



**Powers &
Sullivan, LLC**
CPAs AND ADVISORS

CITY OF METHUEN, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2022

CITY OF METHUEN, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2022

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Independent Auditor's Report

To the Honorable Mayor and City Council
City of Methuen, Massachusetts

Report on the Audit of the Financial Statements

Opinions

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 (City), as of and for the year ended June 30, 2022 (except for the Methuen Contributory Retirement System which is as of and for the year ended December 31, 2021), and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, as of June 30, 2022 (except for the Methuen Contributory Retirement System which is as of and for the year ended December 31, 2021), and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Methuen, Massachusetts and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Methuen, Massachusetts' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2023 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Powers + Sullivan, LLC

March 22, 2023

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Methuen (the "City"), we offer readers of these basic financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2022. We encourage readers to consider the information presented in this report.

Financial Highlights

- The City's overall liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources by \$162.8 million, at the close of 2022, an overall increase of \$4.0 million from the prior year. The increase is primarily the result of the net decrease in the net pension liability and its associated deferred outflows/inflows of \$7.5 million, the receipt of \$3.3 million in capital grants and contributions related to the chapter 90 program, as well as positive general fund results of \$5.6 million. This increase was offset by the net increase in the net other postemployment benefit (OPEB) liability and its associated deferred outflows/inflows of \$9.3 million, and the fact that depreciation exceeded principal payments by \$3.9 million.
- Governmental net position increased by \$2.5 million. The increase is attributable to the \$7.2 million decrease in the net pension liability and its associated deferred outflows/inflows of resources and positive general fund budgetary results. This increase was offset by a net increase in the net OPEB liability and its associated deferred outflows/inflows of \$9.1 million.
- Business-type activities experienced a \$1.5 million increase in net position as compared to a \$2.8 increase in the prior year. The main factor was the fact that water/sewer usage came in lower than budgeted which caused a decrease in charges for services revenue.
- Overall governmental long-term debt increased by \$4.6 million, and business-type long-term debt increased by \$199,000, including unamortized premiums. The increase was related to the \$12.2 million General Obligation Bond issuance net of current year paydowns. Please see Note 7 for more information on the City's long-term bonds.
- As of the close of the current year, the City's governmental funds reported combined ending fund balance of \$46.0 million, an increase of \$13.8 million in comparison with the prior year.
- At year end the general fund reported unassigned fund balance of \$23.8 million, inclusive of the general stabilization fund of \$5.0 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. These basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements - The *government-wide financial statements* are designed to provide readers with a broad overview of the financial position of the City.

The government-wide financial statements are presented using the accrual basis of accounting, which presents a view of the City's financial position in a manner similar to 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 City's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

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

The City maintains two major governmental funds that are presented separately in the governmental fund financial statements. The remaining nonmajor funds are combined into a single, aggregate presentation under the caption *nonmajor governmental funds*.

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

Proprietary funds – The City maintains two types of proprietary funds.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses the enterprise funds to account for its water and sewer operations.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. The City uses internal service funds to account for self-insured employee health programs. Because

these services primarily benefit governmental rather than business-type activities, they have been included within *governmental activities* in the government-wide financial statements.

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

The fiduciary fund statements are split into two classifications: pension and other employee benefits trust fund, and private purpose trust funds. The pension and other employee benefits trust is used to account for assets accumulated to provide funding for future pension and net other postemployment benefits (OPEB) liabilities. The private purpose trust funds are used to account for trust arrangements that benefit individuals, private organizations, or other governments.

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's overall liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$162.8 million at the close of 2022, an overall increase of \$4.0 million from the prior year.

Net position of \$132.6 million reflects its net investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$8.6 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, a deficit of \$304.0 million, reflects the impact of the \$223.7 million net other postemployment benefit liability and the \$83.1 million net pension liability.

The American Rescue Plan (ARP) Act of 2021, Public Law 117-2, was enacted on March 11, 2021. The ARP Act provides additional funding for communities to respond to the COVID-19 pandemic. The City has received \$36.2 million as of June 30, 2022, for ARP funding. Additional funding has been received through the Massachusetts Department of Elementary and Secondary Education for the schools to reopen. At year end, \$37.9 million was reported as unearned revenue as the City received the funds in advance of the expenditure.

Details related to the City's governmental and business-type activities follow.

Governmental Activities

At the end of the current year, the City is able to report positive balances in two out of three categories of net position. The governmental activities liabilities and deferred inflows of resources exceeded assets and deferred outflows by \$185.8 million at the close of 2022.

| | 2022 | 2021 |
|---|-------------------------|-------------------------|
| Assets: | | |
| Current assets..... | \$ 113,021,751 | \$ 86,373,253 |
| Capital assets, non depreciable..... | 9,255,952 | 9,255,952 |
| Capital assets, net of accumulated depreciation.... | 147,189,467 | 152,583,642 |
| Total assets..... | 269,467,170 | 248,212,847 |
| Deferred outflows of resources..... | 52,016,553 | 70,963,421 |
| Liabilities: | | |
| Current liabilities (excluding debt)..... | 52,225,412 | 39,578,921 |
| Noncurrent liabilities (excluding debt)..... | 299,270,050 | 342,517,507 |
| Current debt..... | 3,545,136 | 3,313,299 |
| Noncurrent debt..... | 47,724,731 | 43,571,974 |
| Total liabilities..... | 402,765,329 | 428,981,701 |
| Deferred inflows of resources..... | 104,521,110 | 78,545,348 |
| Net position: | | |
| Net investment in capital assets..... | 114,974,096 | 120,486,030 |
| Restricted..... | 8,583,319 | 5,377,886 |
| Unrestricted..... | (309,360,131) | (314,214,697) |
| Total net position..... | \$ (185,802,716) | \$ (188,350,781) |

A significant portion of the City's governmental activities net position, \$115.0 million, reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net position of \$8.6 million represents resources that are subject to external restrictions on how they may be used. The deficit balance of unrestricted net position in the amount of \$309.4 million is due to the recognition of the net pension liability of \$77.8 million and the net OPEB liability of \$219.0 million.

The key elements of governmental activities are as follows:

| | 2022 | 2021 |
|---|-----------------------------|-----------------------------|
| Program Revenues: | | |
| Charges for services..... \$ | 12,828,937 | \$ 10,493,527 |
| Operating grants and contributions..... | 84,106,410 | 90,263,335 |
| Capital grants and contributions..... | 3,574,182 | 239,885 |
| General Revenues: | | |
| Real estate and personal property taxes, net of tax refunds payable..... | 99,817,068 | 94,683,912 |
| Tax and other liens..... | 348,421 | 566,387 |
| Motor vehicle and other excise taxes..... | 7,184,663 | 6,883,612 |
| Hotel/motel tax..... | 91,085 | 63,411 |
| Meals tax..... | 1,117,559 | 895,668 |
| Penalties and interest on taxes..... | 487,720 | 1,081,371 |
| Payments in lieu of taxes..... | 181,629 | 223,357 |
| Grants and contributions not restricted to specific programs..... | 7,758,913 | 6,920,816 |
| Unrestricted investment income..... | 525,890 | 449,811 |
| Miscellaneous..... | 349,251 | 207,430 |
| Total revenues..... | 218,371,728 | 212,972,522 |
| Expenses: | | |
| Legislative, executive and financial..... | 8,444,356 | 6,693,459 |
| Public safety..... | 36,976,192 | 38,071,938 |
| Education..... | 143,870,860 | 150,703,986 |
| Public works..... | 12,747,394 | 10,511,052 |
| Economic and community development..... | 3,428,608 | 2,967,061 |
| Human services..... | 1,664,917 | 1,589,946 |
| Sanitation..... | 4,657,750 | 3,831,080 |
| Culture and recreation..... | 2,717,705 | 2,339,820 |
| Interest..... | 1,315,881 | 1,389,740 |
| Total expenses..... | 215,823,663 | 218,098,082 |
| Change in net position..... | 2,548,065 | (5,125,560) |
| Net position, beginning of year..... | (188,350,781) | (183,225,221) |
| Net position, end of year..... \$ | <u>(185,802,716)</u> | <u>(188,350,781)</u> |

Governmental net position increased by \$2.5 million. The increase is attributable to the \$7.2 million decrease in the net pension liability and its associated deferred outflows/inflows of resources and positive results within the general fund. This increase was offset by a net decrease in the net OPEB liability and its associated deferred outflows/inflows of \$9.1 million, and the fact that depreciation exceeded principle payments by million.

Business-type Activities

The following summarizes the key financial components of the City's business-type activities:

| | 2022 | 2021 |
|---|----------------------|----------------------|
| Assets: | | |
| Current assets..... | \$ 17,181,951 | \$ 14,712,791 |
| Capital assets, non depreciable..... | 251,550 | 251,550 |
| Capital assets, net of accumulated depreciation.... | 32,391,887 | 33,447,473 |
| Total assets..... | 49,825,388 | 48,411,814 |
| Deferred outflows of resources..... | 2,254,819 | 2,401,735 |
| Liabilities: | | |
| Current liabilities (excluding debt)..... | 498,802 | 611,856 |
| Noncurrent liabilities (excluding debt)..... | 10,105,260 | 11,597,432 |
| Current debt..... | 2,193,731 | 1,932,135 |
| Noncurrent debt..... | 12,807,484 | 12,869,655 |
| Total liabilities..... | 25,605,277 | 27,011,078 |
| Deferred inflows of resources..... | 3,446,733 | 2,234,723 |
| Net position: | | |
| Net investment in capital assets..... | 17,661,970 | 18,916,981 |
| Unrestricted..... | 5,366,227 | 2,650,767 |
| Total net position..... | \$ 23,028,197 | \$ 21,567,748 |
| | 2022 | 2021 |
| Program Revenues: | | |
| Charges for services..... | \$ 14,163,668 | \$ 15,822,462 |
| General Revenues: | | |
| Unrestricted investment income..... | 19,278 | 14,375 |
| Miscellaneous..... | - | 2,714 |
| Total revenues..... | 14,182,946 | 15,839,551 |
| Expenses: | | |
| Water and sewer..... | 12,722,497 | 12,992,554 |
| Change in net position..... | 1,460,449 | 2,846,997 |
| Net position, beginning of year..... | 21,567,748 | 18,720,751 |
| Net position, end of year..... | \$ 23,028,197 | \$ 21,567,748 |

Business type activities assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$23.0 million at the close of 2022, an increase of \$1.5 million from the prior year.

Net position of \$17.7 million reflects its net investment in capital assets less any debt used to acquire those assets that are still outstanding. The balance of unrestricted net position was \$5.4 million at year end.

The main factor in the increase relates to the increased water and sewer rates, however, there was a decrease in usage from the budget. Expenses decreased due to a decrease in the accruals for the net pension and net OPEB liabilities and their associated deferred inflows/outflows, as well as slight decreases in overall operating expenses.

Financial Analysis of the Government's Funds

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

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

As of the end of the year, governmental funds reported combined ending fund balances of \$46.0 million, an increase of \$13.8 million in comparison with the prior year. The increase is primarily attributable to the positive results in the general fund and the timing between the receipt and expenditure of bond issuances and grant proceeds.

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund equaled \$23.8 million (which includes \$5 million set aside in the general stabilization account), while total fund balance was \$25.4 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned and total fund balance represents 13.4% and 14.2% of general fund expenditures, respectively.

The general fund, fund balance includes the deficit financing note originally issued in fiscal year 2019 related to the School Department's fiscal year 2018 over expenditure. At June 30, 2022, the balance of the long-term note was \$2.9 million.

The federal grants fund is used to account for grant funds received from the federal government which are designated for specific programs. The federal grant fund increased \$646,000 from the prior year due to the timing of the expenditure of grant funds received. The City has received ARPA distributions which have been recorded as unearned revenue until spending plans are finalized.

Nonmajor governmental funds increased \$7.6 million which can be attributed to the timing difference between the receipt of bond proceeds and the related capital expenditures.

General Fund Budgetary Highlights

The difference between the original budget of \$172.0 million and the final amended budget of \$174.3 million amounted to a net increase of \$2.3 million. During 2022, the City Council approved transfers of \$1.1 million to the general stabilization fund from meals tax and use of free cash within the general fund of \$1.3 million. The Council also approved transfers between departments representing minor increases and decreases in various budget line items.

Revenues came in higher than budgeted by \$2.1 million while expenditures came in \$3.1 million lower than budgeted. The largest departmental turnback of \$1.6 million related to education.

Capital Asset and Debt Administration

Capital Assets – The City’s investment in capital assets for governmental activities as of June 30, 2022, amounts to \$156.4 million, net of accumulated depreciation. The investment in capital assets includes land, land improvements, construction in progress, construction, infrastructure, vehicles, and machinery and equipment. Major governmental additions included \$439,000 for the comprehensive grammar school roof, \$644,000 for a fire department water pumper truck, as well as various other equipment and vehicle purchases.

The City’s investment in capital assets for business-type activities as of June 30, 2022, amounts to \$32.6 million, net of accumulated depreciation. The investment in capital assets for the business-type activities relate to land, land improvements, construction, infrastructure, vehicles, and machinery and equipment.

Additional information on the City’s capital assets may be found in Note 4 to the basic financial statements.

Long-term debt – At June 30, 2022, the City had total governmental bonded debt of \$51.3 million. Of this amount \$49.5 million is a general obligation of the City and the remaining \$1.7 million relates to unamortized bond premiums. In May 2022, the City issued \$9.3 million of general obligation State qualified bonds; \$7.3 million of the issuance was for governmental capital. Additionally, the City issued state qualified deficit financing of \$2.9 million and a current refunding of \$3.2 million related to the deficit financing BAN during fiscal year 2022.

The water and sewer enterprise fund had \$15.0 million in long-term debt outstanding. The fund issued a \$2.0 million general obligation bond during fiscal year 2022, for the Forest Street water tank replacement. Currently, the City has \$10.2 million in authorized and unissued long-term debt relating to future water and sewer improvement projects.

During fiscal year 2022, Standards & Poor’s Global Ratings upgraded the City’s credit rating from a rating of A to a rating of A+ and affirmed its AA long-term rating, with stable outlook on the City’s existing debt.

Moody’s Global Ratings had a rating of A3 related to the City’s general obligation bonds on the City’s existing debt as of June 30, 2022. Shortly after year-end, in August 2022, Moody’s upgraded the City’s credit rating for general obligation bonds to ‘A1’.

Please see Note 6 and 7 for more information related to debt activity.

Economic Factors and Next Year’s Budgets and Rates

For the fiscal 2021 and fiscal 2022 budgets, the City used conservative revenue projections due to the unknown impacts of the COVID-19 virus. The City completed both years with positive results, despite the reduction in forecasted and experienced revenues. Therefore, for the fiscal 2023 budget, the City projected an increase in revenues from the prior year budget, that brings the City back to the level of revenues prior to the pandemic. The FY2023 budget reflects a focus on maintaining services that benefits the residents of the City of Methuen, while continuing our fiscally conservative approach.

The City of Methuen's fiscal year 2023 annual budget was approved as of June 7, 2022, as follows:

| City of Methuen - Summary of Projected Revenues and Expenditures | |
|--|--------------------|
| Fiscal Year 2023 | |
| | Original Budget |
| General Fund | FY23 |
| Revenues | |
| Property Tax Levy | \$ 100,813,580 |
| 2.5 increase | 2,520,340 |
| New Growth | 1,100,000 |
| State Aid Cherry Sheet | 63,809,317 |
| Estimated Local & Offset Receipts | 14,065,699 |
| Available Funds/Other Financing Sources | 675,000 |
| Total Revenues | 182,983,936 |
| Expenditures | |
| Legislative and Executive | 1,622,374 |
| Financial | 3,821,818 |
| Economic & Community Development | 772,573 |
| Health and Inspections | 1,041,352 |
| Public Safety | 24,617,150 |
| Education | 95,940,067 |
| Public Works | 12,434,507 |
| Human Services | 893,163 |
| Culture & Recreation | 1,541,187 |
| Debt Service | 5,013,245 |
| Risk Management | 1,175,125 |
| Employee Benefits | 31,415,064 |
| State Assessments | 3,873,990 |
| Other Amounts Raised | 1,033,144 |
| Total Expenditures | 185,194,759 |
| Indirect Costs- Enterprise | (2,417,681) |
| General Fund Surplus/(Shortfall) | 206,858 |
| Enterprise Funds | |
| Enterprise Funds: Revenues | 15,845,019 |
| Enterprise Funds: Expenditures | 15,845,019 |
| Enterprise Surplus/(Shortfall) | - |
| Excess Capacity | \$ 206,858 |

Other Information

After years of uncertainty, the arbitration matter between the City of Methuen and the Methuen Police Superior Officers Association concluded in the City's favor during fiscal year 2022. The Methuen Police Superior Officers Association and the City were then able to successfully negotiate contracts from 2017 thru 2024, which were approved by City Council in September 2022.

