

**CITY OF METHUEN, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2016**



## CITY OF METHUEN, MASSACHUSETTS

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## INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council  
City of Methuen, Massachusetts

Additional Offices:  
Nashua, NH  
Manchester, NH  
Greenfield, MA  
Ellsworth, ME

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Methuen, Massachusetts, as of and for the year ended June 30, 2016, (except for the Methuen Contributory Retirement System, which is as of and for the year ended December 31, 2015) and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assess-

ments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Methuen, Massachusetts, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

*Other Reporting Required by Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

*Melanson Heath*

March 22, 2017

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Methuen, Massachusetts (the City), we offer readers this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016.

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

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

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

**Proprietary funds.** Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, a single enterprise fund is used to account for the combined water and sewer operations.

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

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

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

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

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

## **B. FINANCIAL HIGHLIGHTS**

- At the end of the current fiscal year, unassigned fund balance for the general fund (the City's main operating fund) was \$4,004,745, a change of \$811,099 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances (deficit) of \$(1,267,993), a change of \$10,391,791 in comparison to the prior year.
- As of the close of the current fiscal year, the government-wide financial statements report total liabilities exceeding assets and deferred outflows of resources by \$3,383,269 resulting in a negative net position, a change of \$(5,535,914) in comparison to the prior year.
- Total bonds and loans payable, including unamortized premium at the close of the current fiscal year were \$59,305,366, a change of \$7,158,407 in comparison to the prior year.
- Total notes payable at the close of the current fiscal year were \$14,811,540, a change of \$(8,803,460) in comparison to the prior year.

## **C. GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

The largest portion of net position \$143,467,129 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position of \$9,735,943 represents resources that are subject to external restrictions on how they may be used. The remaining amount is a deficit of \$(156,586,341). The deficit results primarily from the adoption of the Governmental Accounting Standards Board (GASB) Statement No. 68 *Accounting and Reporting for Pensions* in fiscal year 2015. This statement established standards for the measurement, recognition, and presentation of the net pension liability in the City's financial statements. Net pension liability (NPL) for the year ended June 30, 2016, totaled \$107,992,000, reported under noncurrent liabilities on the Statement of Net Position. The City also reported net Other Post Employment Benefits (OPEB) obligation of \$67,488,637 as of June 30, 2016, contributing to the deficit as well.

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

### Summary of Net Position (000s)

|   | Governmental<br>Activities |                   | Business-Type<br>Activities |                  | Totals            |                   |
|---|----------------------------|-------------------|-----------------------------|------------------|-------------------|-------------------|
|   | 2016                       | 2015              | 2016                        | 2015             | 2016              | 2015              |
| Current and other assets                        | \$ 29,671                  | \$ 29,352         | \$ 8,000                    | \$ 8,953         | \$ 37,671         | \$ 38,305         |
| Capital assets                                  | <u>177,995</u>             | <u>175,460</u>    | <u>35,460</u>               | <u>36,395</u>    | <u>213,455</u>    | <u>211,855</u>    |
| Total assets                                    | 207,666                    | 204,812           | 43,460                      | 45,348           | 251,126           | 250,160           |
| Deferred outflows of resources                  | <u>5,452</u>               | <u>84</u>         | <u>258</u>                  | <u>4</u>         | <u>5,710</u>      | <u>88</u>         |
| Total assets and deferred outflows or resources | <u>\$ 213,118</u>          | <u>\$ 204,896</u> | <u>\$ 43,718</u>            | <u>\$ 45,352</u> | <u>\$ 256,836</u> | <u>\$ 250,248</u> |
| Long-term liabilities                           | \$ 214,991                 | \$ 192,236        | \$ 25,425                   | \$ 26,141        | \$ 240,416        | \$ 218,377        |
| Other liabilities                               | <u>19,319</u>              | <u>29,199</u>     | <u>484</u>                  | <u>519</u>       | <u>19,803</u>     | <u>29,718</u>     |
| Total liabilities                               | 234,310                    | 221,435           | 25,909                      | 26,660           | 260,219           | 248,095           |
| Net position:                                   |                            |                   |                             |                  |                   |                   |
| Net investment in capital assets                | 126,956                    | 123,584           | 16,512                      | 16,027           | 143,468           | 139,611           |
| Restricted                                      | 9,505                      | 9,227             | 230                         | 180              | 9,735             | 9,407             |
| Unrestricted                                    | <u>(157,653)</u>           | <u>(149,350)</u>  | <u>1,067</u>                | <u>2,485</u>     | <u>(156,586)</u>  | <u>(146,865)</u>  |
| Total net position                              | <u>(21,192)</u>            | <u>(16,539)</u>   | <u>17,809</u>               | <u>18,692</u>    | <u>(3,383)</u>    | <u>2,153</u>      |
| Total liabilities and net position              | <u>\$ 213,118</u>          | <u>\$ 204,896</u> | <u>\$ 43,718</u>            | <u>\$ 45,352</u> | <u>\$ 256,836</u> | <u>\$ 250,248</u> |

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

### Summary of Changes in Net Position (000s)

|  | <u>Governmental</u> |                    | <u>Business-Type</u> |                  | <u>Totals</u>     |                 |
|--|---------------------|--------------------|----------------------|------------------|-------------------|-----------------|
|  | <u>2016</u>         | <u>2015</u>        | <u>2016</u>          | <u>2015</u>      | <u>2016</u>       | <u>2015</u>     |
| <b>Revenues:</b>   |                     |                    |                      |                  |                   |                 |
| Program revenues   |                     |                    |                      |                  |                   |                 |
| Charges for services   | \$ 12,166           | \$ 10,829          | \$ 10,317            | \$ 10,855        | \$ 22,483         | \$ 21,684       |
| Operating grants and contributions                           | 63,988              | 59,059             | 8                    | 21               | 63,996            | 59,080          |
| Capital grants and contributions                             | 1,507               | 3,350              | -                    | -                | 1,507             | 3,350           |
| General revenues   |                     |                    |                      |                  |                   |                 |
| Property Taxes   | 79,393              | 75,415             | -                    | -                | 79,393            | 75,415          |
| Excises  | 6,195               | 5,663              | -                    | -                | 6,195             | 5,663           |
| Local option meals tax                                       | 865                 | 759                | -                    | -                | 865               | 759             |
| Interest and penalties                                       | 464                 | 402                | -                    | -                | 464               | 402             |
| Grants and contributions not restricted to specific programs | 12,151              | 12,884             | -                    | -                | 12,151            | 12,884          |
| Investment income  | 40                  | 31                 | 14                   | 11               | 54                | 42              |
| Other  | 891                 | 436                | -                    | -                | 891               | 436             |
| Total revenues   | <u>177,660</u>      | <u>168,828</u>     | <u>10,339</u>        | <u>10,887</u>    | <u>187,999</u>    | <u>179,715</u>  |
| <b>Expenses:</b>   |                     |                    |                      |                  |                   |                 |
| General government   | 17,153              | 15,891             | -                    | -                | 17,153            | 15,891          |
| Public safety  | 28,277              | 25,115             | -                    | -                | 28,277            | 25,115          |
| Education  | 119,536             | 108,185            | -                    | -                | 119,536           | 108,185         |
| Public works   | 9,252               | 9,924              | -                    | -                | 9,252             | 9,924           |
| Sanitation   | 2,716               | 2,629              | -                    | -                | 2,716             | 2,629           |
| Health and human services                                    | 1,610               | 1,737              | -                    | -                | 1,610             | 1,737           |
| Culture and recreation                                       | 2,167               | 1,441              | -                    | -                | 2,167             | 1,441           |
| Interest and costs   | 1,602               | 1,590              | -                    | -                | 1,602             | 1,590           |
| Enterprise services  | -                   | -                  | <u>11,222</u>        | <u>10,566</u>    | <u>11,222</u>     | <u>10,566</u>   |
| Total expenses   | <u>182,313</u>      | <u>166,512</u>     | <u>11,222</u>        | <u>10,566</u>    | <u>193,535</u>    | <u>177,078</u>  |
| Change in net position                                       | (4,653)             | 2,316              | (883)                | 321              | (5,536)           | 2,637           |
| Beginning net position                                       | <u>(16,539)</u>     | <u>(18,855)</u>    | <u>18,692</u>        | <u>18,371</u>    | <u>2,153</u>      | <u>(484)</u>    |
| Ending net position  | <u>\$ (21,192)</u>  | <u>\$ (16,539)</u> | <u>\$ 17,809</u>     | <u>\$ 18,692</u> | <u>\$ (3,383)</u> | <u>\$ 2,153</u> |

**Governmental Activities** - The City's governmental activities resulted in a change in net position of \$(4,652,844). Events contributing to the decrease in net position are as follows:

- The City's OPEB liability increased by \$7,463,154 from the previous year. The City's accomplishments in fiscal 2016 include a step towards addressing the unfunded OPEB liability by passing City Resolution TR-16-8 estab-

lishing an Other Post-Employment Benefits (OPEB) Fiduciary Trust Fund in accordance with Massachusetts General Laws (MGL) Chapter 32B, Section 20 and contributing \$200,000 to the fiduciary fund.

- The net pension liability (NPL) related to governmental activities increased by approximately \$5,535,000 primarily resulting from the Plan's investment earning being less than projected. The amount of investment earning being less than projected is reported as a deferred outflow of resources (on the statement of net position) and will increase pension expense over the next four years.
- The decreased in net position is also offset by capital asset additions acquired through current year revenues of \$2,990,882, which primarily includes Nicholson Stadium project grants and contributions as well as MGL Chapter 90 grants described in the Capital Asset and Debt Administration section of the MD&A.

Property tax collections continued to remain strong. The City's total revenues increased by 5.2 percent or \$8,831,670 in comparison to the previous fiscal year. The City's expenses increased by 9.5 percent or \$15,799,834. The cost of all governmental activities this year was \$182,311,478 compared to \$166,511,644 last year. A portion of the cost was paid by:

- Those who directly benefited from the programs, reported as charges for services of \$12,165,427.
- Other governments and organizations that subsidized certain programs with operating and capital grants and contributions in the amount of \$65,494,351.

The City paid for the remaining "public benefit" portion of governmental activities with property taxes and with other revenues, such as interest and general entitlements. The amount that our taxpayers ultimately financed for these activities through property taxes was \$79,392,574. Grants and contributions not restricted to specific programs amounted to \$12,151,181.

