasant Street, Methuen, MA 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. For the most part, 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 and major individual enterprise 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*, as is the proprietary fund and fiduciary fund financial statements. 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 government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental fund:

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

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

The *enterprise fund* accounts for the operating activities of the City's water and sewer utilities and capital improvement services.

The self-insured employee health program is reported as an *internal service fund* in the accompanying financial statements.

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

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.

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, certificates of deposits, 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

The City did not have long-term investments as of June 30, 2013. The System's investments are carried at market value.

F. Property Tax Limitations

The City has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2013 tax levy reflected an excess capacity of approximately \$3,500,000.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market 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	25 - 50
Infrastructure	10 - 30
Equipment	5 - 20
Machinery and licensed vehicles	8

H. Compensated Absences

The government'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, proprietary and fiduciary fund 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.

I. 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.

J. 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 and current liabilities. 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 5110 (City Resolution 2013-7) that permits management to assign fund balance amounts to a specific purpose.
- 5) Unassigned – represents amounts available to be spent in future periods.

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 are 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.

K. 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 prin-

ciples (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 139,115,542	\$ 140,290,412
Other financing sources/uses (GAAP Basis)	<u>2,010,363</u>	<u>-</u>
Subtotal (GAAP Basis)	141,125,905	140,290,412
To adjust property tax revenue to the budgetary basis	473,160	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(603,280)
To book current year appropriation carryforwards	-	543,490
To reverse GASB 24 MTRS	(11,407,819)	(11,407,819)
To reverse gross up of capital lease	(469,889)	(469,889)
To record use of free cash	155,748	-
To gross up employee benefits grant allocations	312,392	312,392
To remove nonbudgeted funds	<u>138,136</u>	<u>500,000</u>
Budgetary Basis	<u>\$ 130,327,633</u>	<u>\$ 129,165,306</u>

D. Deficit Fund Equity

The following funds or projects within the funds had deficits as of June 30, 2013:

Major Funds:	
Methuen High School Revitalization	\$ (15,743,235)
Nonmajor Governmental Funds:	
Police Outside Detail	\$ (91,322)
Carol White PEP Grant	(15,219)
Gateway Academics Grant	(6,868)
Title I Grant	(29,700)
Title II A Grant	(18,682)

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

3. **Cash and Short-Term Investments**

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

As of June 30, 2013, \$10,756,256 of the City's bank balances of \$22,115,326 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 Regulation. 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, 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, 2013 were deposited in MMDT and bank accounts (checking, savings, and money market accounts).

As of December 31, 2012, \$300,846 of the System's bank balances of \$684,571 was exposed to custodial credit risk as uninsured, and collateral held by pledging bank's trust department not in the System's name. The System's total exposed balance was invested in MMDT and PRIT. The System does not have a deposit

policy for custodial credit risk. Due to the Dodd-Frank Deposit Insurance Provision, all non-interest bearing accounts were fully insured at December 31, 2012. On January 1, 2013 the FDIC amount reverted back to \$250,000; therefore, the balance exposed to custodial credit risk was higher from January 1, 2013.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment.

Massachusetts General Law, Chapter 32, Section 23, limits the investment of the Retirement System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

In accordance with Chapter 32 Section 22 of the Massachusetts General Laws, the System has transferred its investments to the Commonwealth's PRIT fund because its funding ratio and rate of return in prior years has not met the standards established by PERAC.

At December 31, 2012, the System's investments consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>
State Investment Pool*	\$ 85,449,632
Pooled Alternative Funds	2,442,688
Pooled Real Estate Funds	<u>2,276,540</u>
Total investments	<u>\$ 90,168,860</u>

These investments are not rated.

**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.*

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 a policy for custodial credit risk.

The System's investment in Pooled funds of \$90,168,860 were exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the system's brokerage firm, which is also the Counterparty to these securities. The System manages this risk with SIPC, Excess SIPC and because the assets are held in separately identifiable trust accounts. Of the System's total exposure, \$85,449,632 is invested in the State Investment Pool (PRIT).

C. Concentration of Credit Risk

The City's policy prohibits concentration in any one issuer. The City did not have any long-term investments at June 30, 2013.