In addition, the City Council has approved using approximately \$2.55 million in free cash to pay off the State deficit financing note that was issued to the City in 2018. This payment is to be made during fiscal year 2023, at which time will officially remove the City from state oversight.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Administrative and Financial Officer, City of Methuen, 41 Pleasant Street, Methuen, MA 01844.

Basic Financial Statements

STATEMENT OF NET POSITION

JUNE 30, 2022

| | Primary Government | | |
|---|----------------------------|-----------------------------|-------------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| CURRENT: | | | |
| Cash and cash equivalents..... | \$ 94,366,149 | \$ 10,880,969 | \$ 105,247,118 |
| Beneficial interest in trusts..... | 1,586,222 | - | 1,586,222 |
| Receivables, net of allowance for uncollectibles: | | | |
| Real estate and personal property taxes..... | 1,857,707 | - | 1,857,707 |
| Tax liens..... | 2,401,534 | - | 2,401,534 |
| Motor vehicle and other excise taxes..... | 1,317,708 | - | 1,317,708 |
| User charges..... | - | 6,300,982 | 6,300,982 |
| Departmental and other..... | 2,852,573 | - | 2,852,573 |
| Intergovernmental..... | 4,193,634 | - | 4,193,634 |
| Special assessments..... | 95,501 | - | 95,501 |
| Loans..... | 2,919,164 | - | 2,919,164 |
| Tax foreclosures..... | 1,431,559 | - | 1,431,559 |
| Total current assets..... | 113,021,751 | 17,181,951 | 130,203,702 |
| NONCURRENT: | | | |
| Capital assets, nondepreciable..... | 9,255,952 | 251,550 | 9,507,502 |
| Capital assets, net of accumulated depreciation..... | 147,189,467 | 32,391,887 | 179,581,354 |
| Total noncurrent assets..... | 156,445,419 | 32,643,437 | 189,088,856 |
| TOTAL ASSETS..... | 269,467,170 | 49,825,388 | 319,292,558 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows related to pensions..... | 8,338,592 | 1,317,907 | 9,656,499 |
| Deferred outflows related to other postemployment benefits..... | 43,677,961 | 936,912 | 44,614,873 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES..... | 52,016,553 | 2,254,819 | 54,271,372 |
| LIABILITIES | | | |
| CURRENT: | | | |
| Warrants payable..... | 4,740,517 | 141,776 | 4,882,293 |
| Accrued payroll..... | 1,280,278 | 53,259 | 1,333,537 |
| Health claims payable..... | 1,042,275 | - | 1,042,275 |
| Accrued interest..... | 519,742 | 150,771 | 670,513 |
| Other liabilities..... | 4,405,466 | 24,314 | 4,429,780 |
| Unearned revenue..... | 37,927,473 | - | 37,927,473 |
| Landfill closure..... | 40,000 | - | 40,000 |
| Compensated absences..... | 2,269,661 | 128,682 | 2,398,343 |
| Long-term debt payable..... | 3,545,136 | 2,193,731 | 5,738,867 |
| Total current liabilities..... | 55,770,548 | 2,692,533 | 58,463,081 |
| NONCURRENT: | | | |
| Landfill closure..... | 200,000 | - | 200,000 |
| Compensated absences..... | 2,269,661 | 128,682 | 2,398,343 |
| Net pension liability..... | 77,771,688 | 5,278,312 | 83,050,000 |
| Net other postemployment benefits liability..... | 219,028,701 | 4,698,266 | 223,726,967 |
| Long-term debt payable..... | 47,724,731 | 12,807,484 | 60,532,215 |
| Total noncurrent liabilities..... | 346,994,781 | 22,912,744 | 369,907,525 |
| TOTAL LIABILITIES..... | 402,765,329 | 25,605,277 | 428,370,606 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows related to beneficial interests..... | 1,586,222 | - | 1,586,222 |
| Deferred inflows related to pensions..... | 28,847,195 | 1,857,518 | 30,704,713 |
| Deferred inflows related to other postemployment benefits..... | 74,087,693 | 1,589,215 | 75,676,908 |
| TOTAL DEFERRED INFLOWS OF RESOURCES..... | 104,521,110 | 3,446,733 | 107,967,843 |
| NET POSITION | | | |
| Net investment in capital assets..... | 114,974,096 | 17,661,970 | 132,636,066 |
| Restricted for: | | | |
| Community development..... | 2,958,584 | - | 2,958,584 |
| Permanent funds: | | | |
| Expendable..... | 536,504 | - | 536,504 |
| Nonexpendable..... | 417,055 | - | 417,055 |
| Gifts and grants..... | 4,671,176 | - | 4,671,176 |
| Unrestricted..... | (309,360,131) | 5,366,227 | (303,993,904) |
| TOTAL NET POSITION..... | \$ (185,802,716) | \$ 23,028,197 | \$ (162,774,519) |

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2022

| | | Program Revenues | | | | |
|---|----------------|----------------------|------------------------------------|----------------------------------|-----------------------|--|
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Net (Expense) Revenue | |
| Primary Government: | | | | | | |
| <i>Governmental Activities:</i> | | | | | | |
| Legislative, executive and financial..... | \$ 8,444,356 | \$ 2,360,366 | \$ 288,615 | \$ - | \$ (5,795,375) | |
| Public safety..... | 36,976,192 | 5,253,768 | 529,870 | - | (31,192,554) | |
| Education..... | 143,870,860 | 2,687,854 | 81,675,613 | - | (59,507,393) | |
| Public works..... | 12,747,394 | 389,498 | 181,920 | 3,574,182 | (8,601,794) | |
| Economic and community development..... | 3,428,608 | 549,618 | 221,887 | - | (2,657,103) | |
| Human services..... | 1,664,917 | 295,178 | 947,506 | - | (422,233) | |
| Sanitation..... | 4,657,750 | - | - | - | (4,657,750) | |
| Culture and recreation..... | 2,717,705 | 1,292,655 | 260,999 | - | (1,164,051) | |
| Interest..... | 1,315,881 | - | - | - | (1,315,881) | |
| Total Governmental Activities..... | 215,823,663 | 12,828,937 | 84,106,410 | 3,574,182 | (115,314,134) | |
| <i>Business-Type Activities:</i> | | | | | | |
| Water and sewer..... | 12,722,497 | 14,163,668 | - | - | 1,441,171 | |
| Total Primary Government..... | \$ 228,546,160 | \$ 26,992,605 | \$ 84,106,410 | \$ 3,574,182 | \$ (113,872,963) | |

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2022

| | Primary Government | | |
|---|----------------------------|-----------------------------|-------------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Changes in net position: | | | |
| Net (expense) revenue from previous page..... \$ | (115,314,134) | \$ 1,441,171 | \$ (113,872,963) |
| <i>General revenues:</i> | | | |
| Real estate and personal property taxes, net of tax refunds payable..... | 99,817,068 | - | 99,817,068 |
| Tax and other liens..... | 348,421 | - | 348,421 |
| Motor vehicle and other excise taxes..... | 7,184,663 | - | 7,184,663 |
| Hotel/motel tax..... | 91,085 | - | 91,085 |
| Meals tax..... | 1,117,559 | - | 1,117,559 |
| Penalties and interest on taxes..... | 487,720 | - | 487,720 |
| Payments in lieu of taxes..... | 181,629 | - | 181,629 |
| Grants and contributions not restricted to specific programs..... | 7,758,913 | - | 7,758,913 |
| Unrestricted investment income..... | 525,890 | 19,278 | 545,168 |
| Miscellaneous..... | 349,251 | - | 349,251 |
| Total general revenues..... | 117,862,199 | 19,278 | 117,881,477 |
| Change in net position..... | 2,548,065 | 1,460,449 | 4,008,514 |
| <i>Net position:</i> | | | |
| Beginning of year..... | (188,350,781) | 21,567,748 | (166,783,033) |
| End of year..... \$ | (185,802,716) | \$ 23,028,197 | \$ (162,774,519) |

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2022

| | General | Federal Grants | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|----------------------|-----------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents..... | \$ 30,369,671 | \$ 38,724,637 | \$ 19,883,037 | \$ 88,977,345 |
| Beneficial interest in trusts..... | - | - | 1,586,222 | 1,586,222 |
| Receivables, net of uncollectibles: | | | | |
| Real estate and personal property taxes..... | 1,857,707 | - | - | 1,857,707 |
| Tax liens..... | 2,401,534 | - | - | 2,401,534 |
| Motor vehicle and other excise taxes..... | 1,317,708 | - | - | 1,317,708 |
| Departmental and other..... | 2,314,236 | - | 463,043 | 2,777,279 |
| Intergovernmental..... | 213,588 | 832,900 | 3,147,146 | 4,193,634 |
| Special assessments..... | 95,501 | - | - | 95,501 |
| Loans..... | - | - | 2,919,164 | 2,919,164 |
| Tax foreclosures..... | 1,431,559 | - | - | 1,431,559 |
| TOTAL ASSETS..... | \$ 40,001,504 | \$ 39,557,537 | \$ 27,998,612 | \$ 107,557,653 |
| LIABILITIES | | | | |
| Warrants payable..... | \$ 2,537,884 | \$ 545,292 | \$ 1,470,181 | \$ 4,553,357 |
| Accrued payroll..... | 1,132,314 | 52,427 | 95,537 | 1,280,278 |
| Other liabilities..... | 2,922,563 | - | - | 2,922,563 |
| Unearned revenue..... | - | 37,927,473 | - | 37,927,473 |
| TOTAL LIABILITIES..... | 6,592,761 | 38,525,192 | 1,565,718 | 46,683,671 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred inflows related to beneficial interests..... | - | - | 1,586,222 | 1,586,222 |
| Unavailable revenue..... | 8,026,434 | - | 5,221,631 | 13,248,065 |
| TOTAL DEFERRED INFLOWS OF RESOURCES..... | 8,026,434 | - | 6,807,853 | 14,834,287 |
| FUND BALANCES | | | | |
| Nonspendable..... | - | - | 417,055 | 417,055 |
| Restricted..... | - | 1,032,345 | 19,207,986 | 20,240,331 |
| Committed..... | 928,328 | - | - | 928,328 |
| Assigned..... | 624,193 | - | - | 624,193 |
| Unassigned..... | 23,829,788 | - | - | 23,829,788 |
| TOTAL FUND BALANCES..... | 25,382,309 | 1,032,345 | 19,625,041 | 46,039,695 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES..... | \$ 40,001,504 | \$ 39,557,537 | \$ 27,998,612 | \$ 107,557,653 |

See notes to basic financial statements.

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

JUNE 30, 2022

| | |
|--|-------------------------|
| Total governmental fund balances..... | \$ 46,039,695 |
| Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds..... | 156,445,419 |
| Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds..... | 13,248,065 |
| The statement of net position includes certain deferred inflows of resources and deferred outflows of resources that will be amortized over future periods. In governmental funds, these amounts are not reported..... | (50,918,335) |
| The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position..... | 2,751,760 |
| In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due..... | (519,742) |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds: | |
| Long-term debt payable..... | (51,269,867) |
| Net pension liability..... | (77,771,688) |
| Net other postemployment benefits liability..... | (219,028,701) |
| Landfill closure..... | (240,000) |
| Compensated absences..... | (4,539,322) |
| Net effect of reporting long-term liabilities..... | (352,849,578) |
| Net position of governmental activities..... | \$ <u>(185,802,716)</u> |

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2022

| | General | Federal Grants | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|---------------------|-----------------------------------|--------------------------------|
| REVENUES: | | | | |
| Real estate and personal property taxes, net of tax refunds..... | \$ 99,796,657 | \$ - | \$ - | \$ 99,796,657 |
| Tax liens..... | 352,890 | - | - | 352,890 |
| Motor vehicle and other excise taxes..... | 7,368,720 | - | - | 7,368,720 |
| Hotel/motel tax..... | 91,085 | - | - | 91,085 |
| Meals tax..... | 1,117,559 | - | - | 1,117,559 |
| Charges for services..... | 3,394,741 | - | 11,067,565 | 14,462,306 |
| Penalties and interest on taxes..... | 487,720 | - | - | 487,720 |
| Payments in lieu of taxes..... | 181,629 | - | - | 181,629 |
| Licenses and permits..... | 1,707,249 | - | - | 1,707,249 |
| Fines and forfeitures..... | 215,835 | - | - | 215,835 |
| Intergovernmental - state aid..... | 55,796,042 | - | - | 55,796,042 |
| Intergovernmental - teachers retirement..... | 11,668,133 | - | - | 11,668,133 |
| Intergovernmental - other..... | 16,911 | 10,884,133 | 9,575,710 | 20,476,754 |
| Departmental and other..... | 1,274,860 | - | 460,553 | 1,735,413 |
| Special assessments..... | 10,668 | - | - | 10,668 |
| Contributions and donations..... | - | - | 129,149 | 129,149 |
| Investment income..... | 512,384 | - | 301 | 512,685 |
| TOTAL REVENUES..... | 183,993,083 | 10,884,133 | 21,233,278 | 216,110,494 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Legislative, executive and financial..... | 4,536,207 | 434,979 | 3,494,054 | 8,465,240 |
| Public safety..... | 23,622,493 | 302,327 | 2,998,406 | 26,923,226 |
| Education..... | 86,423,798 | 9,435,870 | 10,306,846 | 106,166,514 |
| Public works..... | 6,740,951 | - | 1,921,907 | 8,662,858 |
| Economic and community development..... | 1,672,608 | - | 731,878 | 2,404,486 |
| Human services..... | 739,873 | 49,314 | 647,428 | 1,436,615 |
| Sanitation..... | 4,691,470 | - | - | 4,691,470 |
| Culture and recreation..... | 1,399,998 | 15,376 | 1,156,663 | 2,572,037 |
| Pension benefits..... | 13,500,643 | - | - | 13,500,643 |
| Pension benefits - teachers retirement..... | 11,668,133 | - | - | 11,668,133 |
| Employee benefits..... | 15,500,651 | - | - | 15,500,651 |
| State and county charges..... | 3,564,063 | - | - | 3,564,063 |
| Debt service: | | | | |
| Principal..... | 2,540,000 | - | - | 2,540,000 |
| Principal payment on current refunding..... | 3,235,000 | - | - | 3,235,000 |
| Interest..... | 1,505,372 | - | - | 1,505,372 |
| TOTAL EXPENDITURES..... | 181,341,260 | 10,237,866 | 21,257,182 | 212,836,308 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES..... | 2,651,823 | 646,267 | (23,904) | 3,274,186 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Issuance of bonds..... | - | - | 7,330,700 | 7,330,700 |
| Issuance of refunding bonds..... | 2,866,000 | - | - | 2,866,000 |
| Premium from issuance of bonds..... | - | - | 367,193 | 367,193 |
| Transfers in..... | 207,394 | - | 350,133 | 557,527 |
| Transfers out..... | (127,450) | - | (430,077) | (557,527) |
| TOTAL OTHER FINANCING SOURCES (USES)..... | 2,945,944 | - | 7,617,949 | 10,563,893 |
| NET CHANGE IN FUND BALANCES..... | 5,597,767 | 646,267 | 7,594,045 | 13,838,079 |
| FUND BALANCES AT BEGINNING OF YEAR..... | 19,784,542 | 386,078 | 12,030,996 | 32,201,616 |
| FUND BALANCES AT END OF YEAR..... | \$ 25,382,309 | \$ 1,032,345 | \$ 19,625,041 | \$ 46,039,695 |