The City's tax rate increased from fiscal year 2015 to 2016 for residential properties from \$14.60 to \$14.81 and increased for commercial properties from \$25.57 to \$26.14. The City's governmental revenues incurred a modest increase, including State Education Aid in the amount of \$41,177,406 comparing to \$40,887,672 in the prior year. Almost half of the total revenues or 44 percent were derived from grants and contributions.

**Business-type Activities** - Business-type activities for the year resulted in a change in net position of \$(883,070). Contributing to the decrease is the additional pension expense of \$391,425 recognized as a result of GASB 68 for fiscal year 2016. Further, the change in net position resulted from a decrease in the unbilled water and sewer charges from June 30, 2015 to June 30, 2016 of

\$542,912. The City also used Retained Earnings of \$1,164,949 contributing to the decrease offset by unspent appropriations of \$692,214.

#### **D. FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

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

At the end of the current fiscal year, the governmental funds reported a combined fund deficit of \$(1,267,993) with a net change in fund balance of \$10,391,791. The governmental funds deficit results from financing projects with bond anticipation notes. The deficit was eliminated when permanently financed after year end. See Subsequent Events Note 29 for more information.

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

| <u>General Fund</u> | <u>6/30/16</u>  | <u>6/30/15</u>  | <u>Change</u>   | <u>6/30/16</u> | <u>Balance % of<br/>Total General<br/>Fund Expenditures</u> |
|---------------------|-----------------|-----------------|-----------------|----------------|---|
| Assigned            | \$ 799          | \$ 554          | \$ 245          |                | 0.5%  |
| Unassigned*         | <u>4,005</u>    | <u>3,194</u>    | <u>811</u>      |                | <u>2.8%</u>   |
| Total fund balance  | <u>\$ 4,804</u> | <u>\$ 3,748</u> | <u>\$ 1,056</u> |                | <u>3.3%</u>   |

\*Includes stabilization fund balance of \$2,400,152 at June 30, 2016 and \$1,224,726 at June 30, 2014.

General Fund revenues increased 3.8% over prior year while expenditures increased by 2.7%.

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

## **E. GENERAL FUND BUDGETARY HIGHLIGHTS AND OTHER INFORMATION**

Winter snow removal strained the municipal budget with a price tag of \$812,280. The City had been averaging slightly over a \$1,102,308 in snow removal. FY 2016 was \$290,028 less than the average, it's a small consolation but the City still had to supplement the snow removal budget by \$597,280, which affects the City's finances at year end by drawing down on other available funds, or more specifically our "Free Cash" position. Snow removal will continue to have a tremendous burden on the municipal budget and needs to be addressed and budgeted appropriately.

The City started off FY 2016 with a free cash certification of \$667,095 and our Stabilization Fund disclosed an opening balance of \$1,891,886 and ended with a balance of \$2,400,152. The overall budget increased by 4.76% or \$7,104,936 with a majority of the increase going towards education, and employee benefits-insurance/pensions. The assessed valuation was set at \$4,804,659,354 an increase of \$175,685,658 in values in all classes which in turn adds \$849,052 in new tax growth. Our tax levy used to support the Fiscal Year 2016 budget was \$79,674,786 which is below our actual tax levy governed by Proposition 2½ of \$80,592,982. The City of Methuen, after the adoption of the tax rate, was \$918,196 below the levy limit.

The Water and Sewer Enterprise fund was certified by the Department of Revenue with \$2,602,176 in available funds as of 07/01/2015, which was a significant decrease from Fiscal Year 2015 of \$908,665 and a cause for concern. After disclosing the significant change in Retained Earnings, the Director of Public Works contracted with the Abrahams Group to assist in evaluating the Water and Sewer Rate structure which had not been changed since Fiscal Year 2008. The objective was to work with the Public Works Director and his staff along with City Auditor on current and projected revenues and expenditures:

- Review water and sewer rates and tiers for potential changes to realize additional user charges revenue
- Ensure water and sewer user charges reflect respective costs
- Determine a cost-based water service charge
- Fund all capital expenses in the DPW's capital plan
- Eliminate projected fund deficits over five-year period (FY 2016 to FY 2020)
- Aim for a projected Retained Earnings balance of between 10% and 15% of Fund expenditures at the end of FY 2020.

Upon conclusion of this study a presentation was made to the City Council during several public hearings and ultimately a new rate and tier structure was adopted. It is the intent of this change to stop drawing down on retained earnings to balance the budget and start building the Retained Earnings up to a level that makes the Water and Sewer Enterprise Fund solvent.

The City of Methuen's Health Insurance Trust Fund continues to remain healthy. The account is disclosing a balance of \$1,866,184 as of 06/30/2016 after reserving \$600,000 for incurred but not reported claims. However, health insurance continues to have a significant impact on the operating budget with an appropriation of \$11,115,888 in FY 2016 an increase of \$1,058,334 over the Fiscal Year 2015 appropriation. The City continues to pursue alternatives to cut health insurance costs by working with the Public Employees Committee. Over the past two years the PEC made monumental concessions to reduce health care costs and at the same maintain a Health Insurance plan that works for the employee and the employer.

As mentioned in these reports in the past, a significant project that will help bolster the economy is the rerouting of a rotary off Highway Interstate 93. The rotary project broke ground in the spring and is expected to be completed by 2017. The rotary project will improve traffic flow and capacity and open potential development opportunities that were previously turned away due to access issues. More than 100 acres of developable land area exist west of the rotary and there is a renewed interest in potential development sites. It is anticipated the City of Methuen will see a surge in new commercial growth as the project nears completion. The City's residential properties account for about 84% of total assessed valuation with commercial and industrial properties accounting for 16%. Once the Rotary project is nearing completion it is anticipated the City of Methuen will see a surge in new commercial growth. We feel that a significant shift will occur between residential and commercial assessed valuations, which will ease the burden of residential taxes from homeowners.

The City used a combination of bonds, grants, and donations to construct a \$4,600,000 Nicholson Stadium renovation project which was completed in summer 2015. This comes on the heels of the City's \$100 million dollar investment in a new high school. This project provides a new state-of-the-art outdoor athletic complex and clubhouse to complement the new high school. Since the opening of the new high school in 2014, the school department has seen a dramatic increase in its students remaining in the system for secondary school.

The City issued a \$3.4 million Equipment Bond to purchase new vehicles in the Fire Department, Police Department, and Department of Public Works. The Fire Department received two new state-of-the-art pumper trucks, two new ambulances, and a KME ladder and platform truck. The Police Department received seven new SUV interceptors and the Department of Public Works received a variety of dump trucks, sanders and plows and several other pieces of equipment to bolster their equipment and vehicle pool.

By the time Fiscal Year 2016 was closed, the City was in good working order with an administration that is working with the legislative body to instill sound financial policies that will enhance the City's financial condition.

## **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total capital assets for governmental and business-type activities at year-end amounted to \$213,454,208 (net of accumulated depreciation), a change of \$1,599,173 from the prior year. This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, and infrastructure.

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

| City of Methuen's Capital Assets (000s)<br>(net of accumulated depreciation) |                            |                   |                  |                             |                   |                   |        |      |
|--|----------------------------|-------------------|------------------|-----------------------------|-------------------|-------------------|--------|------|
|  | Governmental<br>Activities |                   |                  | Business-type<br>Activities |                   |                   | Totals |      |
|  | 2016                       | 2015              | 2016             | 2015                        | 2016              | 2015              | 2016   | 2015 |
| Land improvements  | \$ 3,303                   | \$ 1,553          | \$ 39            | \$ 8                        | \$ 3,342          | \$ 1,561          |        |      |
| Construction   | 146,098                    | 147,635           | 24,574           | 25,240                      | 170,672           | 172,875           |        |      |
| Infrastructure   | 10,497                     | 10,160            | 9,088            | 9,319                       | 19,585            | 19,479            |        |      |
| Machinery and equipment  | 3,432                      | 3,850             | 1,218            | 1,215                       | 4,650             | 5,065             |        |      |
| Licensed vehicles  | 4,364                      | 1,962             | 289              | 361                         | 4,653             | 2,323             |        |      |
| Land, easements, and<br>right of way   | 9,210                      | 9,210             | 252              | 252                         | 9,462             | 9,462             |        |      |
| Construction in progress   | 1,090                      | 1,090             | -                | -                           | 1,090             | 1,090             |        |      |
| Total net capital assets   | \$ <u>177,994</u>          | \$ <u>175,460</u> | \$ <u>35,460</u> | \$ <u>36,395</u>            | \$ <u>213,454</u> | \$ <u>211,855</u> |        |      |

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

### *The Nicholson Stadium Project*

- The project costs for fiscal year 2016 were as follows:
  - \$1,955,679 was spent on two synthetic turf fields and the renovation of the earthen practice field at Nicholson Stadium, including visitor grandstands, fences, walkways and associated site improvements.
  - \$1,654,392 was spent to build the new clubhouse and renovate the old one at Nicholson Stadium. The new clubhouse includes locker rooms for both boys and girls, and the old clubhouse was converted into restrooms.
- The funding sources in fiscal year 2016 were as follows:
  - The Gateway Cities Park Grant of \$550,000 from the Commonwealth of Massachusetts Executive Office of Energy and Environmental Affairs for the design and construction of fields and stands at Ranger Stadium, including the clubhouse.
  - The GAA Grant from the Commonwealth of Massachusetts Department of Conservation and Recreation of \$400,000,
  - \$650,000 in contributions and \$91,420 from sale of land proceeds.

### Other Capital Investments

The City invested in road improvements of \$1,128,813 funded by MA Chapter 90 grants. The City also incurred smaller project costs and departmental equipment purchases including ladder truck and several pumper trucks purchases, energy improvement costs, and high school renovation costs.

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

**Long-Term Debt.** At the end of the current fiscal year, total bonded debt including long-term loans outstanding and unamortized premiums was \$59,305,366, all of which was backed by the full faith and credit of the government. Standard & Poor's rating remains at AA for the City with stable outlook. Last action by Moody's was in July 2013; reflected A2 rating with stable outlook.

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

## **G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES AND OTHER INFORMATION**

The City of Methuen is well established as an attractive location for business and industry with more than 1,000 establishments operating with a Methuen address. Strategic location, a competitive commercial tax rate, a coordinated development approach, a skilled and trained workforce, and a high quality of life for work and leisure combine to create an active environment for economic development. Since 2010, Methuen has been host to \$275 million in private commercial investment and benefited from the creation or retention of hundreds of jobs.