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.

The System does not have an investment in one issuer greater than 5% of total investments, with the exception of the PRIT Fund.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's current policy does not allow maturities of over one year. The current objective of the City is to have highly liquid investments (see note 3) to sustain adequate cash flow needs of the City. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

E. Foreign Currency Risk

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

5. Taxes 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.

Taxes receivable at June 30, 2013 consist of the following (in thousands):

Real Estate		
2013	\$	1,966
Personal Property		
2010 - 2013		68
Prior		<u>299</u>
		367
Tax Liens		<u>2,108</u>
Total	\$	<u><u>4,441</u></u>

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

Property taxes	\$	368
Excises		296

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 liened in a similar manner as property taxes, described in Note 5.

8. Departmental and Other Receivables

The City's departmental and other receivables at June 30, 2013 consist of the following:

	<u>Fire Ambulance</u>	<u>Police Outside Detail</u>	<u>Veterans Benefits</u>	<u>Other</u>	<u>Total</u>
Gross	\$ 1,313,973	\$ 137,513	\$ 400,880	\$ 507,015	\$ 2,359,381
Less: Allowance for doubtful accounts	<u>(321,892)</u>	<u>(6,929)</u>	<u>-</u>	<u>-</u>	<u>(328,821)</u>
Total	<u>\$ 992,081</u>	<u>\$ 130,584</u>	<u>\$ 400,880</u>	<u>\$ 507,015</u>	<u>\$ 2,030,560</u>

9. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2013 and the amount to be drawn down from Massachusetts Water Pollution Abatement Trust for the improvement of the water distribution system, which is included in the City's long-term debt.

10. Loans Receivable

Loans receivable represent collectible balances from developers for loans under Community Development Block Grant and Housing and Urban Development programs.

11. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 7,172	\$ 20	\$ -	\$ 7,192
Construction	107,920	61	-	107,981
Infrastructure	25,634	712	-	26,346
Machinery and equipment	9,708	1,715	(230)	11,193
Licenses and vehicles	<u>10,148</u>	<u>1,052</u>	<u>-</u>	<u>11,200</u>
Total capital assets, being depreciated	160,582	3,560	(230)	163,912
Less accumulated depreciation for:				
Land improvements	(4,945)	(235)	-	(5,180)
Construction	(49,926)	(2,106)	-	(52,032)
Infrastructure	(17,802)	(626)	-	(18,428)
Machinery and equipment	(8,594)	(232)	226	(8,600)
Licenses and vehicles	<u>(8,941)</u>	<u>(249)</u>	<u>-</u>	<u>(9,190)</u>
Total accumulated depreciation	<u>(90,208)</u>	<u>(3,448)</u>	<u>226</u>	<u>(93,430)</u>
Total capital assets, being depreciated, net	70,374	112	(4)	70,482
Capital assets, not being depreciated:				
Land, easements and right of way	9,210	-	-	9,210
Construction in progress	<u>14,173</u>	<u>42,905</u>	<u>-</u>	<u>57,078</u>
Total capital assets, not being depreciated	<u>23,383</u>	<u>42,905</u>	<u>-</u>	<u>66,288</u>
Governmental activities capital assets, net	<u>\$ 93,757</u>	<u>\$ 43,017</u>	<u>\$ (4)</u>	<u>\$ 136,770</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 218	\$ -	\$ -	\$ 218
Construction	34,454	-	-	34,454
Infrastructure	26,280	28	-	26,308
Machinery and equipment	2,613	-	-	2,613
Licenses and vehicles	<u>637</u>	<u>-</u>	<u>-</u>	<u>637</u>
Total capital assets, being depreciated	64,202	28	-	64,230
Less accumulated depreciation for:				
Land improvements	(212)	(3)	-	(215)
Construction	(7,031)	(709)	-	(7,740)
Infrastructure	(16,317)	(271)	-	(16,588)
Machinery and equipment	(1,682)	(71)	-	(1,753)
Licenses and vehicles	<u>(297)</u>	<u>(67)</u>	<u>-</u>	<u>(364)</u>
Total accumulated depreciation	<u>(25,539)</u>	<u>(1,121)</u>	<u>-</u>	<u>(26,660)</u>
Total capital assets, being depreciated, net	38,663	(1,093)	-	37,570
Capital assets, not being depreciated:				
Land, easements & right of way	<u>252</u>	<u>-</u>	<u>-</u>	<u>252</u>
Business-type activities capital assets, net	<u>\$ 38,915</u>	<u>\$ (1,093)</u>	<u>\$ -</u>	<u>\$ 37,822</u>