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2022

| | |
|--|---------------------|
| Net change in fund balances - total governmental funds..... | \$ 13,838,079 |
| <p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p> | |
| Capital outlay..... | 2,017,703 |
| Depreciation expense..... | <u>(7,411,878)</u> |
| Net effect of reporting capital assets..... | (5,394,175) |
| <p>Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. This amount represents the net change in unavailable revenue.....</p> | |
| | 2,248,029 |
| <p>The issuance of long-term debt 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 has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are unavailable and amortized in the Statement of Activities.</p> | |
| Issuance of bonds..... | (7,330,700) |
| Issuance of refunding bonds..... | (2,866,000) |
| Premium from issuance of bonds..... | (367,193) |
| Net amortization of premium from issuance of bonds..... | 154,299 |
| Debt service principal payments..... | <u>5,775,000</u> |
| Net effect of reporting long-term debt..... | (4,634,594) |
| <p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p> | |
| Net change in compensated absences accrual..... | (532,774) |
| Net change in accrued interest on long-term debt..... | 35,192 |
| Net change in deferred outflow/(inflow) of resources related to pensions..... | (16,679,290) |
| Net change in net pension liability..... | 23,913,047 |
| Net change in deferred outflow/(inflow) of resources related to other postemployment benefits... | (28,655,419) |
| Net change in net other postemployment benefits liability..... | 19,560,797 |
| Net change in landfill closure..... | <u>40,000</u> |
| Net effect of recording long-term liabilities..... | (2,318,447) |
| The net activity of internal service funds is reported with Governmental Activities..... | <u>(1,190,827)</u> |
| Change in net position of governmental activities..... | \$ <u>2,548,065</u> |

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2022

| | Business-type Activities - Enterprise Fund | Governmental Activities - Internal Service Fund |
|---|--|--|
| ASSETS | | |
| CURRENT: | | |
| Cash and cash equivalents..... | \$ 10,880,969 | \$ 5,388,804 |
| Receivables, net of allowance for uncollectibles: | | |
| User charges..... | 6,300,982 | - |
| Departmental and other..... | - | 75,294 |
| Total current assets..... | 17,181,951 | 5,464,098 |
| NONCURRENT: | | |
| Capital assets, nondepreciable..... | 251,550 | - |
| Capital assets, net of accumulated depreciation..... | 32,391,887 | - |
| Total noncurrent assets..... | 32,643,437 | - |
| TOTAL ASSETS..... | 49,825,388 | 5,464,098 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows related to pensions..... | 1,317,907 | - |
| Deferred outflows related to other postemployment benefits..... | 936,912 | - |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES..... | 2,254,819 | - |
| LIABILITIES | | |
| CURRENT: | | |
| Warrants payable..... | 141,776 | 187,160 |
| Accrued payroll..... | 53,259 | - |
| Health claims payable..... | - | 1,042,275 |
| Accrued interest..... | 150,771 | - |
| Other liabilities..... | 24,314 | 1,482,903 |
| Compensated absences..... | 128,682 | - |
| Long-term debt payable..... | 2,193,731 | - |
| Total current liabilities..... | 2,692,533 | 2,712,338 |
| NONCURRENT: | | |
| Compensated absences..... | 128,682 | - |
| Net pension liability..... | 5,278,312 | - |
| Net other postemployment benefits liability..... | 4,698,266 | - |
| Long-term debt payable..... | 12,807,484 | - |
| Total noncurrent liabilities..... | 22,912,744 | - |
| TOTAL LIABILITIES..... | 25,605,277 | 2,712,338 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows related to pensions..... | 1,857,518 | - |
| Deferred inflows related to other postemployment benefits..... | 1,589,215 | - |
| TOTAL DEFERRED INFLOWS OF RESOURCES..... | 3,446,733 | - |
| NET POSITION | | |
| Net investment in capital assets..... | 17,661,970 | - |
| Unrestricted..... | 5,366,227 | 2,751,760 |
| TOTAL NET POSITION..... | \$ 23,028,197 | \$ 2,751,760 |

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2022

| | Business-type Activities - Enterprise Fund | Governmental Activities - |
|---|--|------------------------------|
| | Water and Sewer | Internal Service Fund |
| OPERATING REVENUES: | | |
| Employee contributions..... | \$ - | \$ 7,531,354 |
| Employer contributions..... | - | 15,076,870 |
| Charges for services..... | 13,896,067 | - |
| Permit revenues..... | 267,601 | - |
| TOTAL OPERATING REVENUES | 14,163,668 | 22,608,224 |
| OPERATING EXPENSES: | | |
| Cost of services and administration..... | 5,141,135 | - |
| Salaries and wages..... | 2,757,172 | - |
| GLSD assessment..... | 3,299,353 | - |
| Depreciation..... | 1,218,992 | - |
| Employee benefits..... | - | 23,812,256 |
| TOTAL OPERATING EXPENSES..... | 12,416,652 | 23,812,256 |
| OPERATING INCOME (LOSS)..... | 1,747,016 | (1,204,032) |
| NONOPERATING REVENUES (EXPENSES): | | |
| Investment income..... | 19,278 | 13,205 |
| Interest expense..... | (305,845) | - |
| TOTAL NONOPERATING REVENUES (EXPENSES), NET..... | (286,567) | 13,205 |
| CHANGE IN NET POSITION..... | 1,460,449 | (1,190,827) |
| NET POSITION AT BEGINNING OF YEAR..... | 21,567,748 | 3,942,587 |
| NET POSITION AT END OF YEAR..... | \$ 23,028,197 | \$ 2,751,760 |

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2022

| | Business-type Activities - Enterprise Fund | Governmental Activities - Internal Service Fund |
|--|--|--|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES:</u> | | |
| Receipts from customers and users..... | \$ 14,041,456 | \$ 7,200,904 |
| Receipts from interfund services provided..... | - | 15,058,325 |
| Payments to vendors..... | (8,610,447) | - |
| Payments to employees..... | (2,821,586) | - |
| Payments for interfund services used..... | - | (23,505,374) |
| NET CASH FROM OPERATING ACTIVITIES..... | 2,609,423 | (1,246,145) |
| <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u> | | |
| Proceeds from the issuance of bonds..... | 1,999,300 | - |
| Premium from the issuance of bonds..... | 132,260 | - |
| Acquisition and construction of capital assets..... | (163,406) | - |
| Principal payments on bonds and notes..... | (1,874,837) | - |
| Interest expense..... | (375,070) | - |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES..... | (281,753) | - |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u> | | |
| Investment income..... | 19,278 | 13,205 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS..... | 2,346,948 | (1,232,940) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR..... | 8,534,021 | 6,621,744 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR..... | \$ 10,880,969 | \$ 5,388,804 |
| <u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</u> | | |
| <u>FROM OPERATING ACTIVITIES:</u> | | |
| Operating income (loss)..... | \$ 1,747,016 | \$ (1,204,032) |
| Adjustments to reconcile operating income to net cash from operating activities: | | |
| Depreciation..... | 1,218,992 | - |
| Deferred (outflows)/inflows related to pensions..... | 744,253 | - |
| Deferred (outflows)/inflows related to other postemployment benefits..... | 614,673 | - |
| Changes in assets and liabilities: | | |
| User charges..... | (122,212) | - |
| Departmental and other..... | - | (18,545) |
| Warrants payable..... | (55,956) | 137,796 |
| Accrued payroll..... | (32,920) | - |
| Health claims payable..... | - | 169,086 |
| Other liabilities..... | 3,496 | (330,450) |
| Compensated absences..... | (31,494) | - |
| Net pension liability..... | (1,056,837) | - |
| Net other postemployment benefits liability..... | (419,588) | - |
| Total adjustments..... | 862,407 | (42,113) |
| NET CASH FROM OPERATING ACTIVITIES..... | \$ 2,609,423 | \$ (1,246,145) |

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2022

| | Pension and Other Employee Benefits Trust Funds | Private Purpose Trust Fund |
|--|--|----------------------------------|
| ASSETS | | |
| Cash and cash equivalents..... | \$ 750,063 | \$ 739,979 |
| Investments: | | |
| Investments in Pension Reserve Investment Trust..... | 238,876,538 | - |
| Equity mutual funds..... | 286,731 | - |
| Fixed income mutual funds..... | 191,637 | - |
| Pooled alternative investments..... | 83,756 | - |
| Receivables, net of allowance for uncollectibles: | | |
| Departmental and other..... | 46,869 | - |
| TOTAL ASSETS | 240,235,594 | 739,979 |
| LIABILITIES | | |
| Warrants payable..... | 7,473 | - |
| NET POSITION | | |
| Restricted for pensions..... | 239,749,126 | - |
| Restricted for other postemployment benefits..... | 478,995 | - |
| Held in trust for other purposes..... | - | 739,979 |
| TOTAL NET POSITION | \$ 240,228,121 | \$ 739,979 |

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2022

| | Pension and Other Employee Benefits Trust Funds | Private Purpose Trust Fund |
|---|--|----------------------------------|
| ADDITIONS: | | |
| Contributions: | | |
| Employer contributions..... | \$ 14,763,783 | \$ - |
| Employer contributions for other postemployment benefit payments..... | 5,823,081 | - |
| Member contributions..... | 3,728,997 | - |
| Transfers from other systems..... | 804,085 | - |
| 3(8)c contributions from other systems..... | 237,858 | - |
| Workers compensation settlements..... | 239 | - |
| State COLA reimbursements..... | 57,581 | - |
| Member makeup payments and redeposits..... | 9,485 | - |
| Interest not refunded..... | 7,265 | - |
| Private donations..... | - | 85,614 |
| | <u>25,432,374</u> | <u>85,614</u> |
| Total contributions..... | | |
| | <u>25,432,374</u> | <u>85,614</u> |
| Net investment income: | | |
| Investment income (loss)..... | 40,264,431 | 826 |
| Less: investment expense..... | (1,091,352) | - |
| | <u>39,173,079</u> | <u>826</u> |
| Net investment income (loss)..... | | |
| | <u>39,173,079</u> | <u>826</u> |
| TOTAL ADDITIONS..... | <u>64,605,453</u> | <u>86,440</u> |
| DEDUCTIONS: | | |
| Administration..... | 245,270 | - |
| Transfers to other systems..... | 362,839 | - |
| 3(8)c transfer to other systems..... | 316,498 | - |
| Retirement benefits and refunds..... | 16,981,094 | - |
| Other postemployment benefit payments..... | 5,823,081 | - |
| Educational scholarships..... | - | 9,450 |
| | <u>23,728,782</u> | <u>9,450</u> |
| TOTAL DEDUCTIONS..... | | |
| | <u>23,728,782</u> | <u>9,450</u> |
| NET INCREASE (DECREASE) IN NET POSITION..... | 40,876,671 | 76,990 |
| NET POSITION AT BEGINNING OF YEAR..... | 199,351,450 | 662,989 |
| NET POSITION AT END OF YEAR..... | <u>\$ 240,228,121</u> | <u>\$ 739,979</u> |

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The City is a municipal corporation that is governed by an elected nine-member City Council.

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

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

The Methuen Contributory Retirement System (System) was established to provide retirement benefits to City employees and their beneficiaries. The System is governed by a five-member board comprised of the City Director of Budget and Finance (ex-officio), two elected members and two appointed members. The System is presented using the accrual basis of accounting and is reported as a pension and other employee benefits trust fund in the fiduciary fund financial statements.

The System does not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). These reports may be obtained by contacting the System located at 41 Pleasant Street, Methuen, Massachusetts, 01844.

Joint Venture

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated and governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The City participates in the following joint ventures with other municipalities to pool resources and share the costs, risks, and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients.

Greater Lawrence Sanitary District (GLSD)

GLSD operates a wastewater treatment plant for five member communities, one of which is the City. The GLSD is governed by a seven-member board consisting of one appointed representative from the City. The City is indirectly liable for the GLSD's debt and other expenditures and is assessed annually for its share of operating

and capital costs. For the year ended June 30, 2022, the City's assessment totaled \$3,299,400. The City does not have an equity interest in the District. Separate financial statements may be obtained by writing to the Treasurer of the GLSD at 240 Charles Street, North Andover, MA 01845.

Greater Lawrence Technical School (GLTS)

The City is a member of the GLTS that serves the members students seeking an education in academic, technical and agriculture studies. The GLTS is governed by a seven-member school committee consisting of one elected representative from the City. The City is indirectly liable for the GLTS' debt and other expenditures and is assessed annually for its share of operating and capital costs. The City does not have an equity interest in the GLTS. For the year ended June 30, 2022, the City's assessment totaled \$3,305,600. Separate financial statements may be obtained by writing to the Treasurer of the GLTS at 57 River Road, Andover, MA 01810.

Essex North Shore Agricultural & Technical School (ENSATS)

The City is a member of the ENSATS that serves the members students seeking an education in academic, technical and agriculture studies. The members share in the operations of the District and each member is responsible for its proportionate share of the operational and capital cost of the District, which are paid in the form of assessments. The City does not have an equity interest in the District and the 2022, assessment was \$502,400. Please contact the finance office at 565 Maple Street, Hathorne, MA 01937, for audited financial statements.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

Major Fund Criteria

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

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

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

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements

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

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

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

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

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the effect of interfund services provided and used between functions is not eliminated as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

The *federal grants fund* is used to account for activity specifically financed by federal grants which are designated for specific programs.

The nonmajor governmental funds consist of special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

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

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

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

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

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

The following major proprietary fund is reported:

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

Additionally, the following proprietary fund type is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to employees' health insurance, worker's compensation claims, unemployment claims, and public safety 111F claims.

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

The following fiduciary fund types are reported:

The *pension and other employee benefit trust funds* are used to account for the activities of the Methuen Contributory Retirement System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries and to accumulate resources to provide funding for future OPEB liabilities.

The *private-purpose trust fund* is used to account for trust arrangements that exclusively benefit individuals, private organizations, or other governments. Some of these trusts have donor restrictions and trustee policies that do not allow the endowment portion and any unrealized appreciation to be spent. The donor restrictions and trustee policies only allow the trustees to authorize spending of the realized investment earnings. The City's educational scholarships are accounted for in this fund.

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

E. Fair Value Measurements

The City reports required types of financial instruments in accordance with the fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the government to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include actively traded equity and debt securities, U.S. government obligations, and mutual funds with quoted market prices in active markets.

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially

affect amounts reported in these financial statements. For more information on the fair value of the City's financial instruments, see Note 2 – Cash and Investments.

F. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes and Tax Liens

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

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

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

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

Motor Vehicle and Other Excise Taxes

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

Boat excise taxes are assessed annually for each boat registered and are recorded as receivables in the year of the levy. The Commonwealth is responsible for reporting the number of boats registered and the fair values of those boats. The tax calculation is the fair value of the boat multiplied by \$10 per \$1,000 of value.

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

Water and Sewer user charges

Water and Sewer user charges are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by their respective due date. Liens are processed every year and included as a lien on the property owner's tax bill. User charges and liens are recorded as receivables in the year of the levy.

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

Departmental and Other

Departmental and other receivables consist primarily of police details and ambulance fees that are recorded as receivables in the year accrued. The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

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

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

Loans

The Department of Economic and Community Development administers loan programs to developers and homeowners under the U.S. Department of Housing and Urban Development community development block grant and HOME grants. Upon issuance, a receivable is recorded for the principal amount of the loan.

These receivables are secured through the lien process and considered 100% collectible.

G. Inventories***Government-Wide and Fund Financial Statements***

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

H. Capital Assets***Government-Wide and Proprietary Fund Financial Statements***

Capital assets, which include land, land improvements, construction, machinery and equipment, vehicles and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets; donated works of art; historical treasures and similar assets; and capital assets received in service concession arrangements are recorded at acquisition value.

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

| <u>Capital Asset Type</u> | <u>Estimated Useful Life (in years)</u> |
|------------------------------|---|
| Land improvements..... | 20 |
| Construction..... | 7 - 50 |
| Infrastructure..... | 10 - 65 |
| Machinery and equipment..... | 5 - 30 |
| Vehicles..... | 8 |

All purchases and construction costs in excess of \$5,000 with expected useful lives of greater than five years are capitalized at the date of acquisition or construction, respectively.