The Methuen economy consists of a diversified group of existing service and manufacturing businesses, complemented by new technological and retail businesses. Recognizing the need to balance growth, while making economic development a priority the City of Methuen is structured to offer streamlined permitting, market community resources, and improve communication between City Hall and the Methuen business community. A leader in the Merrimack Valley, Methuen has created a one-stop shopping experience within the development office that oversees the entire permitting and approval process for companies seeking to locate, relocate, or expand within the City's borders. The Department also successfully incorporates the health, inspections, conservation, energy and historic preservation needs of the City to result in comprehensive implementation of the Master Plan.

The City of Methuen has been very active in recent years on economic and community development matters affecting the financial outlook of the City. The Master Plan for the community approved in 2007 remains an active document and significant progress has been made to implement this blueprint for growth.

After several years of an economic downturn, the City has seen a rebound in development activity and there are multiple exciting new projects moving forward throughout the City.

Major recent accomplishments include:

- The City of Methuen has prioritized the revitalization of Downtown Methuen as a major economic development initiative. 2016 saw the creation of a redevelopment vision for the area and a 40R Smart Growth Zoning District will be created in 2017 to create opportunities for new housing and commercial construction in the Downtown. The vision plan proposes the creation of hundreds of new housing units and more than 100,000 SF of new commercial space.
- Toll Brothers continues to consider the City of Methuen as an attractive location for investment and new housing growth. A third major project in the City was identified in 2016 and will seek its permits for construction in 2017. A zoning change for 118 acres received a favorable recommendation in early 2017. The project will seek to develop 192 new units of 55-and-over housing, building further upon the success of Toll's two other projects in the City. The Regency at Emerald Pines received its local approvals in 2014 and construction began in late 2014. Toll Brothers purchased the project at the end of 2012 and the Department began assisting in the redesign and rezoning of the parcels. A zoning change was approved and plans were submitted for the creation of 140 single-family, age-restricted homes for the site. The project is now under construction and will generate more than \$1,400,000 in one-time revenues for the City and more than \$1,200,000 in annual tax revenue with minimal impact to services. As of late 2016, Toll had already sold 63 of the 140 new homes.
- A 175-unit, multi-family apartment housing development was proposed for Pleasant Valley Street directly across from the Loop. The six-story project has proposed of mix of market rate and affordable housing units. The project is expected to generate more than \$25 million of new investment in the community.
- New England Die Cutting (NEDC) purchased a 100,000 SF industrial building on 96 Milk Street. The manufacturer relocated its 31 employees from Haverhill and intends to create an additional 26 jobs at the site in the next five years. The building became vacant recently with the departure of the IRS as a tenant.
- Globus Medical, Inc. purchased 300 Griffin Brook Drive in 2015 to bring life to vacant R&D facility in the heart of the City's premier industrial park. Globus will manufacture robotic devices to aid in the spinal surgery. Immediately, they will occupy 60,000 SF and move 13 engineering and science jobs to the site. Job growth is projected to be strong and Globus is expected to be a major employer in the City for years to come.

- The 65,000 SF expansion of Century Box on Chase Street in Methuen, essentially doubling the size of the box manufacturer in terms of both size and employment, was completed in 2015 as expected. The company will create more than 100 new high-quality manufacturing jobs. The Massachusetts Office of Business Development recognized the project and awarded it \$1.2 million in state Investment Tax Credits.
- A 54,000 SF gateway shopping center at 2 Broadway opened for business in late 2016 with the grand opening of Save-a-Lot Supermarket. The center will include a mix of retail, restaurants, bank, and neighborhood based businesses. The project will have a positive impact on the Methuen Arlington Neighborhood and create jobs for local residents.
- The announcement of the relocation of Jessica's Brick Oven Bakery to Methuen occurred in 2016. Jessica's will occupy 180,000 SF in the former General Mills Yoplait manufacturing facility. Jessica's will relocate 130 jobs from its current N. Andover facility and is expected to permit and construct an additional 70,000 SF of refrigerated warehouse space for additional growth and investment. Jessica's closed on the property in 2016, and design and engineering of the new site is underway.
- Construction was completed on a 47,000 SF medical office building opened at 386 Merrimack Street. This project is the third such building at this site and builds upon the recent success of the medical office buildings in the area. The prior buildings are at full occupancy.
- The \$66 million reconstruction of the I-93 Rotary represents a major investment in the community that will set the stage for future business growth. The project was advertised and construction began in early 2014. The rotary project will improve traffic flow and capacity and open potential development opportunities that were previously turned away due to access issues. More than 100 acres of developable land area exist west of the rotary and there is renewed interest in potential development sites. The rotary is expected to be complete in 2017 and remains on schedule.
- A start-up manufacturer of gluten-free baked goods opened operations at 126 Merrimack Street utilizing 40,000 SF of vacant industrial space. GF Solutions is expected to rapidly grow at its new location and hire 35-40 full-time positions.
- The City was the recipient of several grants that significantly increased funding for development efforts. Some highlights are as follows:
  - In 2016, the City was awarded a \$1,500,000 grant to construct the Methuen Rail Trail, a two mile stretch of an abandoned rail bed connecting the City of Lawrence and the Town of Salem, NH, through Downtown Methuen. The trail will become a regional attraction.
  - Riverside Park in Methuen was awarded a \$400,000 PARC grant from the Commonwealth of Massachusetts. The riverside site is one of the most popular parks in the community and the renovation project will

add to Methuen's continued investment in its parks and infrastructure system.

- A Mass Works grant of \$1,250,000 was announced in Fall 2015 to provide needed infrastructure improvements to the Danton Drive/Pelham Street intersection in support the Jessica's relocation to Danton Drive. This project is now under construction and scheduled to be complete in the Spring 2017.
- A grant of \$140,000 was received by the Attorney General's Office to share an employee with the City of Haverhill to assist in the City's efforts to handle its vacant and abandoned buildings.
- A \$3,000,000 renovation of the commercial space at 224 East Street was completed and converted the underutilized center to a new restaurant and retail center.
- AMC Theatres at The Loop completed a \$9,000,000 renovation of its space to cement its long-term plans to continue as an anchor tenant at the City's flagship commercial property. The renovation resulted in an all new theatre experience including reclining leather lounge chairs and enhanced food and drink options.
- Two projects were completed along the Rt. 28 Corridor. More than 9,500 square feet of new retail space resulted from more than \$1,500,000 in new investment.
- The City, through the work of its Code Enforcement Officer, remained diligent in its efforts to combat the vacant and abandoned buildings in the City. In 2014-15, dozens of properties were returned to occupancy through increased code enforcement and receivership. The long-awaited demolition of 45 Haverhill Street was one of the highlights.
- In 2015, the City was awarded funding from the Commonwealth's Department of Housing and Community Development (DHCD) to pursue a Chapter 40R Smart Growth Overlay District for its Downtown. Long neglected and lacking new investment, the Downtown area is ripe for new growth and investment. The Mayor has prioritized redevelopment of the area for his final term in office. The 40R zoning is anticipated to allow multi-family and mixed use projects by-right in the Downtown area.

Currently, the City of Methuen is home to multiple commercial and industrial sites scattered throughout the community in retail centers, industrial parks, downtown, and as stand-alone facilities. In retail, Methuen has five major shopping centers. Most notable is The Loop, a \$91 million dollar entertainment and retail complex opened in 2000 that was recognized nationally for its success as a "lifestyle" plaza. Formerly the vacant Methuen Mall, a municipal and regional economic development priority for many years, the Loop project now represents more than a tripling of property tax revenues from that site to approximately \$1.4 million annually. The facility includes an AMC 20-screen Cineplex, a 135,000 square foot Home Depot, Super Stop & Shop, noted retailers Marshall's, The Gap, Old

Navy, and numerous restaurants, including TGI Friday's, Not Your Average Joe's, Chuck E. Cheese, Wendy's, Margarita's, Chipotle, and a thriving Olive Garden restaurant. The project has created more than 500 new permanent jobs and 300-400 new part-time positions, and has exceeded its retail sales expectations since its opening. Most of the retailers on-site have renewed their ten-year leases, indicating the strength of the market and confidence in the property owner and the City. AMC's renovation highlights this confidence. The Department of Economic & Community Development staff communicates on a regular basis with Loop management.

The adjacent Methuen Shopping Center consists of 160,000 square feet and houses the major stores of Market Basket and Wal-Mart, along with Sleepy's Mattress Store and a new spa. Since the redevelopment of this commercial area there has been much activity and renewed interest along the Pleasant Valley corridor as this area continues to grow. Across from the Loop is a new restaurant under construction in 2016 called Brick House Tavern & Tap. Target remains successful at its Pleasant Valley location and the long-standing Mann Orchards Farm Store continues to be a regional commercial attraction.

Another retail center, the Village Mall, located on Route 28 (Broadway) near the Salem, NH line, includes 95,496 square feet and houses some smaller retailers including Jo-Ann Fabrics, a workout facility, a Fuddruckers's restaurant, and remains fully occupied. In fact, the entire Route 28 corridor has experienced renewed interest from flexible zoning changes and positive development and traffic improvements over the NH line.

Located on Haverhill Street adjacent to I-93 is Merrimac Plaza, consisting of 159,916 square feet, and serves as the home of Market Basket, Rite-Aid, and several local, regional, and national retailers. The area is also home to several food establishments, including KFC/Taco Bell, Burger King, and Pizza Hut. The area remains an important and stable base of commercial activity for the City and is expected to create new opportunities for retail tenants when the rotary project is completed.

Methuen also has four active Industrial Parks and numerous industrial sites scattered throughout the community: Aegean Industrial Park with 47 acres, Griffin Brook Park with 94 acres, Methuen Industrial Park with 130 acres, and McGrath Road Industrial Park, which lies partly in Dracut. Griffin Brook Park is home to several large businesses including Micro-Touch Inc., a subsidiary of 3M, Globus Medical, MKS Instruments, Borislow Insurance, and Greater Lawrence Family Health Center.

Methuen Industrial Park encompasses manufacturing, warehousing, and distribution uses including Aulson, Shaw's Warehouses, Graebel Van Lines, and will soon be home to Jessica's Brick Oven Bakery on Danton Drive. General Mills Yoplait-Colombo closed its operation in 2015 and Jessica's is expected to maintain the employment and investment levels at the facility.

Branch Street is an office park maintained by Brooks Properties, who oversees in excess of 275,000 square feet of office space adjacent to I-93 at the Route 110 rotary. Brooks recently leased space to TD Bank and Crest Learning Collaborative occupies 50,000 sf.