Depreciation expense was charged to functions of the City as follows (in thousands):

Governmental Activities:

General government	\$ 124
Public safety	142
Education	2,282
Public works	893
Culture and recreation	<u>7</u>
Total depreciation expense - governmental activities	<u>\$ 3,448</u>

Business-Type Activities:

Enterprise	<u>\$ 1,121</u>
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12. Deferred Outflows/Inflows of Resources

In fiscal year 2013, the City has adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and early adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The effect of GASB 63 on the financial statements includes renaming net assets to net position.

Per GASB 65, 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. At June 30, 2013, deferred outflows of resources reported on the statement of net position in government-wide financial statements represent items previously reported as deferred debt expense for the deferred amount on refunding.

Per GASB 65, 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. Deferred inflow of resources balances as of June 30, 2013 reported on governmental funds balance sheet represent items previously reported as deferred revenues.

13. Warrants and Accounts Payable

Warrants payable represent 2013 expenditures paid by July 15, 2013 as permitted by law. Accounts payable represent additional 2013 expenditures paid after July 15, 2013.

14. Accrued Liabilities

The City had the following accrued liabilities as of June 30, 2013:

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>
Salaries and wages	\$ 814,823	\$ 50,966
Debt interest	521,858	236,872
Tailings	<u>1,679</u>	<u>4,000</u>
Total accrued liabilities	<u>\$ 1,338,360</u>	<u>\$ 291,838</u>

15. Loan and Anticipation Notes Payable

The City had the following notes outstanding at June 30, 2013:

	Interest <u>Rate</u>	Date of <u>Issue</u>	Date of <u>Maturity</u>	Balance at <u>6/30/13</u>
Methuen High School Revitalization	1.50%	05/14/12	08/10/12	\$ <u>15,000,000</u>

The following summarizes activity in notes payable during fiscal year 2013:

	Balance Beginning <u>of Year</u>	New <u>Issues</u>	<u>Maturities</u>	Balance End of <u>Year</u>
High School Revitalization	\$ 8,500,000	\$ 15,000,000	\$ (8,500,000)	\$ 15,000,000
Departmental Equipment	<u>2,300,000</u>	<u>-</u>	<u>(2,300,000)</u>	<u>-</u>
Total	<u>\$ 10,800,000</u>	<u>\$ 15,000,000</u>	<u>\$ (10,800,000)</u>	<u>\$ 15,000,000</u>

16. Other Current Liabilities

Other current liabilities as of June 30, 2013 consist of the following:

	Governmental <u>Activities</u>
IBNR (see note 26)	\$ 1,251,582
Guaranteed deposits	1,100,981
Employee withholdings and other	<u>109,117</u>
Total other current liabilities	<u>\$ 2,461,680</u>

17. Capital Lease Obligations

The City's outstanding lease agreements include the acquisition of computers, fire trucks, highway trucks, police vehicles and a communication system. These leases qualify as capital leases. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2013:

<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2014	\$ 159,576	\$ 105,606
2015	96,834	62,665
2016	96,834	62,665
2017	<u>96,834</u>	<u>-</u>
Total minimum lease payments	450,078	230,936
Less amount representing interest	<u>(16,002)</u>	<u>(21,937)</u>
Present Value of Minimum Lease Payments	\$ <u><u>434,076</u></u>	\$ <u><u>208,999</u></u>

The following is an analysis for the leased assets included in capital assets at June 30, 2013:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Machinery, vehicles and equipment	\$ 1,856,961	\$ 474,875
Less: accumulated depreciation	<u>(797,285)</u>	<u>(113,195)</u>
Equipment under capital leases, net	\$ <u><u>1,059,676</u></u>	\$ <u><u>361,680</u></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 have been issued for both governmental and business-type activities and are repaid with general and enterprise fund revenues. Compensated absences are paid from the fund responsible for the employee's compensation with significant liabilities paid from general fund and the rest from enterprise fund. Landfill closure costs are paid from general fund, and capital lease payments are made from general and enterprise funds.