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

Governmental Fund Financial Statements

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

I. Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements (Net Position)

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City reported deferred inflows related to beneficial interests in trusts and deferred inflows of resources related to pensions and other post-employment benefits in this category.

Governmental Fund Financial Statements

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents assets that have been recorded in the governmental fund financial statements, but the revenue is not available and so will *not* be recognized as an inflow of resources (revenue) until it becomes available. The City has recorded deferred inflows related to beneficial interests in trusts and unavailable revenue as deferred inflows of resources in the governmental funds balance sheet.

J. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

K. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

L. Unavailable Revenue*Fund Financial Statements*

Unavailable revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Unavailable revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

M. Net Position and Fund Equity*Government-Wide Financial Statements (Net position)*

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

Net position reported as “net investment in capital assets” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital assets.

Net position has been “restricted for” the following:

“Community development” represents community development outstanding loans receivable balances and program income received.

“Permanent funds - expendable” represents amounts held in trust for which the expenditures are restricted by various trust agreements. The donor restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings that support governmental programs.

“Permanent funds - nonexpendable” represents amounts held in trust for which only investment earnings may be expended.

“Gifts and grants” represents restrictions placed on assets from outside parties.

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

Fund Financial Statements (Fund Balances)

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

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

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

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City’s highest level of decision-making authority. A vote of the City Council is the highest level of decision-making authority that can commit funds for a specific purpose. Once voted, the limitation imposed by the vote remains in place until the funds are used for their intended purpose or a vote is taken to rescind the commitment.

“Assigned” fund balance includes amounts that are constrained by the City’s intent to be used for specific purposes but are neither restricted nor committed. The City Chief Administrative and Financial Officer has the authority to assign fund balance. Funds are assigned when the City has an obligation to purchase goods or services from the current year’s appropriation.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount.

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

N. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

O. Investment Income

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

P. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

Q. Pensions

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

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

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

S. Total Column*Government-Wide Financial Statements*

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 – CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents". The deposits and investments of the trust funds are held separately from those of other funds. Statutes authorize the investment in obligations of the U.S. Treasury, agencies and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

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

The City participates in MMDT which is unrated. MMDT maintains a cash portfolio with a weighted average maturity of approximately 27 days.

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

the position in the PRIT is the same as the value of the PRIT shares. The System does not have the ability to control any of the investment decisions relative to its funds in PRIT.

The System participates in PRIT which is unrated. The effective weighted duration rate for PRIT investments ranged from 1.33 to 15.12 years. There is no credit quality rating for the fund.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. At year-end, the carrying amount of the City's deposits totaled \$66,168,407 and the bank balance totaled \$70,285,159. Of the bank balance, \$26,972,993 was covered by Federal Depository Insurance, \$11,231,150 was covered by the Depositors Insurance Fund and \$32,081,016 was collateralized.

At December 31, 2021, carrying amount of deposits for the System totaled \$749,436 and the bank balance totaled \$953,599. The entire bank balance was covered by the Federal Depository Insurance and none of the funds were exposed to custodial risk.

Investments

As of June 30, 2022, the City had the following investments:

| <u>Investment Type</u> | <u>Fair value</u> |
|--------------------------------|----------------------|
| Equity mutual funds..... | \$ 286,731 |
| Fixed income mutual funds..... | 191,637 |
| Money market mutual funds..... | 627 |
| MMDT - Cash portfolio..... | 39,818,690 |
| Total investments..... | <u>\$ 40,297,685</u> |

As of December 31, 2021, the System had the following investments:

| <u>Investment Type</u> | <u>Fair value</u> |
|--|-----------------------|
| Pension Reserve Investment Trust (PRIT)..... | \$ 238,876,538 |
| Pooled alternative investments..... | 83,756 |
| Total investments..... | <u>\$ 238,960,294</u> |

Custodial Credit Risk – Investments

For the City's investments, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The City does not have a formal investment policy related to credit risk and does not have any investment subject to custodial credit risk.

For the System's investments, this is the risk that, in the event of a failure by the counterparty, the System will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The System does not have an investment policy related to custodial credit risk and does not have any investment subject to custodial credit risk.

Interest Rate Risk

Neither the City nor the System 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.

Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer or backer. The City has not adopted a formal policy related to credit risk. At June 30, 2022, the City did not have any rated investments.

The System has not adopted a formal policy related to credit risk. At December 31, 2021, the System did not have any rated investments.

Concentration of Credit Risk

The City has adopted a formal policy for the OPEB trust funds related to the amount that may be invested in any one issuer. The City's policy states that securities of a single corporate issuer (with the exception of the United States Government and its Agencies) will not exceed 5% of the portfolio value. At June 30, 2022, the City's investment in any one issuer did not exceed 5% of the total amount invested.

The System has not adopted a formal policy related to the amount that may be invested in any one issuer. At December 31, 2021, the System's investment in any one issuer did not exceed 5% of the total amount invested.

Fair Value of Investments

The City holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the City's mission, the City determines that the disclosures related to these investments only need to be disaggregated by major type. The City chooses a tabular format for disclosing the levels within the fair value hierarchy.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City had the following recurring fair value measurements as of June 30, 2022:

| Investment Type | June 30, 2022 | Fair Value Measurements Using | | |
|--|------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments measured at fair value: | | | | |
| Equity mutual funds..... | \$ 286,731 | \$ 286,731 | \$ - | \$ - |
| Fixed income mutual funds..... | 191,637 | 191,637 | - | - |
| Money market mutual funds..... | 627 | 627 | - | - |
| Total investments measured at fair value..... | 478,995 | \$ 478,995 | \$ - | \$ - |
| Investments measured at amortized cost: | | | | |
| MMDT - Cash portfolio..... | 39,818,690 | | | |
| Total investments..... | \$ 40,297,685 | | | |

Equity mutual funds, fixed income mutual funds and money market mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

MMDT investments are valued at amortized cost. Under the amortized cost method, an investment is valued initially at its cost and adjusted for the amount of interest income accrued each day over the term of the investment to account for any difference between the initial cost and the amount payable at its maturity. If amortized cost is determined not to approximate fair value, the value of the portfolio securities will be determined under procedures established by the Advisor.

The System had the following investments measured at net asset value as of December 31, 2021:

| Investment Type | December 31, 2021 |
|---|----------------------|
| Investments measured at net asset value: | |
| Pension Reserve Investment Trust (PRIT)..... | \$ 238,876,538 |
| Pooled alternative investments..... | 83,756 |
| Total investments..... | \$ 238,960,294 |

PRIT investments are valued using the net asset value (NAV) method.

Pooled alternative investments are valued using the NAV method. The value has been determined using the per share (or its equivalent) if the System's ownership in partner's capital. Distributions from this fund will be received as the underlying investments of this fund are liquidated.

NOTE 3 – RECEIVABLES

At June 30, 2022, receivables for the individual major governmental funds, nonmajor governmental funds, and internal service fund, in the aggregate, including the applicable allowances for uncollectible accounts, were as follows:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|--|-----------------|------------------------------------|---------------|
| <u>Receivables:</u> | | | |
| Real estate and personal property taxes..... | \$ 1,867,007 | \$ (9,300) | \$ 1,857,707 |
| Tax liens..... | 2,401,534 | - | 2,401,534 |
| Motor vehicle and other excise taxes..... | 2,207,808 | (890,100) | 1,317,708 |
| Departmental and other..... | 2,852,573 | - | 2,852,573 |
| Intergovernmental..... | 4,193,634 | - | 4,193,634 |
| Special assessments..... | 95,501 | - | 95,501 |
| Loans..... | 2,919,164 | - | 2,919,164 |
| Total..... | \$ 16,537,221 | \$ (899,400) | \$ 15,637,821 |

At June 30, 2022, the water and sewer enterprise fund had \$6,300,982 of user charges receivable outstanding.

Governmental funds report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current year, the various components of *unavailable revenue* reported in the governmental funds were as follows:

| | General Fund | Other Governmental Funds | Total |
|--|-----------------|--------------------------------|---------------|
| <u>Receivables:</u> | | | |
| Real estate and personal property taxes..... | \$ 940,937 | \$ - | \$ 940,937 |
| Tax liens..... | 2,401,534 | - | 2,401,534 |
| Motor vehicle and other excise taxes..... | 1,317,708 | - | 1,317,708 |
| Departmental and other..... | 1,625,607 | 349,332 | 1,974,939 |
| Intergovernmental - highway improvements.... | - | 1,953,135 | 1,953,135 |
| Intergovernmental..... | 213,588 | - | 213,588 |
| Special assessments..... | 95,501 | - | 95,501 |
| Loans..... | - | 2,919,164 | 2,919,164 |
| <u>Other assets:</u> | | | |
| Tax foreclosures..... | 1,431,559 | - | 1,431,559 |
| Total..... | \$ 8,026,434 | \$ 5,221,631 | \$ 13,248,065 |

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|----------------|-------------|-------------------|
| Governmental Activities: | | | | |
| <u>Capital assets not being depreciated:</u> | | | | |
| Land..... | \$ 9,210,452 | \$ - | \$ - | \$ 9,210,452 |
| Construction in progress..... | 107,653 | - | (62,153) | 45,500 |
| Total capital assets not being depreciated.... | 9,318,105 | - | (62,153) | 9,255,952 |
| <u>Capital assets being depreciated:</u> | | | | |
| Land improvements..... | 11,040,224 | - | - | 11,040,224 |
| Construction..... | 215,905,177 | 634,217 | - | 216,539,394 |
| Infrastructure..... | 35,027,984 | 62,153 | - | 35,090,137 |
| Machinery and equipment..... | 15,270,089 | 336,411 | - | 15,606,500 |
| Vehicles..... | 13,854,188 | 1,047,075 | - | 14,901,263 |
| Total capital assets being depreciated..... | 291,097,662 | 2,079,856 | - | 293,177,518 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Land improvements..... | (7,338,625) | (283,414) | - | (7,622,039) |
| Construction..... | (84,257,086) | (4,556,602) | - | (88,813,688) |
| Infrastructure..... | (25,110,736) | (900,351) | - | (26,011,087) |
| Machinery and equipment..... | (11,362,757) | (766,469) | - | (12,129,226) |
| Vehicles..... | (10,506,969) | (896,715) | - | (11,403,684) |
| Total accumulated depreciation..... | (138,576,173) | (7,403,551) | - | (145,979,724) |
| Total capital assets being depreciated, net..... | 152,521,489 | (5,323,695) | - | 147,197,794 |
| Total governmental activities capital assets, net..... | \$ 161,839,594 | \$ (5,323,695) | \$ (62,153) | \$ 156,453,746 |

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|----------------|-----------|-------------------|
| Business-Type Activities: | | | | |
| <u>Capital assets not being depreciated:</u> | | | | |
| Land..... | \$ 251,550 | \$ - | \$ - | \$ 251,550 |
| <u>Capital assets being depreciated:</u> | | | | |
| Land improvements..... | 271,868 | - | - | 271,868 |
| Construction..... | 35,999,449 | 163,406 | - | 36,162,855 |
| Infrastructure..... | 28,286,446 | - | - | 28,286,446 |
| Machinery and equipment..... | 3,356,868 | - | - | 3,356,868 |
| Vehicles..... | 1,387,162 | - | - | 1,387,162 |
| Total capital assets being depreciated..... | 69,301,793 | 163,406 | - | 69,465,199 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Land improvements..... | (231,736) | (2,715) | - | (234,451) |
| Construction..... | (13,544,711) | (741,180) | - | (14,285,891) |
| Infrastructure..... | (18,658,987) | (265,549) | - | (18,924,536) |
| Machinery and equipment..... | (2,504,088) | (109,184) | - | (2,613,272) |
| Vehicles..... | (914,798) | (108,691) | - | (1,023,489) |
| Total accumulated depreciation..... | (35,854,320) | (1,227,319) | - | (37,081,639) |
| Total capital assets being depreciated, net..... | 33,447,473 | (1,063,913) | - | 32,383,560 |
| Total business-type activities capital assets, net.... | \$ 33,699,023 | \$ (1,063,913) | \$ - | \$ 32,635,110 |

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

Governmental Activities:

| | |
|---|------------|
| Legislative, executive and financial..... | \$ 310,112 |
| Public safety..... | 742,295 |
| Education..... | 4,452,597 |
| Public works..... | 1,610,783 |
| Economic and community development..... | 270,767 |
| Sanitation..... | 6,280 |
| Culture and recreation..... | 16,697 |

Total depreciation expense - governmental activities..... \$ 7,411,878

Business-Type Activities:

| | |
|----------------------|---------------------|
| Water and sewer..... | \$ <u>1,218,992</u> |
|----------------------|---------------------|

NOTE 5 – INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2022, were summarized as follows:

| Transfers Out: | Transfers In: | | |
|----------------------------------|---------------|-----------------------------|----------------|
| | General fund | Nonmajor governmental funds | Total |
| General fund..... | \$ - | \$ 127,450 | \$ 127,450 (1) |
| Nonmajor governmental funds..... | 207,394 | 222,683 | 430,077 (2) |
| Total..... | \$ 207,394 | \$ 350,133 | \$ 557,527 |

(1) Represents budgeted transfer from the general fund to the capital improvement plan fund for the purchase of software.

(2) Transfers into the general fund represent amounts voted to fund 2022 operations from nonmajor funds. Transfers between nonmajor funds represent a reallocation of resources.

NOTE 6 – SHORT-TERM FINANCING

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

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).
- Current project costs and other approved expenditures incurred, that are approved to be reimbursed by the Commonwealth, and through the issuance of state aid anticipation notes (SAANS).

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

The City's short-term debt activity for the year ended June 30, 2022 was as follows:

| Type | Purpose | Rate (%) | Due Date | Balance at June 30, 2021 | Renewed/ Issued | Retired/ Redeemed | Balance at June 30, 2022 |
|----------------------------|-----------------------------|----------|----------|--------------------------|-----------------|-------------------|--------------------------|
| Governmental Funds: | | | | | | | |
| BAN | Bond anticipation note..... | 0.41% | 06/10/22 | \$ 250,000 | \$ - | \$ (250,000) | \$ - |

NOTE 7 – LONG-TERM DEBT

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

Details related to the outstanding indebtedness as of June 30, 2022, and the debt service requirements were as follows.