Methuen is also home to a first-class hospital to serve the health care needs of the community and the region. Holy Family Hospital has continued to invest in and completed a 60,000 square foot addition to its existing facility and a 60,000 square foot medical office building to provide the space necessary to accommodate additional patients and create additional health care positions. The Holy Family Hospital is now a for-profit hospital owned by Steward Health Care System. Steward has reported consistent growth in operating income at the hospital and the hospital is expected to remain as the City's largest employer for years to come.

More on the retail and office front, Ranger Plaza, the re-development of the former Fox Nissan site, has turned an abandoned, blighted site into a critical gateway project for the City. Located on Pelham Street adjacent to Route 93, the project completed phase I attracting The Outback Restaurant, McDonald's, and Dunkin' Donuts. The original building received a \$3 million facelift completed in 2012 and is now home to Comfort Home Care who has rapidly increased its employment levels to more than 400 jobs.

The Cafua Management Company constructed a new Dunkin Donuts and Salem Cooperative Bank located at 280 Merrimack Street and relocated the corporate headquarters of their 300-store Dunkin Donuts operation to Methuen. An additional 25,000 sf of retail space was completed at the site in 2015 and is actively being leased.

The banking community has a strong presence in Methuen and new branches include Bank of New England, which constructed a new 3,000 square foot branch at the corner of Pelham and Cross Streets, and Enterprise Bank, which opened its 4,000 square foot branch on Broadway in the downtown. A People's Bank location was opened at the corner of Jackson and Swan Streets. In October 2011, the Methuen Municipal Employees Federal Credit Union opened an office building on Broadway.

Other large tracts of commercial and industrial-zoned land have seen interest from developers and focus from the City of Methuen. Both Lindbergh Avenue (with frontage along I-93) and Old Ferry Road have historically been home to contractors' yards and related businesses. Combined, they represent more than 200 acres of industrial land with the potential to house in excess of 1.5 million square feet of industrial space. Lindberg Avenue became home to a new F.W. Webb plumbing supply warehouse and retail facility. The company invested \$11 million to construct the 128,000 square foot building, made roadway, water, and sewer infrastructure improvements, and now employs over 100 people.

The economic and community development efforts of the City remain strong and the City prides itself on our ability to plan and execute projects that result in positive growth and change for the City. We are excited about capitalizing on new opportunities for successful residential and commercial development as they become available.

**FISCAL YEAR 2017 BUDGET:**

The Fiscal Year 2017 is calling for an increase of \$5,958,000 over Fiscal Year 2016. The General Government operating budget has increased \$3,504,680 with a significant amount of the increase attributed to Public Safety \$1,897,953 and Fixed Costs in the amount of \$876,234 which includes Debt, Health Insurance, Pensions and Solid Waste and Disposal. Education increased \$1,858,117 and State and County Assessments increased by \$246,725.

As far as the tax rate is concerned, there was additional new growth and a slight shift from residential to commercial should assist the administration in holding any tax increase to a modest level. The tax rate was set at \$14.65 for residential which was a \$0.16 decrease from the previous year. The Average Single Value of a home was set at \$292,074 an increase in value of \$13,482 which resulted in a \$153.88 increase to the average taxpayer over Fiscal Year 2016.

**General Fund Budget**

|                 | <u>FY 2016</u>               | <u>FY 2017</u>               | <u>Increase<br/>(Decrease)</u> | <u>% Change</u> |
|-----------------|------------------------------|------------------------------|--------------------------------|-----------------|
| City            | \$ 68,566 <sup>(1)</sup>     | \$ 72,071 <sup>(1)</sup>     | \$ 3,505                       | 5.11%           |
| School          | 75,549                       | 77,407                       | 1,858                          | 2.46%           |
| County          | 1,655                        | 1,933                        | 278                            | 16.80%          |
| Enterprise Fund | <u>10,445</u> <sup>(2)</sup> | <u>10,762</u> <sup>(2)</sup> | 317                            | 3.03%           |
| Total Budget    | <u>\$ 156,215</u>            | <u>\$ 162,173</u>            | <u>\$ 5,958</u>                | <u>3.81%</u>    |

<sup>(1)</sup> Includes reserve for abatements and exemptions and cherry sheet offets.

<sup>(2)</sup> Excludes indirect costs.

**Tax Levy**

|                    | <u>FY 2016</u>   | <u>FY 2017</u>   | <u>Increase<br/>(Decrease)</u> | <u>% Change</u> |
|--------------------|------------------|------------------|--------------------------------|-----------------|
| General Government | \$ 22,945        | \$ 26,136        | \$ 3,191                       | 13.91%          |
| Fixed Costs        | 22,313           | 24,086           | 1,773                          | 7.95%           |
| School             | 34,130           | 32,690           | (1,440)                        | -4.22%          |
| Overlay            | <u>287</u>       | <u>303</u>       | 16                             | 5.57%           |
| Total Levy         | <u>\$ 79,675</u> | <u>\$ 83,215</u> | <u>\$ 3,540</u>                | <u>4.44%</u>    |

**Tax Rate**

|             | <u>FY 2016</u> | <u>FY 2017</u> | <u>Increase<br/>(Decrease)</u> | <u>% Change</u> |
|-------------|----------------|----------------|--------------------------------|-----------------|
| Residential | \$ 14.81       | \$ 14.65       | \$ (0.16)                      | -1.08%          |
| Commercial  | \$ 26.14       | \$ 27.17       | \$ 1.03                        | 3.94%           |

**Valuation by Classification**

| <u>Classification</u> | <u>FY 2016</u>             | <u>FY 2017</u>             | <u>Increase<br/>(Decrease)</u> | <u>% Change</u>     |
|-----------------------|----------------------------|----------------------------|--------------------------------|---------------------|
| Residential           | \$ 4,052,869               | \$ 4,279,399               | \$ 226,530                     | 5.59%               |
| Commercial            | 439,378                    | 438,902                    | (476)                          | -0.11%              |
| Industrial            | 151,982                    | 153,708                    | 1,726                          | 1.14%               |
| Personal Property     | <u>160,430</u>             | <u>162,709</u>             | <u>2,279</u>                   | <u>1.42%</u>        |
|                       | <u><u>\$ 4,804,659</u></u> | <u><u>\$ 5,034,718</u></u> | <u><u>\$ 230,059</u></u>       | <u><u>4.79%</u></u> |

**Utility Fund Budget**

|                               | <u>FY 2016</u> | <u>FY 2017</u> | <u>Increase<br/>(Decrease)</u> | <u>% Change</u> |
|-------------------------------|----------------|----------------|--------------------------------|-----------------|
| Water & Sewer Enterprise Fund | \$ 11,808      | \$ 12,162      | \$ 354                         | 3.00%           |

**REQUESTS FOR INFORMATION**

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

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

## CITY OF METHUEN, MASSACHUSETTS

## STATEMENT OF NET POSITION

JUNE 30, 2016

|  | Governmental<br>Activities   | Business-Type<br>Activities | Total                        |
|--|------------------------------|-----------------------------|------------------------------|
| <b>ASSETS AND DEFERRED<br/>OUTFLOWS OF RESOURCES</b>       |                              |                             |                              |
| Assets:  |                              |                             |                              |
| Current:   |                              |                             |                              |
| Cash and short-term investments                            | \$ 17,237,801                | \$ 3,935,166                | \$ 21,172,967                |
| Receivables, net of allowance for uncollectibles:          |                              |                             |                              |
| Property taxes   | 1,703,345                    | -                           | 1,703,345                    |
| Excises  | 1,383,576                    | -                           | 1,383,576                    |
| User fees  | -                            | 4,064,997                   | 4,064,997                    |
| Assessments  | 206,899                      | -                           | 206,899                      |
| Departmental and other                                     | 1,659,572                    | -                           | 1,659,572                    |
| Intergovernmental  | 1,447,061                    | -                           | 1,447,061                    |
| Loans  | <u>3,800,409</u>             | <u>-</u>                    | <u>3,800,409</u>             |
| Total current assets                                       | 27,438,663                   | 8,000,163                   | 35,438,826                   |
| Noncurrent:  |                              |                             |                              |
| Property taxes   | 2,233,109                    | -                           | 2,233,109                    |
| Capital assets:  |                              |                             |                              |
| Nondepreciable capital assets                              | 10,300,418                   | 251,550                     | 10,551,968                   |
| Other capital assets, net of<br>accumulated depreciation   | <u>167,694,021</u>           | <u>35,208,219</u>           | <u>202,902,240</u>           |
| Total noncurrent assets                                    | <u>180,227,548</u>           | <u>35,459,769</u>           | <u>215,687,317</u>           |
| <b>TOTAL ASSETS</b>  | <b>207,666,211</b>           | <b>43,459,932</b>           | <b>251,126,143</b>           |
| Deferred Outflows of Resources:                            |                              |                             |                              |
| Pension related  | <u>5,451,908</u>             | <u>258,092</u>              | <u>5,710,000</u>             |
| <b>TOTAL ASSETS AND DEFERRED<br/>OUTFLOWS OF RESOURCES</b> | <b><u>\$ 213,118,119</u></b> | <b><u>\$ 43,718,024</u></b> | <b><u>\$ 256,836,143</u></b> |
| <b>LIABILITIES AND NET POSITION</b>                        |                              |                             |                              |
| Liabilities:   |                              |                             |                              |
| Current:   |                              |                             |                              |
| Warrants and accounts payable                              | \$ 1,611,108                 | \$ 235,568                  | \$ 1,846,676                 |
| Accrued liabilities  | 1,248,804                    | 248,190                     | 1,496,994                    |
| Notes payable  | 14,811,540                   | -                           | 14,811,540                   |
| Guaranteed deposits payable                                | 1,009,839                    | -                           | 1,009,839                    |
| Other current liabilities                                  | 638,221                      | -                           | 638,221                      |
| Current portion of long-term liabilities:                  |                              |                             |                              |
| Bonds and loans payable                                    | 5,508,954                    | 1,474,740                   | 6,983,694                    |
| Other liabilities  | <u>2,586,487</u>             | <u>-</u>                    | <u>2,586,487</u>             |
| Total current liabilities                                  | 27,414,953                   | 1,958,498                   | 29,373,451                   |
| Noncurrent:  |                              |                             |                              |
| Bonds and loans payable, net of current portion            | 34,832,211                   | 17,489,461                  | 52,321,672                   |
| Net OPEB obligation  | 66,061,373                   | 1,427,264                   | 67,488,637                   |
| Net pension liability                                      | 103,110,762                  | 4,881,238                   | 107,992,000                  |
| Other liabilities, net of current portion                  | <u>2,891,101</u>             | <u>152,551</u>              | <u>3,043,652</u>             |
| Total noncurrent liabilities                               | <u>206,895,447</u>           | <u>23,950,514</u>           | <u>230,845,961</u>           |
| <b>TOTAL LIABILITIES</b>                                   | <b>234,310,400</b>           | <b>25,909,012</b>           | <b>260,219,412</b>           |
| Net Position:  |                              |                             |                              |
| Net investment in capital assets                           | 126,955,594                  | 16,511,535                  | 143,467,129                  |
| Restricted externally or constitutionally for:             |                              |                             |                              |
| Loan and grant programs and other restrictions             | 9,088,446                    | -                           | 9,088,446                    |
| Sewer mitigation   | -                            | 230,442                     | 230,442                      |
| Permanent fund - nonexpendable                             | 417,055                      | -                           | 417,055                      |
| Unrestricted (deficit)                                     | <u>(157,653,376)</u>         | <u>1,067,035</u>            | <u>(156,586,341)</u>         |
| <b>TOTAL NET POSITION</b>                                  | <b><u>(21,192,281)</u></b>   | <b><u>17,809,012</u></b>    | <b><u>(3,383,269)</u></b>    |
| <b>TOTAL LIABILITIES AND NET POSITION</b>                  | <b><u>\$ 213,118,119</u></b> | <b><u>\$ 43,718,024</u></b> | <b><u>\$ 256,836,143</u></b> |