B. General Obligation Bonds and Other Long-Term Debt

General obligation bonds and loans currently outstanding are as follows:

		Original Issue Amount		Serial Maturities Through	Interest Rate(s)%		Amount Outstanding as of 6/30/13
<u>Governmental Activities:</u>							
Marsh School Expansion	\$	17,399,400 *		11/01/16	4.80%	\$	3,735,000
Timony School Expansion		21,190,000 *		11/01/16	5.01%		6,270,000
Landfill Closure		3,500,000 *		11/01/16	5.01%		730,000
Tenney School Expansion		22,850,000 *		05/15/17	4.79%		6,790,000
Additional School Expansion		6,500,000 *		10/15/19	5.00%		2,155,000
Library		4,800,000 *		10/15/19	5.00%		1,805,000
Road and Surface Drains		5,630,000		09/01/21	3.27%		1,000,000
Landfill Closure		85,000		09/01/21	3.91%		45,000
Road and Surface Drains		3,500,000		08/15/16	4.30%		405,000
High School		8,500,000		09/01/41	variable		8,500,000
Departmental Equipment		2,300,000		09/01/22	variable		2,300,000
Dileo Judgment		594,000		09/01/29	variable		594,000
Total Governmental Activities						\$	<u>34,329,000</u>

*Partially refunded, original amount shown

		Original Issue Amount		Serial Maturities Through	Interest Rate(s)%		Amount Outstanding as of 6/30/13
<u>Business-Type Activities:</u>							
Sewer (MWPAT)	\$	821,670 *		02/01/15	variable	\$	127,267
Sewer (MWPAT)		395,100 *		08/01/18	variable		193,901
Storm Water Management (MWPAT)		468,063 *		08/01/23	variable		297,009
Water Distribution System (MWPAT)		5,786,500 *		07/15/25	2.00%		4,035,060
Water Distribution System		700,000		08/15/27	4.16%		580,000
Water Treatment Plant		1,250,000		08/15/27	4.16%		1,035,000
Water Distribution System (MWPAT)		18,550,000 *		07/15/27	2.00%		14,604,981
Storm Water Management (MWPAT)		200,000 *		07/15/27	2.00%		146,386
Water Tank (MWPAT)		750,000 *		07/15/27	2.00%		385,436
Sewer Rehabilitation and Replacement (MWPAT)		1,117,204 *		07/15/28	2.00%		880,482
Storm Water Management (MWPAT)		12,243		07/15/27	2.00%		11,009
Water Treatment Plant Improvement (MWPAT)		650,000		07/15/30	2.00%		573,666
Sewer Rehabilitation (MWPAT)		452,604		07/15/32	2.00%		452,604
Total Business-Type Activities						\$	<u>23,322,801</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, 2013 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 6,574,000	\$ 1,218,604	\$ 7,792,604
2015	6,335,000	957,006	7,292,006
2016	5,995,000	708,284	6,703,284
2017	5,075,000	485,615	5,560,615
2018	735,000	371,658	1,106,658
2019 - 2023	2,910,000	1,439,975	4,349,975
2024 - 2028	1,550,000	1,058,656	2,608,656
2029 - 2033	1,580,000	833,350	2,413,350
2034 - 2038	1,825,000	538,500	2,363,500
2039 - 2042	<u>1,750,000</u>	<u>143,600</u>	<u>1,893,600</u>
Total	<u>\$ 34,329,000</u>	<u>\$ 7,755,247</u>	<u>\$ 42,084,247</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,430,233	\$ 517,671	\$ 1,947,903
2015	1,467,742	484,688	1,952,430
2016	1,433,921	451,743	1,885,665
2017	1,476,050	418,080	1,894,130
2018	1,503,612	383,598	1,887,210
2019 - 2023	7,858,406	1,390,802	9,249,207
2024 - 2028	7,846,717	471,226	8,317,943
2029 - 2033	<u>306,121</u>	<u>11,495</u>	<u>317,616</u>
Total	<u>\$ 23,322,801</u>	<u>\$ 4,129,304</u>	<u>\$ 27,452,105</u>

D. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2013 are as follows:

<u>Date</u>	<u>Purpose</u>	<u>Amount</u>
<u>Authorized</u>		
07/05/06	Sewer rehab and East Capital St. Project	\$ 202,796
07/05/06	Stormwater Management	681
06/15/10	Methuen High School	77,600,000
11/03/10	Sewer System Rehab Projects	<u>146,795</u>
Total		<u>\$ 77,950,272</u>

E. Changes in General Long-Term Liabilities

During the year ended June 30, 2013, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/12	Additions	Reductions	Total Balance 6/30/13	Less Current Portion	Equals Long-Term Portion 6/30/13
<u>Governmental Activities</u>						
General obligation debt	\$ 29,895	\$ 11,394	\$ (6,960)	\$ 34,329	\$ (6,574)	\$ 27,755
Unamortized bond premium	-	535	(33)	502	(33)	469
Net OPEB obligation	37,386	13,745	(4,346)	46,785	-	46,785
Other:						
Capital leases	120	470	(156)	434	(152)	282
Landfill closure	640	-	(40)	600	(40)	560
Accrued employee benefits	3,345	84	-	3,429	(1,715)	1,714
Totals	<u>\$ 71,386</u>	<u>\$ 26,228</u>	<u>\$ (11,535)</u>	<u>\$ 86,079</u>	<u>\$ (8,514)</u>	<u>\$ 77,565</u>
<u>Business-Type Activities</u>						
General obligation debt and MWPAT loans	\$ 24,687	\$ -	\$ (1,364)	\$ 23,323	\$ (1,430)	\$ 21,893
Net OPEB obligation	854	281	(89)	1,046	-	1,046
Other:						
Capital leases	298	-	(89)	209	(94)	115
Accrued employee benefits	171	3	-	174	-	174
Totals	<u>\$ 26,010</u>	<u>\$ 284</u>	<u>\$ (1,542)</u>	<u>\$ 24,752</u>	<u>\$ (1,524)</u>	<u>\$ 23,228</u>

General obligation bonds, issued by the City for various municipal projects, are approved by City Council and repaid with revenues from the General Fund. Compensated absences and capital leases are repaid from the funds that the costs relate to, mostly general fund and also enterprise fund. Landfill closure costs are repaid from general fund revenues.

F. Prior Year Defeasance of Debt

In prior years, certain outstanding bonds were defeased by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the financial statements.

Defeased debt still outstanding at June 30, 2013 is \$3,750,000.

19. Landfill Closure and 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 \$600,000 is reported as landfill postclosure care liability at June 30, 2013. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

20. Governmental Funds - Balances

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

The following types of fund balances are reported at June 30, 2013:

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 set aside by City Council vote for future capital acquisitions and improvements.

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. This fund also includes amounts assigned by management for general stabilization purposes.

Unassigned – This fund balance is the residual classification for the general fund and deficits in other funds.

Following is a breakdown of the City's fund balances at June 30, 2013:

	General Fund	High School Revitalization	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable perpetual care permanent fund	\$ -	\$ -	\$ 432,817	\$ 432,817
Total Nonspendable	-	-	432,817	432,817
Restricted				
Bonded projects	-	-	207,933	207,933
Special revenue funds:				
Community development	-	-	89,687	89,687
School lunch	-	-	149,431	149,431
Revolving fund - SACC	-	-	814,169	814,169
Revolving fund - school athletics	-	-	100,061	100,061
Revolving fund - state SPED reimbursement	-	-	103,904	103,904
Revolving fund - MCTV	-	-	272,602	272,602
Revolving fund - MGEP	-	-	100,695	100,695
Revolving fund - City/Verizon CIP	-	-	212,779	212,779
Revolving fund - MCTV/Verizon	-	-	150,000	150,000
Other revolving funds	-	-	668,649	668,649
State grants	-	-	210,234	210,234
Federal grants	-	-	62,718	62,718
Other funds	-	-	541,012	541,012
Law enforcement trust	-	-	4,215	4,215
Expendable trust	-	-	222,784	222,784
Other trusts	-	-	64,818	64,818
Total Restricted	-	-	3,975,691	3,975,691
Committed				
City stabilization	711,309	-	-	711,309
Total Committed	711,309	-	-	711,309
Assigned				
General government	41,099	-	-	41,099
Public safety	9,821	-	-	9,821
Education	365,766	-	-	365,766
Public works	123,932	-	-	123,932
Health and human services	2,872	-	-	2,872
Total Assigned	543,490	-	-	543,490
Unassigned	1,987,359	(15,743,235)	(161,791)	(13,917,667)
Total Unassigned	1,987,359	(15,743,235)	(161,791)	(13,917,667)
Total Fund Balance	\$ 3,242,158	\$ (15,743,235)	\$ 4,246,717	\$ (8,254,360)

21. Restricted Net Position

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position is segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted

principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

22. Interfund Transfers

The government reports interfund transfers between several funds. Transfers are used to move revenues from the fund that budget requires to collect them to the fund that budget requires to expend them, or reimburse costs. The general fund transfers in of \$1,540,474 include \$1,340,474 from the enterprise water sewer fund to cover indirect costs and \$200,000 transfers in from special revenue funds.

23. Commitments and Contingencies

Outstanding Legal Issues - There are several pending legal issues in which the City is involved. The City's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

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

Abatements - There are several cases pending before the Appellate Tax Board in regard to alleged discrepancies in property assessments. According to the City's counsel, the probable outcome of these cases at the present time is indeterminable, although the City expects such amounts, if any, to be immaterial.

24. Post-Employment Healthcare and Life Insurance Benefits

Other Post-Employment Benefits

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

A. Plan Description

In addition to providing the pension benefits described, the City provides post-employment healthcare and life insurance benefits for retired employees through the City's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of December 31, 2011, the actuarial valuation date, approximately 778 retirees and 705 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

Medicare retirees contribute 20% and Tufts or Blue Cross retirees contribute 38% of the cost of the health plan, as determined by the City. The City contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The City's fiscal 2013 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2013, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of December 31, 2011.

Annual Required Contribution (ARC)	\$ 14,025,803
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	14,025,803
Contributions made	4,434,752
Increase in net OPEB obligation	9,591,051
Net OPEB obligation - beginning of year	38,240,830
Net OPEB obligation - end of year	\$ 47,831,881

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

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$ 14,025,803	31.6%	\$ 47,831,881
2012	\$ 13,461,530	30.1%	\$ 38,240,830
2011	\$ 12,826,083	28.8%	\$ 28,828,625
2010	\$ 14,340,252	31.3%	\$ 19,692,532
2009	\$ 14,340,252	31.3%	\$ 9,846,266

E. Funded Status and Funding Progress

The funded status of the plan as of December 31, 2011, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 206,686,174
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 206,686,174</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>N/A</u>
UAAL as a percentage of covered payroll	<u>N/A</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

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

In the December 31, 2011 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advance funded its obligation. The actuarial assumptions included a 4.0% investment rate of return and an initial annual healthcare cost trend rate of 9.0% which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on an open basis. This has been calculated assuming the amortization payment increases at a rate of 3.5%.

25. Contributory Retirement System

The City follows the provisions of GASB Statement No. 27, Accounting for Pensions for State and Local Government Employees, (as amended by GASB 50) with respect to the employees' retirement funds.

A. Plan Description and Contribution Information

Substantially all employees of the City (except teachers and administrators under contract employed by the School Department) are members of the Methuen Contributory Retirement System (MCRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the MCRS. 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 MCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The MCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2012:

Retirees and beneficiaries receiving benefits	421
Terminated plan members entitled to but not yet receiving benefits	15
Active plan members	<u>603</u>
Total	<u><u>1,039</u></u>
Number of participating employers	2

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings 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%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC). The City's Schedule of Employer Contributions is as follows:

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2013	\$ 8,201,418	100%
2012	7,395,000	100%
2011	6,600,000	100%
2010	6,600,000	100%
2009	6,000,000	100%
2008	5,362,000	100%
2007	5,160,000	100%

B. Summary of Significant Accounting Policies

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. 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.