Long-Term Debt Schedule – Governmental Funds

| Project | Maturities Through | Original Loan Amount | Interest Rate (%) | Outstanding at June 30, 2022 |
|--|-----------------------|----------------------------|-------------------------|------------------------------------|
| Municipal Purpose Bonds of 2013..... | 2042 | \$ 11,394,000 | 2.00-5.00 | \$ 6,990,000 |
| Municipal Purpose Bonds of 2015..... | 2035 | 9,585,000 | 1.00-4.00 | 6,860,000 |
| Municipal Purpose Bonds of 2016..... | 2043 | 15,000,000 | 3.00-5.00 | 13,145,000 |
| Municipal Purpose Bonds of 2017..... | 2037 | 11,896,000 | 2.00-4.00 | 7,720,000 |
| Municipal Purpose Bonds of 2020..... | 2040 | 5,460,000 | 2.125-5.00 | 4,620,000 |
| State Qualified Deficit Financing..... | 2023 | 4,000,000 | 1.75 | 2,866,000 |
| Municipal Purpose Bonds of 2022..... | 2042 | 7,330,700 | 4.00-5.00 | 7,330,700 |
| Total Governmental General Obligation Bonds Payable..... | | | | 49,531,700 |
| Add: Unamortized premium on bonds..... | | | | 1,738,167 |
| Total Long-Term Debt Payable, net..... | | | | \$ 51,269,867 |

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

| Year | Principal | Interest | Total |
|------------|---------------|---------------|---------------|
| 2023..... | \$ 3,355,700 | \$ 1,599,027 | \$ 4,954,727 |
| 2024..... | 5,496,000 | 1,555,556 | 7,051,556 |
| 2025..... | 3,015,000 | 1,429,500 | 4,444,500 |
| 2026..... | 3,095,000 | 1,301,425 | 4,396,425 |
| 2027..... | 2,785,000 | 1,183,000 | 3,968,000 |
| 2028..... | 2,810,000 | 1,075,538 | 3,885,538 |
| 2029..... | 2,720,000 | 976,350 | 3,696,350 |
| 2030..... | 2,720,000 | 883,594 | 3,603,594 |
| 2031..... | 2,520,000 | 791,691 | 3,311,691 |
| 2032..... | 2,580,000 | 701,263 | 3,281,263 |
| 2033..... | 2,275,000 | 618,728 | 2,893,728 |
| 2034..... | 2,335,000 | 542,409 | 2,877,409 |
| 2035..... | 2,405,000 | 462,163 | 2,867,163 |
| 2036..... | 1,815,000 | 390,000 | 2,205,000 |
| 2037..... | 1,625,000 | 331,141 | 1,956,141 |
| 2038..... | 1,470,000 | 276,775 | 1,746,775 |
| 2039..... | 1,510,000 | 223,888 | 1,733,888 |
| 2040..... | 1,560,000 | 167,338 | 1,727,338 |
| 2041..... | 1,410,000 | 109,400 | 1,519,400 |
| 2042..... | 1,465,000 | 51,900 | 1,516,900 |
| 2043..... | 565,000 | 11,300 | 576,300 |
| Total..... | \$ 49,531,700 | \$ 14,681,983 | \$ 64,213,683 |

Governmental activities include a general obligation \$4,000,000 state qualified deficit financing bond anticipation note pursuant to Chapter 278 of the Acts of 2018, originally approved in November 2018. The BAN is scheduled to be amortized over the next nine years, until the final paydown in 2029. The City reported this BAN as a long-term liability upon issuance. In September 2021, the City completed a current refunding of long-term debt by paying down the \$3,235,000 BAN with the proceeds of a \$2,866,000 BAN due in September 2022 along with \$369,000 of available funds. There was no gain or loss from this current refunding. Subsequent to year-end, the City paid down the BAN with the proceeds of a new \$2,491,000 BAN due in March 2023, and \$375,000 in available funds. The City expects to renew this note until permanently financed or paid off through annual appropriations, and therefore, the note has been presented as long-term debt.

Long-Term Debt Schedule – Water and Sewer Enterprise Fund

| Project | Maturities Through | Original Loan Amount | Interest Rate (%) | Outstanding at June 30, 2022 |
|--|-----------------------|----------------------------|-------------------------|------------------------------------|
| Water & Sewer Bonds of 2008..... | 2028 | \$ 1,950,000 | 4.00-5.50 | \$ 755,000 |
| Water & Sewer Bonds of 2020..... | 2040 | 3,330,000 | 2.125-5.00 | 2,845,000 |
| Water & Sewer Bonds of 2022..... | 2032 | 1,999,300 | 4.00-5.00 | <u>1,999,300</u> |
| Subtotal General Obligation Bonds Payable..... | | | | <u>5,599,300</u> |
| MCWT Stormwater Management (CW-02-07)..... | 2024 | 414,443 | 2.00 | 56,405 |
| MCWT Water Distribution Improvements (DW-04-09)... | 2026 | 5,786,500 | 2.00 | 1,355,025 |
| MCWT Water Treatment Plant (DW-05-13)..... | 2028 | 18,550,000 | 2.00 | 6,372,089 |
| MCWT Stormwater (CW-06-29)..... | 2028 | 170,753 | 2.00 | 63,868 |
| MCWT Water Tank (DW-04-09A)..... | 2028 | 449,593 | 2.00 | 168,165 |
| MCWT Sewer Rehab (CW-06-30)..... | 2029 | 972,026 | 2.00 | 420,039 |
| MCWT Stormwater (CW-06-29-A)..... | 2028 | 12,243 | 2.00 | 4,802 |
| MCWT Water Treatment Plant (DW-05-13-A)..... | 2031 | 599,895 | 2.00 | 312,505 |
| MCWT Sewer Rehab (CWP-10-19)..... | 2033 | 405,164 | 2.00 | <u>254,459</u> |
| Subtotal Direct Borrowings Payable..... | | | | <u>9,007,357</u> |
| Total Long-Term Debt Payable..... | | | | 14,606,657 |
| Add: Unamortized premium on bonds..... | | | | <u>394,558</u> |
| Total Long-Term Debt Payable, net..... | | | | <u>\$ 15,001,215</u> |

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

| Year | General Obligation Bonds Payable: | | |
|------------|-----------------------------------|--------------|--------------|
| | Principal | Interest | Total |
| 2023..... | \$ 609,300 | \$ 218,922 | \$ 828,222 |
| 2024..... | 625,000 | 212,725 | 837,725 |
| 2025..... | 655,000 | 181,765 | 836,765 |
| 2026..... | 665,000 | 149,765 | 814,765 |
| 2027..... | 685,000 | 117,035 | 802,035 |
| 2028..... | 715,000 | 83,115 | 798,115 |
| 2029..... | 260,000 | 59,300 | 319,300 |
| 2030..... | 260,000 | 46,300 | 306,300 |
| 2031..... | 265,000 | 33,175 | 298,175 |
| 2032..... | 265,000 | 20,575 | 285,575 |
| 2033..... | 70,000 | 13,550 | 83,550 |
| 2034..... | 70,000 | 11,756 | 81,756 |
| 2035..... | 70,000 | 10,225 | 80,225 |
| 2036..... | 75,000 | 8,547 | 83,547 |
| 2037..... | 75,000 | 6,766 | 81,766 |
| 2038..... | 75,000 | 4,938 | 79,938 |
| 2039..... | 80,000 | 3,000 | 83,000 |
| 2040..... | 80,000 | 1,000 | 81,000 |
| Total..... | \$ 5,599,300 | \$ 1,182,458 | \$ 6,781,758 |

| Year | Direct Borrowings: | | |
|------------|--------------------|------------|--------------|
| | Principal | Interest | Total |
| 2023..... | \$ 1,513,517 | \$ 176,549 | \$ 1,690,066 |
| 2024..... | 1,542,973 | 144,253 | 1,687,226 |
| 2025..... | 1,545,695 | 111,327 | 1,657,022 |
| 2026..... | 1,576,952 | 77,759 | 1,654,711 |
| 2027..... | 1,252,805 | 47,339 | 1,300,144 |
| 2028..... | 1,278,147 | 20,131 | 1,298,278 |
| 2029..... | 123,335 | 5,065 | 128,400 |
| 2030..... | 60,909 | 3,085 | 63,994 |
| 2031..... | 62,173 | 1,762 | 63,935 |
| 2032..... | 25,153 | 823 | 25,976 |
| 2033..... | 25,698 | 276 | 25,974 |
| Total..... | \$ 9,007,357 | \$ 588,370 | \$ 9,595,727 |

Authorized and Unissued Debt

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2022, the City had the following authorized and unissued debt:

| Purpose | Amount |
|--|----------------------|
| Water system improvements and equipment..... | \$ 9,485,000 |
| Energy efficiency improvements..... | 338,279 |
| Renovations to outdoor track at Nicholson Stadium..... | 50,000 |
| Sewer rehab and East Capital St. project..... | 202,796 |
| Sewer system rehab projects..... | 146,795 |
| Total..... | <u>\$ 10,222,870</u> |

Changes in Long-term Liabilities

During the year ended June 30, 2022, the following changes occurred in long-term liabilities:

| | Beginning Balance | Long-term Debt Issued | Long-term Debt Redeemed | Other Increases | Other Decreases | Ending Balance | Due Within One Year |
|--|-----------------------|-----------------------------|-------------------------------|----------------------|------------------------|-----------------------|------------------------|
| Governmental Activities: | | | | | | | |
| Long-term general obligation bonds payable.... | \$ 45,110,000 | \$ 10,196,700 | \$ (5,775,000) | \$ - | \$ - | \$ 49,531,700 | \$ 3,355,700 |
| Add: Unamortized premium on bonds..... | 1,525,273 | 367,193 | (154,299) | - | - | 1,738,167 | 189,436 |
| Total long-term debt payable..... | 46,635,273 | 10,563,893 | (5,929,299) | - | - | 51,269,867 | 3,545,136 |
| Landfill closure..... | 280,000 | - | - | - | (40,000) | 240,000 | 40,000 |
| Compensated absences..... | 4,006,548 | - | - | 2,536,048 | (2,003,274) | 4,539,322 | 2,269,661 |
| Net pension liability..... | 101,684,735 | - | - | 10,096,199 | (34,009,246) | 77,771,688 | - |
| Net other postemployment benefits liability..... | 238,589,498 | - | - | 16,549,731 | (36,110,528) | 219,028,701 | - |
| Total governmental activity long-term liabilities..... | <u>\$ 391,196,054</u> | <u>\$ 10,563,893</u> | <u>\$ (5,929,299)</u> | <u>\$ 29,181,978</u> | <u>\$ (72,163,048)</u> | <u>\$ 352,849,578</u> | <u>\$ 5,854,797</u> |
| Business-Type Activities: | | | | | | | |
| Long-term general obligation bonds payable.... | \$ 3,990,000 | \$ 1,999,300 | \$ (390,000) | \$ - | \$ - | \$ 5,599,300 | \$ 609,300 |
| Direct borrowings payable..... | 10,492,194 | - | (1,484,837) | - | - | 9,007,357 | 1,513,517 |
| Add: Unamortized premium on bonds..... | 319,596 | 132,260 | (57,298) | - | - | 394,558 | 70,914 |
| Total long-term debt payable..... | 14,801,790 | 2,131,560 | (1,932,135) | - | - | 15,001,215 | 2,193,731 |
| Compensated absences..... | 288,858 | - | - | 112,935 | (144,429) | 257,364 | 128,682 |
| Net pension liability..... | 6,335,149 | - | - | 340,153 | (1,396,990) | 5,278,312 | - |
| Net other postemployment benefits liability..... | 5,117,854 | - | - | 355,000 | (774,588) | 4,698,266 | - |
| Total business-type activity long-term liabilities..... | <u>\$ 26,543,651</u> | <u>\$ 2,131,560</u> | <u>\$ (1,932,135)</u> | <u>\$ 808,088</u> | <u>\$ (2,316,007)</u> | <u>\$ 25,235,157</u> | <u>\$ 2,322,413</u> |

Long-term liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures, which consist of the general fund and the water and sewer enterprise fund.

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

The City classifies fund balances according to constraints on the use of the resources. There are two major types of fund balances, which are nonspendable and spendable.

Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The City has reported principal portions of endowment funds as nonspendable.

Spendable fund balances are classified based on a hierarchy of spending constraints.

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

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

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

At year end, the balances of the public safety equipment stabilization, compensated absences stabilization, and stadium and parks stabilization were \$646,281, \$200,720, and \$81,327, respectively, and were reported as committed fund balance within the general fund.

At year end, the balance of the general stabilization was \$4,962,580 and was reported as unassigned fund balance within the general fund.

As of June 30, 2022, fund balances consisted of the following:

| | General | Federal Grants | Nonmajor Governmental Funds | Total Governmental Funds |
|--|-------------------|---------------------|-----------------------------------|--------------------------------|
| Fund Balances: | | | | |
| Nonspendable: | | | | |
| Perpetual care permanent fund principal.. \$ | - \$ | - \$ | 417,055 | \$ 417,055 |
| Restricted for: | | | | |
| Federal grants..... | - | 1,032,345 | - | 1,032,345 |
| Community development..... | - | - | 39,420 | 39,420 |
| Revolving..... | - | - | 7,748,537 | 7,748,537 |
| School lunch..... | - | - | 1,728,064 | 1,728,064 |
| Other special revenue..... | - | - | 837,221 | 837,221 |
| Special revenue trust..... | - | - | 124,944 | 124,944 |
| State grants..... | - | - | 1,560,752 | 1,560,752 |
| Capital projects..... | - | - | 6,619,885 | 6,619,885 |
| School capital projects..... | - | - | 12,659 | 12,659 |
| Expendable permanent fund..... | - | - | 536,504 | 536,504 |
| Committed to: | | | | |
| Public safety equipment stabilization..... | 646,281 | - | - | 646,281 |
| Compensated absences stabilization..... | 200,720 | - | - | 200,720 |
| Stadium and parks stabilization..... | 81,327 | - | - | 81,327 |
| Assigned to: | | | | |
| Legislative, executive and financial..... | 2,000 | - | - | 2,000 |
| Public safety..... | 10,115 | - | - | 10,115 |
| Education..... | 305,997 | - | - | 305,997 |
| Public works..... | 73,651 | - | - | 73,651 |
| Human services..... | 1,500 | - | - | 1,500 |
| Sanitation..... | 45,815 | - | - | 45,815 |
| State and county charges..... | 185,115 | - | - | 185,115 |
| Unassigned..... | 23,829,788 | - | - | 23,829,788 |
| Total Fund Balances..... \$ | <u>25,382,309</u> | <u>\$ 1,032,345</u> | <u>\$ 19,625,041</u> | <u>\$ 46,039,695</u> |

NOTE 9 – RISK FINANCING

The City is exposed to various risk of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters for which the City carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

The City is self-insured in most areas of risk including health insurance, worker's compensation, 111 F, and unemployment. 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. Annual estimated requirements for the claims are provided in the City's annual operating budget and paid into the City's internal service fund.

Liabilities are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been Incurred but Not Reported (IBNR). The result of the process to estimate the claims liability is not an exact amount as it depends on many factors. Accordingly,

claims are reevaluated periodically to consider the effects of inflation, recent claims settlement trends and other economic and social factors.

The estimate of Incurred but Not Reported (IBNR) claims based on an estimate of claims incurred but unpaid at year-end. At June 30, 2022, the liability for insurance claims totaled \$1,042,275. This liability is the best estimate based on available information. Changes in the reported liability since July 1, 2020, were as follows:

| | Balance at Beginning of Year | Current Year Claims and Changes in Estimate | Claims Payments | Balance at Year-End |
|-----------|------------------------------------|--|--------------------|------------------------|
| 2021..... | \$ 521,805 | \$ 22,782,008 | \$ (22,430,624) | \$ 873,189 |
| 2022..... | 873,189 | 23,441,386 | (23,272,300) | 1,042,275 |

The City has evaluated the unemployment, workers compensation and 111F outstanding claims and determined the potential liability is not material to the financial statements and therefore no liability has been recorded at year end.

NOTE 10 – PENSION PLAN

Plan Descriptions

The City is a member of the Methuen Contributory Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan covering eligible employees of the 2 member units. The System is administered by five board members (Board) on behalf of all current employees and retirees except for current teachers and retired teachers. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System is a component unit and is reported as a pension and other postemployment benefit trust fund in the fiduciary fund financial statements.

The City is a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multi-employer defined benefit plan. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for 100% of the contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives and Quincy College. The MTRS is part of the Commonwealth's reporting entity, and the audited financial report may be obtained by visiting <http://www.mass.gov/osc/publications-and-reports/financial-reports/>.

Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make 100% of all actuarially determined employer contributions on behalf of the City to the MTRS. Therefore, the City is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in MTRS. Since the City does not contribute directly to MTRS, there is no net pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based on each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2021. The City's portion of the collective pension expense, contributed by the Commonwealth, of \$11,668,133 is reported in the general fund as intergovernmental revenue and pension benefits in the current fiscal year. The portion of the Commonwealth's collective net pension liability associated with the City is \$145,404,845 as of the measurement date.

Benefits Provided

Both Systems provide retirement, disability, survivor and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. The Systems provide retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. Members become vested after ten years of creditable service. There were no reported changes in pension benefit terms that effect measurement of the total pension liability as of December 31, 2021.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

At January 1, 2022, the System membership consisted of the following:

| | |
|--|---------------------|
| Active members..... | 664 |
| Inactive members..... | 175 |
| Retirees and beneficiaries currently receiving benefits..... | <u>478</u> |
| Total..... | <u><u>1,317</u></u> |

Contributions

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the System a legislatively mandated actuarially determined contribution that is apportioned among the employers based on active current payroll. The total member units' contribution for the year ended December 31, 2021, was \$14,764,000, 37.67% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City's proportionate share of the required contribution was \$14,358,022, which equaled its actual contribution.