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

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

|                                  | Program Revenues |                                 |   |   |                  | Net (Expenses)<br>Revenues |
|----------------------------------|------------------|---------------------------------|---|---|------------------|----------------------------|
|                                  | <u>Expenses</u>  | <u>Charges for<br/>Services</u> | <u>Operating<br/>Grants and<br/>Contributions</u> | <u>Capital<br/>Grants and<br/>Contributions</u> |                  |                            |
| <b>Governmental Activities:</b>  |                  |                                 |   |   |                  |                            |
| General government               | \$ 17,152,606    | \$ 2,021,551                    | \$ 71,848   | \$ -  | \$ (15,059,207)  |                            |
| Public safety                    | 28,276,656       | 4,698,834                       | 237,048   | -   | (23,340,774)     |                            |
| Education                        | 119,536,286      | 3,592,500                       | 63,191,409  | -   | (52,752,377)     |                            |
| Public works                     | 9,251,706        | 426,442                         | -   | 1,506,690                                       | (7,318,574)      |                            |
| Sanitation                       | 2,715,723        | -                               | -   | -   | (2,715,723)      |                            |
| Health and human services        | 1,609,706        | 118,097                         | 462,356   | -   | (1,029,253)      |                            |
| Culture and recreation           | 2,166,806        | 1,308,003                       | 25,000  | -   | (833,803)        |                            |
| Interest                         | 1,601,989        | -                               | -   | -   | (1,601,989)      |                            |
| Total Governmental Activities    | 182,311,478      | 12,165,427                      | 63,987,661  | 1,506,690                                       | (104,651,700)    |                            |
| <b>Business-Type Activities:</b> |                  |                                 |   |   |                  |                            |
| Enterprise services              | 11,222,233       | 10,317,342                      | 8,049   | -   | (896,842)        |                            |
| Total                            | \$ 193,533,711   | \$ 22,482,769                   | \$ 63,995,710                                     | \$ 1,506,690                                    | \$ (105,548,542) |                            |

(continued)

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

(continued)

|   | <u>Governmental<br/>Activities</u> | <u>Business-<br/>Type<br/>Activities</u> | <u>Total</u>          |
|---|------------------------------------|--|-----------------------|
| <b>Change in Net Position:</b>                                  |                                    |  |                       |
| Net (Expenses) revenue from previous page                       | \$ (104,651,700)                   | \$ (896,842)                             | \$ (105,548,542)      |
| <b>General Revenues:</b>  |                                    |  |                       |
| Property taxes  | 79,392,574                         | -  | 79,392,574            |
| Excise taxes  | 6,195,345                          | -  | 6,195,345             |
| Local option meals tax  | 864,582                            | -  | 864,582               |
| Interest and penalties  | 463,709                            | -  | 463,709               |
| Grants and contributions not restricted<br>to specific programs | 12,151,181                         | -  | 12,151,181            |
| Investment income   | 40,427                             | 13,772                                   | 54,199                |
| Other   | <u>891,038</u>                     | <u>-</u>                                 | <u>891,038</u>        |
| Total general revenues  | <u>99,998,856</u>                  | <u>13,772</u>                            | <u>100,012,628</u>    |
| Change in Net Position  | (4,652,844)                        | (883,070)                                | (5,535,914)           |
| <b>Net Position:</b>  |                                    |  |                       |
| Beginning of year   | <u>(16,539,437)</u>                | <u>18,692,082</u>                        | <u>2,152,645</u>      |
| End of year   | <u>\$ (21,192,281)</u>             | <u>\$ 17,809,012</u>                     | <u>\$ (3,383,269)</u> |

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

## CITY OF METHUEN, MASSACHUSETTS

## GOVERNMENTAL FUNDS

## BALANCE SHEET

JUNE 30, 2016

|   | <u>General</u>       | <u>High School Revitalization</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|----------------------|-----------------------------------|------------------------------------|---------------------------------|
| <b>ASSETS</b>   |                      |                                   |                                    |                                 |
| Cash and short-term investments   | \$ 6,701,348         | \$ 357,644                        | \$ 7,647,236                       | \$ 14,706,228                   |
| Receivables:  |                      |                                   |                                    |                                 |
| Property taxes  | 4,314,454            | -                                 | -                                  | 4,314,454                       |
| Excises   | 1,717,576            | -                                 | -                                  | 1,717,576                       |
| Assessments   | 206,899              | -                                 | -                                  | 206,899                         |
| Departmental and other  | 1,359,591            | -                                 | 501,980                            | 1,861,571                       |
| Intergovernmental   | 562,714              | -                                 | 884,347                            | 1,447,061                       |
| Loans   | -                    | -                                 | 3,800,409                          | 3,800,409                       |
| <b>TOTAL ASSETS</b>   | <b>\$ 14,862,582</b> | <b>\$ 357,644</b>                 | <b>\$ 12,833,972</b>               | <b>\$ 28,054,198</b>            |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)</b>       |                      |                                   |                                    |                                 |
| Liabilities:  |                      |                                   |                                    |                                 |
| Warrants and accounts payable   | \$ 1,251,567         | \$ 71,447                         | \$ 222,706                         | \$ 1,545,720                    |
| Accrued liabilities   | 640,936              | -                                 | 71,683                             | 712,619                         |
| Notes payable   | -                    | 5,415,000                         | 9,396,540                          | 14,811,540                      |
| Guaranteed deposits payable   | 1,009,839            | -                                 | -                                  | 1,009,839                       |
| Other liabilities   | 38,221               | -                                 | -                                  | 38,221                          |
| <b>Total Liabilities</b>  | <b>2,940,563</b>     | <b>5,486,447</b>                  | <b>9,690,929</b>                   | <b>18,117,939</b>               |
| Deferred Inflows of Resources:  |                      |                                   |                                    |                                 |
| Unavailable revenues  | 7,118,349            | -                                 | 4,085,903                          | 11,204,252                      |
| Fund Balances:  |                      |                                   |                                    |                                 |
| Nonspendable  | -                    | -                                 | 417,055                            | 417,055                         |
| Restricted  | -                    | -                                 | 5,124,915                          | 5,124,915                       |
| Assigned  | 798,925              | -                                 | -                                  | 798,925                         |
| Unassigned  | 4,004,745            | (5,128,803)                       | (6,484,830)                        | (7,608,888)                     |
| <b>Total Fund Balances (Deficit)</b>  | <b>4,803,670</b>     | <b>(5,128,803)</b>                | <b>(942,860)</b>                   | <b>(1,267,993)</b>              |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)</b> | <b>\$ 14,862,582</b> | <b>\$ 357,644</b>                 | <b>\$ 12,833,972</b>               | <b>\$ 28,054,198</b>            |

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

CITY OF METHUEN, MASSACHUSETTS

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

JUNE 30, 2016

|  |                        |
|--|------------------------|
| <b>Total governmental fund balances (deficit)</b>  | \$ (1,267,993)         |
| • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.  | 177,994,439            |
| • Deferred outflows of resources related to pension resulting from changes in proportional share and net differences between projected and actual pension investment earnings which will be recognized as an increase in pension expense in the years ended June 30, 2017 through June 30, 2020. | 5,451,908              |
| • Revenues are reported on the accrual basis of accounting and are not deferred until collection.  | 10,290,252             |
| • Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.                                     | 1,866,184              |
| • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.   | (536,183)              |
| • Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.  |                        |
| Bonds payable  | (40,341,165)           |
| Capital lease payable  | (95,384)               |
| Net OPEB obligation  | (66,061,373)           |
| Net pension liability  | (103,110,762)          |
| Landfill liability   | (480,000)              |
| Compensated absences liability   | <u>(4,902,204)</u>     |
| <b>Net position of governmental activities (deficit)</b>   | <u>\$ (21,192,281)</u> |