Method Used to Value Investments - Investments is reported at fair value in accordance with PERAC requirements.

C. Funded Status and Funding Progress

The information presented below is from the Methuen Contributory Retirement System's most recent valuation.

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
01/01/12	\$ 86,498,317	\$ 184,918,524	\$ 98,420,207	46.8%	\$ 29,440,881	334.3%

The Schedule of Funding Progress following the notes to the financial statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$98 million was calculated. The actuarial assumptions included (a) 8% investment rate of return and (b) a projected salary increase of 4.75 - 5.25% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first \$12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of December 31, 2012, the unfunded actuarially accrued liability is being amortized over 30 years using a 4.0% increasing payment method.

E. Teachers

As required by State statutes, teachers of the City are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The City is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings

into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7% *
January 1, 1984 - June 30, 1996	8% *
July 1, 1996 - June 30, 2001	9% *
Beginning July 1, 2001	11%

*Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$30,000.

The City's current year covered payroll for teachers and administrators was not available.

In fiscal year 2013, the Commonwealth of Massachusetts contributed \$11,407,819 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

26. 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, 2013 are as follows:

	Year Ended <u>June 30, 2013</u>	Year Ended <u>June 30, 2012</u>
Unpaid claims, beginning of fiscal year	\$ 1,239,692	\$ 836,917
Claims incurred (including IBNRs)	16,847,336	16,009,571
Claims paid	<u>(16,835,446)</u>	<u>(15,606,796)</u>
Unpaid claims, end of fiscal year	\$ <u>1,251,582</u> *	\$ <u>1,239,692</u>

* This liability is considered to be all current.

The \$1,251,583 estimated liability for claims incurred but not reported includes only an estimate for known loss events expected to later be presented as claims.

The City is unable to estimate the amount of unknown loss events expected to become claims and expected future developments on claims already reported. Tufts Health Plan calculates the IBNR on the City's behalf, using actual utilization data to assign costs to the fiscal year in which they were incurred. As a result, the City believes that the estimate is reasonable.

27. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

28. Implementation of New GASB Standards

The GASB has issued Statement No. 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the City's basic financial statements by recognizing as a liability and expense, the City's applicable portion of the Methuen Contributory Retirement System's actuarially accrued liability.

CITY OF METHUEN, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2013

(Unaudited)

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
01/01/12	\$ 86,498,317	\$ 184,918,524	\$ 98,420,207	46.8%	\$ 29,440,881	334.3%
01/01/10	\$ 83,414,310	\$ 168,427,213	\$ 85,012,903	49.5%	\$ 29,781,891	285.5%
01/01/08	\$ 87,315,553	\$ 154,331,693	\$ 67,016,140	56.6%	\$ 30,100,933	222.6%
01/01/07	\$ 79,875,823	\$ 146,337,558	\$ 66,461,735	54.6%	\$ 29,257,209	227.2%
01/01/04	\$ 71,932,860	\$ 117,599,583	\$ 45,666,723	61.2%	\$ 25,933,704	176.1%
01/01/01	\$ 68,625,708	\$ 92,496,265	\$ 23,870,557	74.2%	\$ 22,480,573	106.2%
01/01/97	\$ 42,617,519	\$ 66,863,478	\$ 24,245,959	63.7%	\$ 16,295,087	148.8%
01/01/96	\$ 37,886,763	\$ 58,261,376	\$ 20,374,613	65.0%	\$ 15,520,687	131.3%
01/01/93	\$ 25,970,674	\$ 45,965,677	\$ 19,995,003	56.5%	\$ 14,905,887	134.1%

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
12/31/11	\$ -	\$ 206,686,174	\$ 206,686,174	0.0%	N/A	N/A
06/30/08	\$ -	\$ 209,816,378	\$ 209,816,378	0.0%	\$ 80,056,909	262.1%

See Independent Auditors' Report.