Pension Liabilities

The components of the net pension liability of the participating member units at December 31, 2021, were as follows:

| | | |
|--|----|----------------------|
| Total pension liability..... | \$ | 325,297,000 |
| Less: total pension plan's fiduciary net position..... | | <u>(239,749,000)</u> |
| Total net pension liability..... | \$ | <u>85,548,000</u> |
| The pension plan's fiduciary net position as | | |
| a percentage of the total pension liability..... | | 73.70% |

At June 30, 2022, the City reported a liability of \$83,050,000 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2022. Accordingly, roll back procedures were used to adjust the total pension liability to the measurement date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members. At December 31, 2021, the City's proportion was 97.08%, which decreased from its proportion of 97.19% in the prior year.

Pension Expense

For the year ended June 30, 2022, the City recognized a pension expense of \$6,811,681. At June 30, 2022, the City reported deferred outflows and inflows of resources related to pensions of the following:

| Deferred Category | Deferred Outflows of Resources | Deferred Inflows of Resources | Total |
|--|--------------------------------------|-------------------------------------|------------------------|
| Differences between expected and actual experience..... | \$ 478,604 | \$ (1,573,667) | \$ (1,095,063) |
| Difference between projected and actual earnings, net..... | - | (26,693,117) | (26,693,117) |
| Changes in assumptions..... | 6,962,578 | - | 6,962,578 |
| Changes in proportion and proportionate share of contributions.. | <u>2,215,317</u> | <u>(2,437,929)</u> | <u>(222,612)</u> |
| Total deferred outflows/(inflows) of resources..... | \$ <u>9,656,499</u> | \$ <u>(30,704,713)</u> | \$ <u>(21,048,214)</u> |

The deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

| | | |
|-----------|----|---|
| 2023..... | \$ | (3,236,392) |
| 2024..... | | (7,876,429) |
| 2025..... | | (5,673,858) |
| 2026..... | | (4,429,839) |
| 2027..... | | 168,304 |
| | | Total deferred outflows/(inflows) of resources..... \$ (21,048,214) |

Actuarial Assumptions

The total pension liability in the January 1, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was rolled back to December 31, 2021:

| | |
|--|---|
| Valuation date..... | January 1, 2022 |
| Actuarial cost method..... | Entry Age Normal Cost method. |
| Amortization method..... | Total payments increase 5.00% per year until FY2033 with a final amortization payment in FY2034. |
| Remaining amortization period..... | 12 years from July 1, 2022. |
| Asset valuation method..... | Fair value for GASB 67/68. For funding purposes, gains and losses each year are recognized over 5 years. |
| Investment rate of return/discount rate..... | 7.00% net of pension plan investment expense, including inflation. Previously 7.15%. |
| Projected salary increases..... | Select and ultimate by job group; ultimate rates 4.25% for Group 1 and 4.75% for Group 4. |
| Cost of living adjustments..... | 3.00% of the first \$18,000. Previously \$17,000. |
| Mortality rates..... | <i>Pre-Retirement:</i> RP-2014 Blue Collar Employees Table projected generationally with Scale MP-2020 (gender distinct). <i>Post-Retirement:</i> RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2020 (gender distinct). <i>Disabled Retiree:</i> RP-2014 Blue Collar Healthy Annuitant Table set forward one year projected generationally with Scale MP-2020 (gender distinct). |

Investment Policy

The System's policy in regard to the allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of December 31, 2021, are summarized in the following table:

| <u>Asset Class</u> | <u>Long-Term Expected Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|---|--|---|
| US equities..... | 24.00% | 6.30% |
| International equities..... | 12.70% | 6.40% |
| International emerging markets equities.... | 5.00% | 8.70% |
| Hedged equity..... | 7.80% | 5.70% |
| Core bonds..... | 15.10% | 3.10% |
| Value-added fixed income..... | 6.50% | 6.40% |
| Private equity..... | 16.60% | 10.10% |
| Real estate..... | 8.70% | 6.00% |
| Timberland..... | 2.90% | 6.60% |
| Portfolio completion..... | 0.70% | 5.40% |
| Total..... | <u>100.00%</u> | |

Rate of Return

For the year ended December 31, 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 19.71%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

The discount rate used to measure the total pension liability was 7.00% as of December 31, 2021 and 7.15% as of December 31, 2020. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

| | 1% Decrease (6.00%) | Current Discount (7.00%) | 1% Increase (8.00%) |
|---|------------------------|--------------------------------|------------------------|
| The City's proportionate share of the net pension liability..... | \$ 117,758,041 | \$ 83,050,000 | \$ 53,660,971 |
| MCRS total net pension liability..... | \$ 121,300,000 | \$ 85,548,000 | \$ 55,275,000 |

Changes of Assumptions

- The investment rate of return was decreased from 7.15% to 7.00%.
- The mortality improvement scale was updated from Scale MP-2018 to Scale MP-2020.
- There was an adjustment to the salary increase assumption.

Changes in Plan Provisions

- The COLA base was increased from \$17,000 to \$18,000.

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS*Plan Description*

The City of Methuen administers a single employer defined benefit healthcare plan ("Plan"). The Plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the City's health insurance plan, which covers both active and retired members, including teachers. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the City and the unions representing City employees and are renegotiated each bargaining period. The Plan does not issue a publicly available financial report.

Funding Policy

The contribution requirements of Plan members and the City are established and may be amended through collective bargaining. The required contribution is based on projected pay-as-you-go financing requirements. The City contributes 63.50 - 79% of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining percent of their premium costs. For the year ended June 30, 2022, the City's average contribution rate was 7.09% of covered employee payroll.

The Commonwealth of Massachusetts passed special legislation that has allowed the City to establish the other postemployment benefit trust fund to begin pre-funding its OPEB liabilities. Investment of the fund monies by the custodian must be consistent with the prudent person standard set forth in MGL Chapter 203C for private trust funds. Interest earned on the investment of the fund monies belongs to the fund. As of June 30, 2022, the net position of the OPEB trust fund totaled \$478,995.

Summary of Significant Accounting Policies

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts (repurchase agreements) that have a maturity at the time of purchase of one year or less, which are reported at cost.

Measurement Date

GASB Statement #75 requires the net OPEB liability to be measured as of a date no earlier than the end of the employer's prior fiscal year and no later than the end of the employer's current fiscal year, consistently applied from period to period. Accordingly, the net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2021.

Plan Membership

The following table represents the Plan's membership at July 1, 2021:

| | |
|--|---------------------|
| Active members..... | 1,131 |
| Inactive members currently receiving benefits..... | <u>998</u> |
| Total..... | <u><u>2,129</u></u> |

Components of OPEB Liability

The following table represents the components of the Plan's OPEB liability as of June 30, 2022:

| | |
|--|------------------------------|
| Total OPEB liability..... | \$ 224,205,962 |
| Less: OPEB plan's fiduciary net position..... | <u>(478,995)</u> |
| Net OPEB liability..... | <u><u>\$ 223,726,967</u></u> |
| The OPEB plan's fiduciary net position as a percentage of the total OPEB liability..... | 0.21% |

Significant Actuarial Methods and Assumptions

The total OPEB liability in the July 1, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified, that was updated to June 30, 2022:

| | |
|---------------------------------|---|
| Valuation date..... | July 1, 2021 |
| Actuarial cost method..... | Entry Age Normal. |
| Asset valuation method..... | Fair value of assets as of the reporting date. |
| Discount rate..... | 3.25% based on the 20 year high quality municipal bond rate. Previously 2.50%. |
| Healthcare cost trend rate..... | 4.50% |
| Mortality rates..... | Pre-retirement mortality, retiree mortality and beneficiary mortality is represented by the RP-2014 Blue Collar Mortality with Scale MP-2017, fully generational. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward 2 years is used. |

Rate of Return

For the year ended June 30, 2022, the annual money-weighted rate of return on investments, net of investment expense, was (15.13%). The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Best estimates of geometric real rates of return for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2022, are summarized in the following table:

| <u>Asset Class</u> | <u>Long-Term Expected Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-----------------------------|--|---|
| Domestic equities..... | 39.45% | 4.66% |
| International equities..... | 15.89% | 5.88% |
| Domestic bond..... | 33.00% | 1.30% |
| International bond..... | 6.45% | 1.33% |
| Alternatives..... | 5.08% | 5.28% |
| Cash and equivalents..... | 0.13% | 0.00% |
| Total..... | <u>100.00%</u> | |

Discount Rate

The discount rate used to measure the total OPEB liability was 3.25% as of June 30, 2022, and 2.50% as of June 30, 2021. The City's net other postemployment benefits liability was determined based on an average of three 20-year bond indices (e.g. Bond Buyer-20 Bond GO, S&P Municipal Bond 20 Year High Grade Rate Index, Fidelity GA AA 20 Years). Due to the low value of the OPEB trust compared to the City's liability, the Plan fiduciary net position is not projected to satisfy future benefit payments and, accordingly, the Municipal Bond Rate was applied rather than the projected investment return.

Changes in the Net OPEB Liability

| | Increase (Decrease) | | |
|-----------------------------------|--------------------------------|--|------------------------------------|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (a) - (b) |
| Balances at June 30, 2021..... | \$ 244,272,924 | \$ 565,572 | \$ 243,707,352 |
| Changes for the year: | | | |
| Service cost..... | 9,517,299 | - | 9,517,299 |
| Interest..... | 6,272,416 | - | 6,272,416 |
| Changes in assumptions..... | (30,033,596) | - | (30,033,596) |
| Benefit payments..... | (5,823,081) | (5,823,081) | - |
| Contributions - employer..... | - | 5,823,081 | (5,823,081) |
| Net investment income/(loss)..... | - | (86,577) | 86,577 |
| Net change..... | (20,066,962) | (86,577) | (19,980,385) |
| Balances at June 30, 2022..... | \$ <u>224,205,962</u> | \$ <u>478,995</u> | \$ <u>223,726,967</u> |

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the net other postemployment benefit liability and service cost, calculated using the discount rate of 3.25%, as well as what the net other postemployment benefit liability and service cost would be if it were calculated using a discount rate that is 1-percentage-point lower (2.25%) or 1-percentage-point higher (4.25%) than the current rate.

| | 1% Decrease (2.25%) | Current Discount Rate (3.25%) | 1% Increase (4.25%) |
|-------------------------|------------------------|-------------------------------------|------------------------|
| Net OPEB liability..... | \$ <u>189,651,385</u> | \$ <u>223,726,967</u> | \$ <u>262,590,822</u> |

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend

The following table presents the net other postemployment benefit liability and service cost, calculated using the current healthcare trend rate as well as what the net other postemployment benefit liability and service cost would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher.

| | 1% Decrease (3.50%) | Current Trend (4.50%) | 1% Increase (5.50%) |
|----------------------------|------------------------|--------------------------|------------------------|
| Net OPEB liability..... \$ | <u>272,563,142</u> | <u>\$ 223,726,967</u> | <u>\$ 183,771,239</u> |

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

For the year ended June 30, 2022, the City recognized OPEB expense of \$15,112,787 and reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

| Deferred Category | Deferred Outflows of Resources | Deferred Inflows of Resources | Total |
|--|--------------------------------------|-------------------------------------|------------------------|
| Differences between expected and actual experience..... \$ | 12,144,618 | \$ (50,665,652) | \$ (38,521,034) |
| Difference between projected and actual earnings, net..... | 18,980 | - | 18,980 |
| Changes in assumptions..... | <u>32,451,275</u> | <u>(25,011,256)</u> | <u>7,440,019</u> |
| Total deferred outflows/(inflows) of resources..... \$ | <u>44,614,873</u> | <u>\$ (75,676,908)</u> | <u>\$ (31,062,035)</u> |

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

Year ended June 30:

| | |
|---|---------------------|
| 2023..... \$ | (661,943) |
| 2024..... | (845,154) |
| 2025..... | (7,155,405) |
| 2026..... | (17,477,637) |
| 2027..... | <u>(4,921,896)</u> |
| Total deferred outflows/(inflows) of resources.... \$ | <u>(31,062,035)</u> |

Changes of Assumptions – The discount rate was increased from 2.50% to 3.25% based on the 20-year municipal bond rate.

Changes in Plan Provisions – None.

NOTE 12 – FINANCIAL STATEMENTS FOR INDIVIDUAL PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS

GAAP requires that all Pension and Other Employee Benefit Trust Funds be combined and presented in one column in the Fiduciary Funds financial statements and that the individual financial statements for each trust fund plan are reported in the notes to the financial statements. Provided below are the individual financial statements for the pension and OPEB plans that are included in the Fiduciary Funds as Pension and Other Employee Benefit Trust Funds.

| | Pension Trust Fund (as of December 31, 2021) | Other Postemployment Benefit Trust Fund | Total Pension and Other Employee Benefit Trust Funds |
|--|---|--|--|
| ASSETS | | | |
| Cash and cash equivalents..... | \$ 749,436 | \$ 627 | \$ 750,063 |
| Investments: | | | |
| Investments in Pension Reserve Investment Trust..... | 238,876,538 | - | 238,876,538 |
| Equity mutual funds..... | - | 286,731 | 286,731 |
| Fixed income mutual funds..... | - | 191,637 | 191,637 |
| Pooled alternative investments..... | 83,756 | - | 83,756 |
| Receivables, net of allowance for uncollectibles: | | | |
| Departmental and other..... | 46,869 | - | 46,869 |
| TOTAL ASSETS..... | 239,756,599 | 478,995 | 240,235,594 |
| LIABILITIES | | | |
| Warrants payable..... | 7,473 | - | 7,473 |
| NET POSITION | | | |
| Restricted for pensions..... | 239,749,126 | - | 239,749,126 |
| Restricted for other postemployment benefits..... | - | 478,995 | 478,995 |
| TOTAL NET POSITION..... | \$ 239,749,126 | \$ 478,995 | \$ 240,228,121 |

| | Pension Trust Fund (as of December 31, 2021) | Other Postemployment Benefit Trust Fund | Total Pension and Other Employee Benefit Trust Funds |
|---|---|--|--|
| ADDITIONS: | | | |
| Contributions: | | | |
| Employer contributions..... | \$ 14,763,783 | \$ - | \$ 14,763,783 |
| Employer contributions for other postemployment benefit payments..... | - | 5,823,081 | 5,823,081 |
| Member contributions..... | 3,728,997 | - | 3,728,997 |
| Transfers from other systems..... | 804,085 | - | 804,085 |
| 3(8)c contributions from other systems..... | 237,858 | - | 237,858 |
| Workers compensation settlements..... | 239 | - | 239 |
| State COLA reimbursements..... | 57,581 | - | 57,581 |
| Member makeup payments and redeposits..... | 9,485 | - | 9,485 |
| Interest not refunded..... | 7,265 | - | 7,265 |
| Total contributions..... | 19,609,293 | 5,823,081 | 25,432,374 |
| Net investment income: | | | |
| Investment income (loss)..... | 40,351,008 | (86,577) | 40,264,431 |
| Less: investment expense..... | (1,091,352) | - | (1,091,352) |
| Net investment income (loss)..... | 39,259,656 | (86,577) | 39,173,079 |
| TOTAL ADDITIONS..... | 58,868,949 | 5,736,504 | 64,605,453 |
| DEDUCTIONS: | | | |
| Administration..... | 245,270 | - | 245,270 |
| Transfers to other systems..... | 362,839 | - | 362,839 |
| 3(8)c transfer to other systems..... | 316,498 | - | 316,498 |
| Retirement benefits and refunds..... | 16,981,094 | - | 16,981,094 |
| Other postemployment benefit payments..... | - | 5,823,081 | 5,823,081 |
| TOTAL DEDUCTIONS..... | 17,905,701 | 5,823,081 | 23,728,782 |
| NET INCREASE (DECREASE) IN NET POSITION..... | 40,963,248 | (86,577) | 40,876,671 |
| NET POSITION AT BEGINNING OF YEAR..... | 198,785,878 | 565,572 | 199,351,450 |
| NET POSITION AT END OF YEAR..... | \$ 239,749,126 | \$ 478,995 | \$ 240,228,121 |

NOTE 13 – LANDFILL

State and federal laws and regulations require the City to construct a final capping system on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The City has reflected a \$240,000 post-closure care liability at June 30, 2022, as an obligation of the governmental activities. This amount is based upon estimates of what it would cost to perform all post-closure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 14 – DEFICIT FUNDING

On October 31, 2018, the Commonwealth of Massachusetts approved Chapter 278 of the Acts of 2018, *An Act Providing for the Financial Stability of the City of Methuen*. Among other things, the legislation authorizes the City, with the approval of the Director of Accounts in the Department of Revenue, to issue up to \$4 million to achieve balanced budgets for fiscal years 2019 and 2020. Section 6 of the Law required the Secretary of Administration and Finance to appoint a Fiscal Stability Office for the City to advise the City on managing its fiscal challenges. Section 9 of the Law outlines the criteria in which the Secretary of Administration and Finance shall abolish the Fiscal Stability Office and appoint a Finance Control Board. The criteria includes if the fiscal overseer concludes that the City: “(i) is unable to achieve a balanced budget, (ii) faces a fiscal crisis that poses an imminent danger to the safety of the citizens of the City and their property; or (iii) will not achieve fiscal stability without the assistance of a finance control board.” The Secretary has not appointed a Finance Control Board. At June 30, 2022, the balance of the note was \$2.9 million. The City anticipates the note will be paid off in full during fiscal year 2023.