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

CITY OF METHUEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2016

|  | <u>General</u>      | <u>High<br/>School<br/>Revitalization</u> | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|---------------------|---|--|---|
| <b>Revenues:</b>                                     |                     |   |  |   |
| Property taxes                                       | \$ 79,497,922       | \$ -                                      | \$ -                                       | \$ 79,497,922                           |
| Excise taxes   | 6,001,996           | -   | -  | 6,001,996                               |
| Local option meals tax                               | 864,582             | -   | -  | 864,582                                 |
| Departmental   | 3,084,312           | -   | -  | 3,084,312                               |
| Licenses and permits                                 | 1,297,892           | -   | -  | 1,297,892                               |
| Intergovernmental                                    | 52,478,954          | -   | 12,239,472                                 | 64,718,426                              |
| Charges for services                                 | 64,026              | -   | 6,925,003                                  | 6,989,029                               |
| Interest and penalties                               | 463,709             | -   | -  | 463,709                                 |
| Investment income                                    | 37,992              | -   | 2,435                                      | 40,427                                  |
| Fines and forfeitures                                | 334,182             | -   | -  | 334,182                                 |
| Contributions  | -                   | -   | 735,990                                    | 735,990                                 |
| Other revenue  | 93,608              | -   | 216,370                                    | 309,978                                 |
| Total Revenues                                       | <u>144,219,175</u>  | <u>-</u>                                  | <u>20,119,270</u>                          | <u>164,338,445</u>                      |
| <b>Expenditures:</b>                                 |                     |   |  |   |
| Current:   |                     |   |  |   |
| General government                                   | 27,059,567          | -   | 237,338                                    | 27,296,905                              |
| Public safety  | 21,238,248          | -   | 2,381,846                                  | 23,620,094                              |
| Education  | 76,138,068          | -   | 12,323,728                                 | 88,461,796                              |
| Public works   | 6,543,809           | -   | 586,982                                    | 7,130,791                               |
| Sanitation   | 2,711,253           | -   | 4,470                                      | 2,715,723                               |
| Health and human services                            | 1,137,171           | -   | 312,801                                    | 1,449,972                               |
| Culture and recreation                               | 1,201,089           | -   | 1,126,371                                  | 2,327,460                               |
| Debt service:  |                     |   |  |   |
| Principal  | 6,360,000           | -   | -  | 6,360,000                               |
| Interest   | 1,676,133           | -   | -  | 1,676,133                               |
| Capital outlay                                       | <u>-</u>            | <u>238,202</u>                            | <u>8,201,678</u>                           | <u>8,439,880</u>                        |
| Total Expenditures                                   | <u>144,065,338</u>  | <u>238,202</u>                            | <u>25,175,214</u>                          | <u>169,478,754</u>                      |
| Excess (deficiency) of revenues<br>over expenditures | 153,837             | (238,202)                                 | (5,055,944)                                | (5,140,309)                             |
| <b>Other Financing Sources (Uses):</b>               |                     |   |  |   |
| Bond proceeds  | -                   | 15,000,000                                | -  | 15,000,000                              |
| Bond premium   | 532,100             | -   | -  | 532,100                                 |
| Transfers in   | 370,109             | -   | -  | 370,109                                 |
| Transfers out  | <u>-</u>            | <u>-</u>                                  | <u>(370,109)</u>                           | <u>(370,109)</u>                        |
| Total Other Financing Sources (Uses)                 | <u>902,209</u>      | <u>15,000,000</u>                         | <u>(370,109)</u>                           | <u>15,532,100</u>                       |
| Net change in fund balances                          | 1,056,046           | 14,761,798                                | (5,426,053)                                | 10,391,791                              |
| Fund Balances (Deficit), at Beginning of Year        | <u>3,747,624</u>    | <u>(19,890,601)</u>                       | <u>4,483,193</u>                           | <u>(11,659,784)</u>                     |
| Fund Balances (Deficit), at End of Year              | <u>\$ 4,803,670</u> | <u>\$ (5,128,803)</u>                     | <u>\$ (942,860)</u>                        | <u>\$ (1,267,993)</u>                   |

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

CITY OF METHUEN, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2016

|  |                       |
|--|-----------------------|
| <b>Net changes in fund balances - Total governmental funds</b>   | \$ 10,391,791         |
| • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:   |                       |
| Capital outlay purchases, net of disposals   | 8,751,166             |
| Depreciation   | (6,216,844)           |
| • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. | 526,996               |
| • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position:   |                       |
| Issuance of debt   | (15,000,000)          |
| Repayments of debt   | 6,360,000             |
| Change in unamortized bond premium   | 48,954                |
| Payments of capital leases   | 93,956                |
| • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.   | 74,151                |
| • Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.   |                       |
| Compensated absences change  | (1,300,043)           |
| Landfill liability change  | 40,000                |
| Net OPEB obligation change   | (7,463,154)           |
| Net pension liability change   | (5,534,904)           |
| Pension related deferred outflows change   | 5,368,404             |
| • Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities.   | <u>(793,317)</u>      |
| <b>Change in net position of governmental activities</b>   | <u>\$ (4,652,844)</u> |

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

CITY OF METHUEN, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2016

|  | Budgeted Amounts   |                    |                    | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|--------------------|--------------------|--------------------|---|
|  | Original<br>Budget | Final<br>Budget    | Actual<br>Amounts  |   |
| <b>Revenues:</b>   |                    |                    |                    |   |
| Property tax   | \$ 79,233,172      | \$ 79,233,172      | \$ 79,233,172      | \$ -  |
| Local revenue  | 11,346,500         | 11,346,500         | 12,262,019         | 915,519   |
| Cherry sheet   | 51,639,789         | 51,639,789         | 51,725,922         | 86,133  |
| Local option meals tax   | -                  | 864,582            | 864,582            | -   |
| Other  | <u>300,000</u>     | <u>300,000</u>     | <u>334,666</u>     | <u>34,666</u>   |
| Total Revenues   | 142,519,461        | 143,384,043        | 144,420,361        | 1,036,318   |
| <b>Expenditures:</b>   |                    |                    |                    |   |
| Current:   |                    |                    |                    |   |
| General government   | 28,584,460         | 28,547,461         | 28,547,461         | -   |
| Intergovernmental  | 1,655,295          | 1,726,595          | 1,726,595          | -   |
| Public safety  | 20,737,980         | 21,238,947         | 21,238,947         | -   |
| Education  | 75,548,616         | 75,425,686         | 75,425,686         | -   |
| Public works   | 5,646,743          | 5,990,212          | 5,990,212          | -   |
| Sanitation   | 2,701,419          | 2,711,253          | 2,711,253          | -   |
| Library  | 1,506,067          | 1,506,067          | 1,506,067          | -   |
| Health and human services  | 1,078,249          | 1,043,708          | 1,043,708          | -   |
| Debt service   | <u>7,707,289</u>   | <u>7,731,155</u>   | <u>7,731,155</u>   | <u>-</u>  |
| Total Expenditures   | <u>145,166,118</u> | <u>145,921,084</u> | <u>145,921,084</u> | <u>-</u>  |
| Excess (deficiency) of revenues<br>over expenditures                     | (2,646,657)        | (2,537,041)        | (1,500,723)        | 1,036,318   |
| <b>Other Financing Sources (Uses):</b>                                   |                    |                    |                    |   |
| Use of free cash   | 665,389            | 1,000,234          | -                  | (1,000,234)   |
| Amortization of prior year deficit                                       | (165,389)          | (165,389)          | -                  | 165,389   |
| Transfers in   | 2,246,657          | 2,666,778          | 2,684,146          | 17,368  |
| Transfers out  | <u>(100,000)</u>   | <u>(964,582)</u>   | <u>(964,582)</u>   | <u>-</u>  |
| Total Other Financing Sources (Uses)                                     | <u>2,646,657</u>   | <u>2,537,041</u>   | <u>1,719,564</u>   | <u>(817,477)</u>  |
| Excess of revenues and other sources<br>over expenditures and other uses | \$ <u>      -</u>  | \$ <u>      -</u>  | \$ <u>218,841</u>  | \$ <u>218,841</u>                                       |

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

## CITY OF METHUEN, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF NET POSITION

JUNE 30, 2016

|  | <u>Business-Type<br/>Activities</u> | <u>Governmental<br/>Activities</u>   |
|--|-------------------------------------|--------------------------------------|
|  | <u>Enterprise<br/>Fund</u>          | <u>Internal<br/>Service<br/>Fund</u> |
| <b>ASSETS</b>  |                                     |                                      |
| Current:   |                                     |                                      |
| Cash and short-term investments                            | \$ 3,935,166                        | \$ 2,531,571                         |
| User fees receivable                                       | <u>4,064,997</u>                    | <u>-</u>                             |
| Total current assets                                       | 8,000,163                           | 2,531,571                            |
| Noncurrent:  |                                     |                                      |
| Capital assets:  |                                     |                                      |
| Nondepreciable capital assets                              | 251,550                             | -                                    |
| Other capital assets, net of<br>accumulated depreciation   | <u>35,208,219</u>                   | <u>-</u>                             |
| Total noncurrent assets                                    | <u>35,459,769</u>                   | <u>-</u>                             |
| <b>TOTAL ASSETS</b>  | <b>43,459,932</b>                   | <b>-</b>                             |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                      |                                     |                                      |
| Pension related  | <u>258,092</u>                      | <u>-</u>                             |
| <b>TOTAL ASSETS AND DEFERRED<br/>OUTFLOWS OF RESOURCES</b> | <b><u>43,718,024</u></b>            | <b><u>\$ 2,531,571</u></b>           |
| <b>LIABILITIES</b>   |                                     |                                      |
| Current:   |                                     |                                      |
| Accounts payable   | \$ 235,568                          | \$ 65,387                            |
| Accrued liabilities  | 248,190                             | -                                    |
| Other current liabilities                                  | -                                   | 600,000                              |
| Current portion of long-term liabilities:                  |                                     |                                      |
| Bonds and loans payable                                    | <u>1,474,740</u>                    | <u>-</u>                             |
| Total current liabilities                                  | 1,958,498                           | 665,387                              |
| Noncurrent:  |                                     |                                      |
| Bonds and loans payable, net of current portion            | 17,489,461                          | -                                    |
| Net OPEB obligation  | 1,427,264                           | -                                    |
| Net pension liability                                      | 4,881,238                           | -                                    |
| Other liabilities, net of current portion                  | <u>152,551</u>                      | <u>-</u>                             |
| Total noncurrent liabilities                               | <u>23,950,514</u>                   | <u>-</u>                             |
| <b>TOTAL LIABILITIES</b>                                   | <b>25,909,012</b>                   | <b>665,387</b>                       |
| <b>NET POSITION</b>  |                                     |                                      |
| Net investment in capital assets                           | 16,511,535                          | -                                    |
| Restricted   | 230,442                             | -                                    |
| Unrestricted   | <u>1,067,035</u>                    | <u>1,866,184</u>                     |
| <b>TOTAL NET POSITION</b>                                  | <b><u>17,809,012</u></b>            | <b><u>1,866,184</u></b>              |
| <b>TOTAL LIABILITIES AND NET POSITION</b>                  | <b><u>\$ 43,718,024</u></b>         | <b><u>\$ 2,531,571</u></b>           |

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

## CITY OF METHUEN, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2016

|   | <u>Business-Type<br/>Activities</u> | <u>Governmental<br/>Activities</u>   |
|---|-------------------------------------|--------------------------------------|
|   | <u>Enterprise<br/>Fund</u>          | <u>Internal<br/>Service<br/>Fund</u> |
| <b>Operating Revenues:</b>                  |                                     |                                      |
| Charges for services                        | \$ 10,129,719                       | \$ -                                 |
| Contributions                               | -                                   | 18,132,479                           |
| Permits and fees                            | <u>187,623</u>                      | <u>-</u>                             |
| Total Operating Revenues                    | 10,317,342                          | 18,132,479                           |
| <b>Operating Expenses:</b>                  |                                     |                                      |
| Personal services                           | 4,394,169                           | -                                    |
| Materials                                   | 2,094,045                           | -                                    |
| Depreciation                                | 1,149,369                           | -                                    |
| Sanitary district assessment                | 3,145,650                           | -                                    |
| Employee benefits                           | <u>-</u>                            | <u>18,925,796</u>                    |
| Total Operating Expenses                    | <u>10,783,233</u>                   | <u>18,925,796</u>                    |
| Operating Income                            | (465,891)                           | (793,317)                            |
| <b>Nonoperating Revenues (Expenses):</b>    |                                     |                                      |
| Intergovernmental revenue                   | 8,049                               | -                                    |
| Investment income                           | 13,772                              | -                                    |
| Interest expense                            | <u>(439,000)</u>                    | <u>-</u>                             |
| Total Nonoperating Revenues (Expenses), Net | <u>(417,179)</u>                    | <u>-</u>                             |
| Change in Net Position                      | (883,070)                           | (793,317)                            |
| Net Position at Beginning of Year           | <u>18,692,082</u>                   | <u>2,659,501</u>                     |
| Net Position at End of Year                 | <u>\$ 17,809,012</u>                | <u>\$ 1,866,184</u>                  |

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

## CITY OF METHUEN, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2016

|   | Business-Type<br>Activities | Governmental<br>Activities  |
|---|-----------------------------|-----------------------------|
|   | Enterprise<br>Fund          | Internal<br>Service<br>Fund |
| <b><u>Cash Flows From Operating Activities:</u></b>   |                             |                             |
| Receipts from customers and users   | \$ 10,739,628               | \$ -                        |
| Employer contributions and stop loss reimbursements   | - -                         | 11,933,219                  |
| Employee contributions  | - -                         | 6,230,972                   |
| Payments of employee salaries, benefits, and related expenses   | (3,884,119)                 | (18,928,000)                |
| Payments to vendors   | (2,104,905)                 | - -                         |
| Payments to other governments   | <u>(3,145,650)</u>          | <u>- -</u>                  |
| Net Cash Provided By (Used For) Operating Activities  | 1,604,954                   | (763,809)                   |
| <b><u>Cash Flows From Noncapital Financing Activities:</u></b>  |                             |                             |
| Commonwealth of Massachusetts rate relief   | 8,049                       | - -                         |
| <b><u>Cash Flows From Capital and Related Financing Activities:</u></b>                               |                             |                             |
| Acquisition and construction of capital assets  | (214,220)                   | - -                         |
| Principal payments on bonds and loans   | (1,432,639)                 | - -                         |
| Principal payments on capital leases  | (59,232)                    | - -                         |
| Interest expense  | <u>(451,540)</u>            | <u>- -</u>                  |
| Net Cash Used For Capital and Related Financing Activities  | (2,157,631)                 | - -                         |
| <b><u>Cash Flows From Investing Activities:</u></b>   |                             |                             |
| Investment income   | <u>13,770</u>               | <u>- -</u>                  |
| Net Cash Provided By Investing Activities   | <u>13,770</u>               | <u>- -</u>                  |
| Net Change in Cash and Short-Term Investments   | (530,858)                   | (763,809)                   |
| Cash and Short-Term Investments, Beginning of Year  | <u>4,466,024</u>            | <u>3,295,380</u>            |
| Cash and Short-Term Investments, End of Year  | <u>\$ 3,935,166</u>         | <u>\$ 2,531,571</u>         |
| <b><u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u></b> |                             |                             |
| Operating loss  | \$ (465,891)                | \$ (793,317)                |
| Adjustments to reconcile operating income to net cash provided by operating activities:               |                             |                             |
| Depreciation  | 1,149,369                   | - -                         |
| Changes in assets, deferred outflows and liabilities:   |                             |                             |
| User fees   | 422,286                     | - -                         |
| Other receivables   | - -                         | 31,712                      |
| Deferred outflows - pension related   | (254,467)                   | - -                         |
| Accounts payable  | (10,860)                    | (14,822)                    |
| Accrued liabilities   | (11,510)                    | - -                         |
| Other liabilities   | - -                         | 12,618                      |
| Compensated absences  | (31,086)                    | - -                         |
| OPEB liability  | 161,221                     | - -                         |
| Net pension liability   | <u>645,892</u>              | <u>- -</u>                  |
| Net Cash Provided By (Used in) Operating Activities   | <u>\$ 1,604,954</u>         | <u>\$ (763,809)</u>         |

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

## CITY OF METHUEN, MASSACHUSETTS

## FIDUCIARY FUNDS

## STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

|   | Pension<br>Trust Fund<br>(For the Year Ended<br><u>December 31, 2015</u> ) | Private<br>Purpose<br>Trust<br>Fund | OPEB<br>Trust<br>Fund | Agency<br>Fund |
|---|--|-------------------------------------|-----------------------|----------------|
| <b>ASSETS</b>   |  |                                     |                       |                |
| Non-pooled cash and short-term investments                                  | \$ 559,439   | \$ 409,542                          | \$ 200,000            | \$ 109,543     |
| Investments, at fair value:   |  |                                     |                       |                |
| PRIT Fund   | 115,396,569  | -                                   | -                     | -              |
| Pooled alternative investments  | 1,390,348  | -                                   | -                     | -              |
| Pooled real estate funds  | 1,247,831  | -                                   | -                     | -              |
| Receivables   | <u>171,456</u>   | <u>-</u>                            | <u>-</u>              | <u>-</u>       |
| Total Assets  | 118,765,643  | 409,542                             | 200,000               | 109,543        |
| <b>LIABILITIES AND NET POSITION</b>   |  |                                     |                       |                |
| Other liabilities   | <u>145</u>   | <u>-</u>                            | <u>-</u>              | <u>109,543</u> |
| Total Liabilities   | <u>145</u>   | <u>-</u>                            | <u>-</u>              | <u>109,543</u> |
| <b>NET POSITION</b>   |  |                                     |                       |                |
| Total net position held in trust for pension<br>benefits and other purposes | <u>\$ 118,765,498</u>  | <u>\$ 409,542</u>                   | <u>\$ 200,000</u>     | <u>\$ -</u>    |

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

CITY OF METHUEN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2016

|  | Pension<br>Trust Fund<br>(For the Year Ended<br><u>December 31, 2015</u> ) | Private<br>Purpose<br>Trust Fund | OPEB<br>Trust Fund |
|--|--|----------------------------------|--------------------|
| <b>Additions:</b>                                  |  |                                  |                    |
| Contributions:                                     |  |                                  |                    |
| Employers  | \$ 10,608,915  | \$ -                             | \$ 200,000         |
| Commonwealth of Massachusetts and other systems    | 3,562,036  | -                                | -                  |
| Plan members                                       | 304,404  | -                                | -                  |
| Other  | <u>14,565</u>  | <u>-</u>                         | <u>-</u>           |
| Total contributions                                | 14,489,920   | -                                | 200,000            |
| Investment Income:                                 |  |                                  |                    |
| Change in fair value of investments                | 2,398,086  | 6,653                            | -                  |
| Less: management fees                              | <u>(605,155)</u>   | <u>-</u>                         | <u>-</u>           |
| Net investment income                              | <u>1,792,931</u>   | <u>6,653</u>                     | <u>-</u>           |
| Total additions                                    | 16,282,851   | 6,653                            | 200,000            |
| <b>Deductions:</b>                                 |  |                                  |                    |
| Benefit payments to plan members and beneficiaries | 12,056,003   | -                                | -                  |
| Refunds to plan members                            | 218,389  | -                                | -                  |
| Transfers to other systems                         | 66,945   | -                                | -                  |
| Administrative expenses                            | 263,238  | -                                | -                  |
| Other  | <u>-</u>   | <u>25,932</u>                    | <u>-</u>           |
| Total deductions                                   | <u>12,604,575</u>  | <u>25,932</u>                    | <u>-</u>           |
| Net increase                                       | 3,678,276  | (19,279)                         | 200,000            |
| <b>Net position:</b>                               |  |                                  |                    |
| Beginning of year                                  | <u>115,087,222</u>   | <u>428,821</u>                   | <u>-</u>           |
| End of year  | <u>\$ 118,765,498</u>  | <u>\$ 409,542</u>                | <u>\$ 200,000</u>  |

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

## CITY OF METHUEN, MASSACHUSETTS

### Notes to Financial Statements

#### **1. Summary of Significant Accounting Policies**

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

The following is a summary of the more significant policies:

##### ***A. Reporting Entity***

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

In the Fiduciary Funds: The Methuen Contributory Retirement System (the System) which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. The System does not issue a stand-alone audited financial report. Additional financial information of the System can be obtained by contacting the System located at 41 Pleasant Street, Methuen, Massachusetts 01844.

##### ***B. Government-wide and Fund Financial Statements***

###### **Government-wide Financial Statements**

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

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

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

#### Fund Financial Statements

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

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

##### Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

##### Fund Financial Statements

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

itures related to compensated absences and other long-term liabilities, are recorded only when payment is due.

The City reports the following major governmental funds:

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

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

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

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

Fiduciary funds are aggregated and reported by fund type.

The pension trust fund accounts for the activities of the Methuen Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees. The accounting policies of the System conform to generally accepted accounting principles for public employee retirement systems (PERS). Plan member contributions are recognized as revenue in the period in which the members provide services to the employer. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The private-purpose trust fund is used to account for trust arrangements, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The OPEB trust fund, established in accordance with MGL Chapter 32B, Section 20, is used to accumulate resources for health and life insurance

benefits for retired employees. It is used to account for funds to offset the anticipated cost of premiums payments for retirees or direct payments to the retired employees of the City, and to any eligible surviving spouse or dependents.

The agency fund is used to account for student activity funds.

*D. Cash and Short-Term Investments*

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

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

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

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

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

*E. Investments*

The City did not have long-term investments as of June 30, 2016. The System's investments are carried at market value.

*F. Property Tax Limitations*

The City has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2016 tax levy reflected an excess capacity of approximately \$918,000.

*G. Capital Assets*

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

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

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

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

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

*H. Deferred Outflows and Inflows of Resources*

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources.

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

inflows of resources have a negative effect on fund balance, similar to liabilities.