NOTE 15 – COMMITMENTS

The City has entered into, or is planning to enter into, contracts totaling approximately \$10.2 million for the FY22 Capital Improvement Plan, which is inclusive of water system improvement projects, sewer system rehab, energy efficiency improvement projects, and various other capital projects. These projects will be funded through the issuance of long-term debt.

The general fund has various commitments for goods and services related to encumbrances totaling \$624,000.

NOTE 16 – CONTINGENCIES

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various other legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2022, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2022.

NOTE 17 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 22, 2023, which is the date the financial statements were available to be issued.

The Methuen Contributory Retirement System (System) carries its investments at fair value in accordance with Generally Accepted Accounting Principles (GAAP). Market value adjustments are recorded monthly. The System's investments have declined in value consistent with recent trends in the overall financial securities market.

In accordance with GAAP, the System has not recorded the losses in its financial statements as the impairments were not known as of December 31, 2021. The System has recorded the losses associated with the investments during 2022.

NOTE 18 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2022, the following GASB pronouncements were implemented:

- GASB Statement #87, *Leases*. This pronouncement did not impact the basic financial statements.
- GASB Statement #89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This pronouncement did not impact the basic financial statements.
- GASB Statement #92, *Omnibus 2020*. This pronouncement did not impact the basic financial statements.
- GASB Statement #93, *Replacement of Interbank Offered Rates*. This pronouncement did not impact the basic financial statements.
- GASB Statement #97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. This pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #91, *Conduit Debt Obligations*, which is required to be implemented in 2023.
- The GASB issued Statement #94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which is required to be implemented in 2023.
- The GASB issued Statement #96, *Subscription-Based Information Technology Arrangements*, which is required to be implemented in 2023.
- The GASB issued Statement #99, *Omnibus 2022*, which is required to be implemented in 2023.
- The GASB issued Statement #100, *Accounting Changes and Error Corrections*, which is required to be implemented in 2024.
- The GASB issued Statement #101, *Compensated Absences*, which is required to be implemented in 2025.

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

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Required Supplementary Information

General Fund Budgetary Comparison Schedule

The General Fund is the general operating fund of the City. It is used to account for the entire City's financial resources, except those required to be accounted for in another fund.

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

YEAR ENDED JUNE 30, 2022

| | Budgeted Amounts | | | | Actual |
|---|---|-----------------------------------|--------------------|-----------------|----------------------|
| | Amounts Carried Forward From Prior Year | Current Year Initial Budget | Original Budget | Final Budget | Budgetary Amounts |
| REVENUES: | | | | | |
| Real estate and personal property taxes, net of tax refunds..... | \$ - | \$ 99,885,645 | \$ 99,885,645 | \$ 99,885,645 | \$ 99,186,645 |
| Tax liens..... | - | - | - | - | 352,890 |
| Motor vehicle and other excise taxes..... | - | 6,094,041 | 6,094,041 | 6,094,041 | 7,368,720 |
| Hotel/motel tax..... | - | 75,000 | 75,000 | 75,000 | 91,085 |
| Meals tax..... | - | - | - | 1,117,559 | 1,117,559 |
| Charges for services..... | - | 2,990,688 | 2,990,688 | 2,990,688 | 3,313,414 |
| Penalties and interest on taxes..... | - | 517,188 | 517,188 | 517,188 | 487,720 |
| Payments in lieu of taxes..... | - | 136,000 | 136,000 | 136,000 | 181,629 |
| Licenses and permits..... | - | 1,453,125 | 1,453,125 | 1,453,125 | 1,707,249 |
| Fines and forfeitures..... | - | 290,655 | 290,655 | 290,655 | 215,835 |
| Intergovernmental - state aid..... | - | 55,988,415 | 55,988,415 | 55,988,415 | 55,796,042 |
| Intergovernmental - other..... | - | - | - | - | 16,911 |
| Departmental and other..... | - | 430,000 | 430,000 | 430,000 | 1,274,860 |
| Special assessments..... | - | 14,551 | 14,551 | 14,551 | 10,668 |
| Investment income..... | - | 200,000 | 200,000 | 200,000 | 211,080 |
| TOTAL REVENUES..... | - | 168,075,308 | 168,075,308 | 169,192,867 | 171,332,307 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Legislative, executive and financial..... | 12,502 | 5,214,800 | 5,227,302 | 5,131,680 | 4,909,768 |
| Public safety..... | 35,324 | 23,105,711 | 23,141,035 | 23,141,036 | 22,991,422 |
| Education..... | 226,097 | 87,835,858 | 88,061,955 | 88,319,998 | 86,423,798 |
| Public works..... | 146,014 | 6,998,586 | 7,144,600 | 7,601,049 | 6,968,246 |
| Economic and community development..... | - | 1,733,023 | 1,733,023 | 1,708,022 | 1,672,608 |
| Human services..... | 3,849 | 924,419 | 928,268 | 813,266 | 739,873 |
| Sanitation..... | 437,142 | 4,262,500 | 4,699,642 | 4,799,641 | 4,691,470 |
| Culture and recreation..... | 280 | 1,399,720 | 1,400,000 | 1,399,998 | 1,399,998 |
| Pension benefits..... | - | 13,500,643 | 13,500,643 | 13,500,643 | 13,500,643 |
| Employee benefits..... | - | 16,952,775 | 16,952,775 | 17,618,914 | 17,573,884 |
| State and county charges..... | - | 4,084,185 | 4,084,185 | 4,084,185 | 3,564,063 |
| Debt service: | | | | | |
| Principal..... | - | 2,927,171 | 2,927,171 | 2,900,171 | 2,900,000 |
| Interest..... | - | 1,652,400 | 1,652,400 | 1,514,400 | 1,514,372 |
| TOTAL EXPENDITURES..... | 861,208 | 170,591,791 | 171,452,999 | 172,533,003 | 168,850,145 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES..... | (861,208) | (2,516,483) | (3,377,691) | (3,340,136) | 2,482,162 |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Use of prior year reserves..... | 861,208 | - | 861,208 | 861,208 | - |
| Use of free cash..... | - | 135,000 | 135,000 | 1,342,454 | - |
| Transfers in..... | - | 2,881,483 | 2,881,483 | 2,881,483 | 2,881,483 |
| Transfers out..... | - | (500,000) | (500,000) | (1,745,009) | (1,745,009) |
| TOTAL OTHER FINANCING SOURCES (USES)..... | 861,208 | 2,516,483 | 3,377,691 | 3,340,136 | 1,136,474 |
| NET CHANGE IN FUND BALANCE..... | - | - | - | - | 3,618,636 |
| BUDGETARY FUND BALANCE, Beginning of year..... | - | 14,955,674 | 14,955,674 | 14,955,674 | 14,955,674 |
| BUDGETARY FUND BALANCE, End of year..... | \$ - | \$ 14,955,674 | \$ 14,955,674 | \$ 14,955,674 | \$ 18,574,310 |

See notes to required supplementary information.

| Amounts Carried Forward To Next Year | | Variance to Final Budget | |
|--|-----------|--------------------------------|-------------|
| \$ | - | \$ | (699,000) |
| | - | | 352,890 |
| | - | | 1,274,679 |
| | - | | 16,085 |
| | - | | - |
| | - | | 322,726 |
| | - | | (29,468) |
| | - | | 45,629 |
| | - | | 254,124 |
| | - | | (74,820) |
| | - | | (192,373) |
| | - | | 16,911 |
| | - | | 844,860 |
| | - | | (3,883) |
| | - | | 11,080 |
| | - | | 2,139,440 |
| | 2,000 | | 219,912 |
| | 10,115 | | 139,499 |
| | 305,997 | | 1,590,203 |
| | 73,651 | | 559,152 |
| | - | | 35,414 |
| | 1,500 | | 71,893 |
| | 45,815 | | 62,356 |
| | - | | - |
| | - | | - |
| | - | | 45,030 |
| | 185,115 | | 335,007 |
| | - | | 171 |
| | - | | 28 |
| | 624,193 | | 3,058,665 |
| | (624,193) | | 5,198,105 |
| | - | | (861,208) |
| | - | | (1,342,454) |
| | - | | - |
| | - | | - |
| | - | | (2,203,662) |
| | (624,193) | | 2,994,443 |
| | - | | - |
| \$ | (624,193) | \$ | 2,994,443 |

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Pension Plan Schedules – Retirement System

The Pension Plan's Schedule of Changes in the Net Pension Liability and Related Ratios presents multi-year trend information on the net pension liability and related ratios.

The Pension Plan's Schedule of Contributions presents multi-year trend information on the required and actual contributions to the pension plan and related ratios.

The Pension Plan's Schedule of Investment Returns presents multi-year trend information on the money-weighted investment return on retirement assets, net of investment expense.

These schedules are intended to present information for ten years. Until a ten-year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
AND RELATED RATIOS
METHUEN CONTRIBUTORY RETIREMENT SYSTEM**

| | December 31, 2014 | December 31, 2015 | December 31, 2016 | December 31, 2017 |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
| Total pension liability: | | | | |
| Service cost..... | \$ 4,595,000 | \$ 4,802,000 | \$ 5,368,000 | \$ 5,610,000 |
| Interest..... | 16,248,000 | 16,978,000 | 17,183,000 | 18,566,000 |
| Changes in benefit terms..... | - | - | (3,242,000) | 2,956,000 |
| Differences between expected and actual experience.... | - | - | 962,000 | 1,140,000 |
| Changes in assumptions..... | - | - | 11,200,000 | 6,210,000 |
| Benefit payments..... | (11,297,000) | (11,970,000) | (12,656,000) | (13,884,000) |
| Net change in total pension liability..... | 9,546,000 | 9,810,000 | 18,815,000 | 20,598,000 |
| Total pension liability - beginning..... | 210,707,000 | 220,253,000 | 230,063,000 | 248,878,000 |
| Total pension liability - ending (a)..... | <u>\$ 220,253,000</u> | <u>\$ 230,063,000</u> | <u>\$ 248,878,000</u> | <u>\$ 269,476,000</u> |
| Plan fiduciary net position: | | | | |
| Employer contributions..... | \$ 9,834,000 | \$ 10,623,000 | \$ 11,147,000 | \$ 11,701,000 |
| Member contributions..... | 3,041,000 | 3,495,000 | 3,022,000 | 3,810,000 |
| Net investment income (loss)..... | 8,330,000 | 1,791,000 | 8,780,000 | 21,886,000 |
| Administrative expenses..... | (160,000) | (263,000) | (210,000) | (209,000) |
| Retirement benefits and refunds..... | (11,297,000) | (11,970,000) | (12,656,000) | (13,884,000) |
| Other receipts..... | 29,000 | 2,000 | 2,000 | 3,000 |
| Net increase (decrease) in fiduciary net position..... | 9,777,000 | 3,678,000 | 10,085,000 | 23,307,000 |
| Fiduciary net position - beginning of year..... | 105,310,000 | 115,087,000 | 118,765,000 | 128,850,000 |
| Fiduciary net position - end of year (b)..... | <u>\$ 115,087,000</u> | <u>\$ 118,765,000</u> | <u>\$ 128,850,000</u> | <u>\$ 152,157,000</u> |
| Net pension liability - ending (a)-(b)..... | <u>\$ 105,166,000</u> | <u>\$ 111,298,000</u> | <u>\$ 120,028,000</u> | <u>\$ 117,319,000</u> |
| Plan fiduciary net position as a percentage of the total pension liability..... | 52.25% | 51.62% | 51.77% | 56.46% |
| Covered payroll..... | \$ 32,256,000 | \$ 32,256,000 | \$ 34,459,000 | \$ 36,394,000 |
| Net pension liability as a percentage of covered payroll..... | 326.04% | 345.05% | 348.32% | 322.36% |

Note: this schedule is intended to present information for 10 years.

Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

| | December 31, 2018 | December 31, 2019 | December 31, 2020 | December 31, 2021 |
|----|----------------------|----------------------|----------------------|----------------------|
| \$ | 5,918,000 | \$ 6,185,000 | \$ 6,382,000 | \$ 6,669,000 |
| | 19,713,000 | 20,529,000 | 21,209,000 | 22,029,000 |
| | - | 1,100,000 | - | 1,200,000 |
| | - | (2,162,000) | - | (628,000) |
| | - | 7,000,000 | - | 3,100,000 |
| | <u>(14,391,000)</u> | <u>(15,203,000)</u> | <u>(15,827,000)</u> | <u>(17,002,000)</u> |
| | 11,240,000 | 17,449,000 | 11,764,000 | 15,368,000 |
| | <u>269,476,000</u> | <u>280,716,000</u> | <u>298,165,000</u> | <u>309,929,000</u> |
| \$ | <u>280,716,000</u> | <u>298,165,000</u> | <u>309,929,000</u> | <u>325,297,000</u> |
| \$ | 12,281,000 | \$ 13,147,000 | \$ 13,800,000 | \$ 14,764,000 |
| | 3,715,000 | 3,873,000 | 4,068,000 | 4,180,000 |
| | (3,639,000) | 24,071,000 | 21,427,000 | 39,259,000 |
| | (251,000) | (223,000) | (241,000) | (245,000) |
| | (14,391,000) | (15,203,000) | (15,827,000) | (17,002,000) |
| | <u>8,000</u> | <u>10,000</u> | <u>4,000</u> | <u>7,000</u> |
| | (2,277,000) | 25,675,000 | 23,231,000 | 40,963,000 |
| | <u>152,157,000</u> | <u>149,880,000</u> | <u>175,555,000</u> | <u>198,786,000</u> |
| \$ | <u>149,880,000</u> | <u>175,555,000</u> | <u>198,786,000</u> | <u>239,749,000</u> |
| \$ | <u>130,836,000</u> | <u>122,610,000</u> | <u>111,143,000</u> | <u>85,548,000</u> |
| | 53.39% | 58.88% | 64.14% | 73.70% |
| \$ | 36,394,000 | \$ 37,314,000 | \$ 37,314,000 | \$ 39,188,000 |
| | 359.50% | 328.59% | 297.86% | 218.30% |

SCHEDULE OF CONTRIBUTIONS
METHUEN CONTRIBUTORY RETIREMENT SYSTEM

| Year | Actuarially determined contribution | Contributions in relation to the actuarially determined contribution | Contribution deficiency (excess) | Covered payroll | Contributions as a percentage of covered payroll |
|------------------------|---|--|--|--------------------|--|
| December 31, 2021..... | \$ 14,764,000 | \$ (14,764,000) | \$ - | \$ 39,188,000 | 37.67% |
| December 31, 2020..... | 13,800,000 | (13,800,000) | - | 37,314,000 | 36.98% |
| December 31, 2019..... | 13,141,000 | (13,141,000) | - | 37,314,000 | 35.22% |
| December 31, 2018..... | 12,281,000 | (12,281,000) | - | 36,394,000 | 33.74% |
| December 31, 2017..... | 11,701,000 | (11,701,000) | - | 36,394,000 | 32.15% |
| December 31, 2016..... | 11,147,000 | (11,147,000) | - | 34,459,000 | 32.35% |
| December 31, 2015..... | 10,623,000 | (10,623,000) | - | 32,256,000 | 32.93% |
| December 31, 2014..... | 9,834,000 | (9,834,000) | - | 32,256,000 | 30.49% |

Note: this schedule is intended to present information for 10 years.

Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

SCHEDULE OF INVESTMENT RETURNS
METHUEN CONTRIBUTORY RETIREMENT SYSTEM

| Year | Annual money-weighted rate of return, net of investment expense |
|------------------------|---|
| December 31, 2021..... | 19.71% |
| December 31, 2020..... | 12.33% |
| December 31, 2019..... | 16.04% |
| December 31, 2018..... | -2.36% |
| December 31, 2017..... | 15.58% |
| December 31, 2016..... | 7.50% |
| December 31, 2015..... | 0.56% |
| December 31, 2014..... | 7.76% |

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those
years for which information is available.

See notes to required supplementary information.

Pension Plan Schedules – City

The Schedule of the City's Proportionate Share of the Net Pension Liability presents multi-year trend information on the City's net pension liability and related ratios.

The Schedule of the City's Contributions presents multi-year trend information on the City's required and actual contributions to the pension plan and related ratios.

The Schedule of the Special Funding Amounts of the Net Pension Liability for the Massachusetts Teachers' Retirement System presents multi-year trend information on the liability and expense assumed by the Commonwealth of Massachusetts on behalf of the City along with related ratios.

These schedules are intended to present information for ten years. Until a ten-year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
METHUEN CONTRIBUTORY RETIREMENT SYSTEM**

| Year | Proportion of the net pension liability (asset) | Proportionate share of the net pension liability (asset) | Covered payroll | Net pension liability as a percentage of covered payroll | Plan fiduciary net position as a percentage of the total pension liability |
|------------------------|---|---|--------------------|---|--|
| December 31, 2021..... | 97.08% | \$ 83,050,000 | \$ 38,043,711 | 218.30% | 73.70% |
| December 31, 2020..... | 97.19% | 108,019,884 | 36,265,477 | 297.86% | 64.14% |
| December 31, 2019..... | 97.47% | 119,507,965 | 36,369,955 | 328.59% | 58.88% |
| December 31, 2018..... | 97.23% | 127,212,000 | 36,610,000 | 347.48% | 53.39% |
| December 31, 2017..... | 97.42% | 114,292,000 | 43,169,000 | 264.75% | 56.46% |
| December 31, 2016..... | 97.38% | 116,883,000 | 43,400,000 | 269.32% | 51.77% |
| December 31, 2015..... | 97.03% | 107,992,000 | 41,242,000 | 261.85% | 51.62% |
| December 31, 2014..... | 96.81% | 101,811,000 | 40,441,000 | 251.75% | 52.25% |

Note: this schedule is intended to present information for 10 years.

Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

SCHEDULE OF THE CITY'S CONTRIBUTIONS
METHUEN CONTRIBUTORY RETIREMENT SYSTEM

| Year | Actuarially determined contribution | Contributions in relation to the actuarially determined contribution | Contribution deficiency (excess) | Covered payroll | Contributions as a percentage of covered payroll |
|--------------------|---|--|--|--------------------|--|
| June 30, 2022..... | \$ 14,358,022 | \$ (14,358,022) | \$ - | \$ 38,424,148 | 37.37% |
| June 30, 2021..... | 13,433,903 | (13,433,903) | - | 36,628,132 | 36.68% |
| June 30, 2020..... | 12,829,078 | (12,829,078) | - | 36,733,655 | 34.92% |
| June 30, 2019..... | 11,963,000 | (11,963,000) | - | 36,976,100 | 32.35% |
| June 30, 2018..... | 11,415,000 | (11,415,000) | - | 43,600,690 | 26.18% |
| June 30, 2017..... | 10,867,000 | (10,867,000) | - | 43,834,000 | 24.79% |
| June 30, 2016..... | 9,585,000 | (9,585,000) | - | 41,654,420 | 23.01% |
| June 30, 2015..... | 8,804,000 | (8,804,000) | - | 40,845,410 | 21.55% |

Note: this schedule is intended to present information for 10 years.

Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF THE SPECIAL FUNDING AMOUNTS
OF THE NET PENSION LIABILITY
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM**

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Therefore, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the associated collective net pension liability; the portion of the collective pension expense as both a revenue and pension expense recognized; and the Plan's fiduciary net position as a percentage of the total liability.

| Year | Commonwealth's 100% Share of the Associated Net Pension Liability | Expense and Revenue Recognized for the Commonwealth's Support | Plan Fiduciary Net Position as a Percentage of the Total Liability |
|-----------|--|--|---|
| 2022..... | \$ 145,404,845 | \$ 11,668,133 | 62.03% |
| 2021..... | 186,118,391 | 22,988,288 | 50.67% |
| 2020..... | 166,426,825 | 20,182,141 | 53.95% |
| 2019..... | 166,973,472 | 16,920,344 | 54.84% |
| 2018..... | 164,256,667 | 17,143,946 | 54.25% |
| 2017..... | 164,774,468 | 16,808,076 | 52.73% |
| 2016..... | 150,564,692 | 12,212,137 | 55.38% |
| 2015..... | 116,314,384 | 8,080,918 | 61.64% |

Note: this schedule is intended to present information for 10 years.

Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

Other Postemployment Benefit Plan Schedules

The Schedule of Changes in the City's Net Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability, changes in the Plan's net position, and ending net OPEB liability. It also demonstrates the Plan's net position as a percentage of the total liability and the Plan's net other postemployment benefit liability as a percentage of covered employee payroll.

The Schedule of the City's Contributions presents multi-year trend information on the City's actual contributions to the other postemployment benefit plan and related ratios.

The Schedule of Investment Returns presents multi-year trend information on the money-weighted investment return on the Plan's other postemployment benefit plan and related ratios.

These schedules are intended to present information for ten years. Until a ten-year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF CHANGES IN THE
CITY'S NET OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFIT PLAN**

| | June 30, 2017 | June 30, 2018 | June 30, 2019 | June 30, 2020 | June 30, 2021 | June 30, 2022 |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Total OPEB Liability | | | | | | |
| Service cost..... | \$ 3,114,955 | \$ 3,255,128 | \$ 3,846,227 | \$ 4,029,307 | \$ 9,507,098 | \$ 9,517,299 |
| Interest..... | 6,695,955 | 6,904,056 | 6,831,197 | 8,919,182 | 7,884,421 | 6,272,416 |
| Differences between expected and actual experience.... | - | - | 36,803,747 | - | (76,125,780) | - |
| Changes of assumptions..... | - | - | - | 65,230,343 | - | (30,033,596) |
| Benefit payments..... | (4,033,766) | (4,215,286) | (5,750,397) | (6,554,481) | (5,689,802) | (5,823,081) |
| Net change in total OPEB liability..... | 5,777,144 | 5,943,898 | 41,730,774 | 71,624,351 | (64,424,063) | (20,066,962) |
| Total OPEB liability - beginning..... | 183,620,820 | 189,397,964 | 195,341,862 | 237,072,636 | 308,696,987 | 244,272,924 |
| Total OPEB liability - ending (a)..... | <u>\$ 189,397,964</u> | <u>\$ 195,341,862</u> | <u>\$ 237,072,636</u> | <u>\$ 308,696,987</u> | <u>\$ 244,272,924</u> | <u>\$ 224,205,962</u> |
| Plan fiduciary net position | | | | | | |
| Employer contributions..... | \$ 4,233,766 | \$ 4,215,286 | \$ 5,750,397 | \$ 6,554,481 | \$ 5,689,802 | \$ 5,823,081 |
| Net investment income/(loss)..... | (644) | 18,699 | 24,358 | 13,472 | 109,687 | (86,577) |
| Benefit payments..... | (4,033,766) | (4,215,286) | (5,750,397) | (6,554,481) | (5,689,802) | (5,823,081) |
| Net change in plan fiduciary net position..... | 199,356 | 18,699 | 24,358 | 13,472 | 109,687 | (86,577) |
| Plan fiduciary net position - beginning of year..... | 200,000 | 399,356 | 418,055 | 442,413 | 455,885 | 565,572 |
| Plan fiduciary net position - end of year (b)..... | <u>\$ 399,356</u> | <u>\$ 418,055</u> | <u>\$ 442,413</u> | <u>\$ 455,885</u> | <u>\$ 565,572</u> | <u>\$ 478,995</u> |
| Net OPEB liability - ending (a)-(b)..... | <u>\$ 188,998,608</u> | <u>\$ 194,923,807</u> | <u>\$ 236,630,223</u> | <u>\$ 308,241,102</u> | <u>\$ 243,707,352</u> | <u>\$ 223,726,967</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability..... | 0.21% | 0.21% | 0.19% | 0.15% | 0.23% | 0.21% |
| Covered-employee payroll..... | \$ 74,291,502 | \$ 76,891,704 | \$ 79,582,913 | \$ 82,368,315 | \$ 79,384,264 | \$ 82,162,713 |
| Net OPEB liability as a percentage of covered-employee payroll..... | 254.40% | 253.50% | 297.34% | 374.22% | 307.00% | 272.30% |

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF THE CITY'S CONTRIBUTIONS
OTHER POSTEMPLOYMENT BENEFIT PLAN**

| Year | Actuarially determined contribution | Contributions in relation to the actuarially determined contribution | Contribution deficiency (excess) | Covered- employee payroll | Contributions as a percentage of covered- employee payroll |
|--------------------|---|--|--|------------------------------|---|
| June 30, 2022..... | \$ 15,789,715 | \$ (5,823,081) | \$ 9,966,634 | \$ 82,162,713 | 7.09% |
| June 30, 2021..... | 17,391,519 | (5,689,802) | 11,701,717 | 79,384,264 | 7.17% |
| June 30, 2020..... | 12,948,489 | (6,554,481) | 6,394,008 | 82,368,315 | 7.96% |
| June 30, 2019..... | 13,563,662 | (5,750,397) | 7,813,265 | 79,582,913 | 7.23% |
| June 30, 2018..... | 12,871,991 | (4,215,286) | 8,656,705 | 76,891,704 | 5.48% |
| June 30, 2017..... | 12,180,320 | (4,233,766) | 7,946,554 | 74,291,502 | 5.70% |

Note: this schedule is intended to present information for 10 years.

Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

SCHEDULE OF INVESTMENT RETURNS
OTHER POSTEMPLOYMENT BENEFIT PLAN

| <u>Year</u> | <u>Annual money-weighted rate of return, net of investment expense</u> |
|--------------------|--|
| June 30, 2022..... | -15.13% |
| June 30, 2021..... | 24.06% |
| June 30, 2020..... | 3.05% |
| June 30, 2019..... | 5.80% |
| June 30, 2018..... | 4.60% |
| June 30, 2017..... | -0.30% |

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those
years for which information is available.

See notes to required supplementary information.

NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITYBudgetary Information

Municipal Law requires the City to adopt a balanced budget that is approved by the City Council (the “Council”). At a City Council meeting in May, the Mayor presents an annual budget to the Council, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The Council, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

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

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original 2022 approved budget authorizing approximately \$172.0 million in current year appropriations, other financing uses, and other amounts to be raised and approximately \$861,000 in encumbrances and appropriations carried over from previous years. During 2022, the Council also approved a net increase in appropriations of \$2.3 million.

The City Accounting Office has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the City’s accounting system.

Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting.

A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2022, is as follows:

| | |
|---|---------------------|
| Net change in fund balance - budgetary basis..... | \$ 3,618,636 |
| <u>Perspective differences:</u> | |
| Activity of the stabilization fund recorded in the general fund for GAAP | 1,369,119 |
| <u>Basis of accounting differences:</u> | |
| Net change in recording 60 day receipts..... | 610,012 |
| Recognition of revenue for on-behalf payments..... | 11,668,133 |
| Recognition of expenditures for on-behalf payments..... | <u>(11,668,133)</u> |
| Net change in fund balance - GAAP basis..... | \$ <u>5,597,767</u> |

NOTE B – PENSION PLAN

Pension Plan Schedules – Retirement System

Schedule of Changes in the Net Pension Liability and Related Ratios

The Schedule of Changes in the Net Pension Liability and Related Ratios includes the detailed changes in the systems total pension liability, changes in the systems net position, and the ending net pension liability. It also demonstrates the plan's net position as a percentage of the total pension liability and the net pension liability as a percentage of covered payroll.

Schedule of Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The total appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The total appropriations are payable on July 1 and January 1. Employers may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual employer contributions may be less than the "total appropriation". The pension fund appropriations are allocated amongst employers based on covered payroll.

Schedule of Investment Returns

The money weighted rate of return is calculated as the internal rate of return on pension plan investments, net of pension plan investment expense. A money weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested. Inputs to the money weighted rate of return calculation are determined monthly.

Pension Plan Schedules – City**Schedule of the City's Proportionate Share of the Net Pension Liability**

The Schedule of the City's Proportionate Share of the Net Pension Liability details the allocated percentage of the net pension liability (asset), the proportionate share of the net pension liability, and the covered employee payroll. It also demonstrates the net position as a percentage of the pension liability and the net pension liability as a percentage of covered payroll.

Schedule of City's Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The appropriations are payable on July 1 and January 1. The City may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual contributions may be less than the "total appropriation". The pension fund appropriation is allocated to the City based on covered payroll.

Schedule of the Special Funding Amounts of the Net Pension Liabilities

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the City does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the City; the portion of the collective pension expense as both revenue and pension expense recognized by the City; and the Plan's fiduciary net position as a percentage of the total liability.

Changes of Assumptions

- The investment rate of return was decreased from 7.15% to 7.00%.
- The mortality improvement scale was updated from Scale MP-2018 to Scale MP-2020.
- There was an adjustment to the salary increase assumption.

Changes in Plan Provisions – None.

- The COLA base was increased from \$17,000 to \$18,000.

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

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

Additionally, retired teachers and their spouses receive health insurance through the Group Insurance Commission of the Commonwealth of Massachusetts (GIC). Each participating municipality is assessed for the governmental share of health and life insurance premiums paid on behalf of its teacher retirees by the state.

The Other Postemployment Benefit PlanSchedule of Changes in the City's Net Other Postemployment Benefit Liability and Related Ratios

The Schedule of Changes in the City's Net Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability, changes in the Plan's net position, and ending net OPEB liability. It also demonstrates the Plan's net position as a percentage of the total liability and the Plan's net other postemployment benefit liability as a percentage of covered-employee payroll.

Schedule of the City's Contributions

The Schedule of the City's Contributions includes the City's annual required contribution to the Plan, along with the contribution made in relation to the actuarially determined contribution and the covered-employee payroll. The City is not required to fully fund this contribution. It also demonstrates the contributions as a percentage of covered-employee payroll. Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported. Methods and assumptions used to determine contribution rates are as follows:

| | |
|---------------------------------|---|
| Valuation date..... | July 1, 2021 |
| Actuarial cost method..... | Entry Age Normal. |
| Asset valuation method..... | Fair value of assets as of the reporting date. |
| Discount rate..... | 3.25% based on the 20 year high quality municipal bond rate. Previously 2.50%. |
| Healthcare cost trend rate..... | 4.50% |
| Mortality rates..... | Pre-retirement mortality, retiree mortality and beneficiary mortality is represented by the RP-2014 Blue Collar Mortality with Scale MP-2017, fully generational. For the period after disability retirement, the RP-2000 Combined Healthy Table set forward 2 years is used. |

Schedule of Investment Returns

The Schedule of Investment Returns includes the money-weighted investment return on the Plan's other postemployment assets, net of investment expense.

Changes of Assumptions – The discount rate was increased from 2.50% to 3.25% based on the 20-year municipal bond rate.

Changes in Provisions – None.