*I. Pension*

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

*J. Compensated Absences*

The City's policy is to permit employees to accumulate earned but unused vacation and sick pay benefits. Full-time, permanent employees are granted vacation benefits in varying amounts depending on contracts with the City. Sick leave accrues to full-time, permanent employees to specified maximums. Generally, after one year of service, employees are entitled to a percentage of their sick leave ranging between 30% and 50% depending on their contract with the City, and all of their accrued vacation upon termination. All vested sick and vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

*K. Long-Term Obligations*

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

*L. Fund Equity*

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

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

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

- 1) Nonspendable – represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- 2) Restricted – represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- 3) Committed – represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority, the City Council.
- 4) Assigned – represents amounts that are constrained by the City's intent to use these resources for a specific purpose as established by management. The City follows order number 5161 (City Resolution 2016-9) that permits management to assign fund balance amounts to a specific purpose.
- 5) Unassigned – represent the residual classification for the general fund and include all amounts not contained in the other classifications. Unassigned amounts are available for any purpose. Temporary fund balance deficits are reported as negative amounts in the unassigned classification in other governmental funds. Positive unassigned amounts are reported only in the general fund.

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

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

#### *M. Use of Estimates*

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic

financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

## **2. Stewardship, Compliance, and Accountability**

### ***A. Budgetary Information***

At a City Council meeting in May, the Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the City Council, also establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at City Council meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the City Council is empowered to transfer funds from the Reserve Fund to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

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

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

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

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

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

### ***B. Budgetary Basis***

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

***C. Budget/GAAP Reconciliation***

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

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

| <u>General Fund</u>   | <u>Revenues<br/>and Other<br/>Financing Sources</u> | <u>Expenditures<br/>and Other<br/>Financing Uses</u> |
|---|---|--|
| Revenues/Expenditures<br>(GAAP Basis)   | \$ 144,219,175                                      | \$ 144,065,338                                       |
| Other financing sources/uses<br>(GAAP Basis)                                  | <u>902,209</u>                                      | <u>-</u>   |
| Subtotal (GAAP Basis)   | 145,121,384   | 144,065,338  |
| To adjust property tax revenue to<br>the budgetary basis                      | (83,993)  | -  |
| Reverse beginning of year<br>appropriation carryforwards<br>from expenditures | -   | (553,978)  |
| To book current year appropriation<br>carryforwards                           | -   | 798,925  |
| To gross up employee benefits grant<br>allocations                            | 348,546   | 348,546  |
| To gross up indirect fees from the<br>Enterprise fund                         | 1,362,253   | 1,362,253  |
| To remove bond premium activity   | (532,100)   | (532,100)  |
| To gross up transfers   | 897,626   | 897,626  |
| To remove nonbudgeted funds   | <u>(9,209)</u>                                      | <u>499,056</u>                                       |
| Budgetary Basis   | <u>\$ 147,104,507</u>                               | <u>\$ 146,885,666</u>                                |

***D. Deficit Fund Equity***

The following funds or projects within the funds had deficits as of June 30, 2016:

Major Fund:

|                                    |              |
|------------------------------------|--------------|
| Methuen High School Revitalization | \$ 5,128,803 |
|------------------------------------|--------------|

Nonmajor Governmental Funds:

|                                    |              |
|------------------------------------|--------------|
| Stadium Improvement Project        | \$ 2,666,973 |
| Departmental Equipment             | 2,921,458    |
| Energy Improvement Project         | 512,435      |
| Massworks EOHED                    | 70,000       |
| Chapter 90                         | 33,655       |
| DHCD Path Grant                    | 4,140        |
| OATA Grant                         | 6,025        |
| Emergency Management, EMPG Grant   | 8,085        |
| Underage Alcohol Enforcement Grant | 1,565        |

The deficits in these funds will be eliminated through future departmental revenues, intergovernmental revenues, bond proceeds, and transfers from other funds. The City also has a deficit in police detail revolving fund of \$260,494 but it's offset by unavailable revenues (deferred inflows of resources) of the same amount.

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

***Custodial Credit Risk***

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

As of June 30, 2016, \$1,877,470 of the City's bank balances of \$25,156,531 was exposed to custodial credit risk as uninsured, and collateral held by pledging bank's trust department not in the City's name. The exposed balance included \$1,852,708, which was invested in the Massachusetts Municipal Depository Trust (MMDT), which is not considered an uncollateralized product under Government Accounting Standards Board (GASB) Statement 40. Per the City's policy, the City may invest in MMDT, U.S. Treasury and Agencies up to

one-year maturity, bank accounts and Certificates of Deposits, which are fully insured by FDIC, DIF, SIF or collateralized through a third-party agreement, and certain mutual funds, under Chapter 44, Sec. 55 of MGL, as amended by Chapter 314 of the Acts of 1996. Unsecured deposits are limited to no more than 5% of an institution's assets and no more than 10% of the City's cash. To maintain adequate cash flow, the City's balances as of June 30, 2016 were deposited in MMDT and bank accounts (checking, savings, and money market accounts).

As of December 31, 2015, \$466,546 of the System's bank balances of \$716,546 was exposed to custodial credit risk as uninsured, and collateral held by pledging bank's trust department not in the System's name. The System's exposed balance included \$300,188 which was invested in the Pension Reserves Investment Trust (PRIT). The System does not have a deposit policy for custodial credit risk.

#### Fair Value of Short Term Investments

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

### **4. Investments – Methuen Contributory Retirement System**

#### **A. Credit Risk**

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

Massachusetts General Law (MGL), Chapter 32, Section 23, limits the investment of the Retirement System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security. The System invests in PRIT. The System's investments in limited partnerships will be transferred to PRIT at the end of their respective partnership terms. PRIT fund is an external investment pool that is not registered with the Securities Exchange Commission, but is subject to oversight provided by the Pension Reserves Investment Management (PRIM) Board. PRIT was created under MGL, Chapter 32, Section 22, in December 1983. PRIM Board was created by legislation to provide general supervision of the investments and management of PRIT. PRIT is not a rated fund. It's operated under contract with a private investment advisor, approved by PRIM Board. PRIM Board chooses an investment

advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under MGL, Chapter 30B.

***B. Custodial Credit Risk***

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

The System's investment in Pooled funds of \$118,034,748 were exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the system's brokerage firm, which is also the Counterparty to these securities. Of the System's total exposure, \$115,396,569 is invested in the State Investment Pool (PRIT) and \$2,638,179 is invested in limited partnerships. Investment in PRIT is not considered an uncollateralized product under GASB.

***C. Concentration of Credit Risk***

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

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

***D. Interest Rate Risk***

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

***E. Foreign Currency Risk***

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

***F. Fair Value***

The City categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

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

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

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

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

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System does not have investments classified as level 1, 2, or 3.

The System has the following fair value measurements as of June 30, 2016:

| Investments measured at the net asset value (NAV): | Value                 | Unfunded Commitments | Redemption Frequency     | Redemption Notice Period |
|--|-----------------------|----------------------|--------------------------|--------------------------|
| Pension Reserves Investment Trust (PRIT)           | \$ 115,396,569        | \$ -                 | Monthly                  | 30 days                  |
| Diversified private equity funds                   | 1,390,348             | -                    | Quarterly <sup>(1)</sup> | 30 days                  |
| Real estate funds                                  | <u>1,247,831</u>      | -                    | Quarterly <sup>(1)</sup> | 30 days                  |
| Total investments                                  | <u>\$ 118,034,748</u> |                      |                          |                          |

<sup>(1)</sup> Full redemption cannot be made until partnership expires.

## 5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The City has an ultimate right to

foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

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

Taxes and excise receivable at June 30, 2016 consist of the following, net of an estimated allowance for doubtful accounts in the government-wide financial statements:

|                            | <u>Gross Amount</u> | <u>Allowance for Doubtful Accounts</u> | <u>Net Amount</u> |
|----------------------------|---------------------|--|-------------------|
| Real estate:               |                     |  |                   |
| 2016                       | \$ 1,525,150        | \$ -                                   | \$ 1,525,150      |
| Personal property:         |                     |  |                   |
| 2013 - 2016                | 71,576              | -                                      | 71,576            |
| Prior                      | 236,619             | (130,000)                              | 106,619           |
| Subtotal personal property | 308,195             | (130,000)                              | 178,195           |
| Tax liens                  | 2,481,109           | (248,000)                              | 2,233,109         |
| Excises                    | 1,717,576           | (334,000)                              | 1,383,576         |
| Total                      | \$ 6,032,030        | \$ (712,000)                           | \$ 5,320,030      |

## **6. User Fees Receivable**

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

## **7. Departmental and Other Receivables**

The City's departmental and other receivables at June 30, 2016 consist of the following:

|                                       | <u>Fire Ambulance</u> | <u>Police Outside Detail</u> | <u>Other</u> | <u>Total</u> |
|---------------------------------------|-----------------------|------------------------------|--------------|--------------|
| Gross                                 | \$ 1,062,037          | \$ 427,657                   | \$ 371,877   | \$ 1,861,571 |
| Less: Allowance for doubtful accounts | (159,000)             | (43,000)                     | -            | (202,000)    |
| Total                                 | \$ 903,037            | \$ 384,657                   | \$ 371,877   | \$ 1,659,571 |

## **8. Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2016.

## **9. Loans Receivable**

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

## **10. Capital Assets**

Capital asset activity for the year ended June 30, 2016 was as follows (in thousands):

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| <b>Governmental Activities:</b>              |                              |                  |                  |                           |
| Capital assets, being depreciated:           |                              |                  |                  |                           |
| Land improvements                            | \$ 7,191                     | \$ 1,955         | \$ -             | \$ 9,146                  |
| Construction                                 | 205,751                      | 2,626            | -                | 208,377                   |
| Infrastructure                               | 29,926                       | 1,129            | -                | 31,055                    |
| Machinery and equipment                      | 11,575                       | 182              | (35)             | 11,722                    |
| Licensed vehicles                            | 11,978                       | 2,862            | -                | 14,840                    |
| Total capital assets, being depreciated      | 266,421                      | 8,754            | (35)             | 275,140                   |
| Less accumulated depreciation for:           |                              |                  |                  |                           |
| Land improvements                            | (5,638)                      | (205)            | -                | (5,843)                   |
| Construction                                 | (58,116)                     | (4,163)          | -                | (62,279)                  |
| Infrastructure                               | (19,766)                     | (792)            | -                | (20,558)                  |
| Machinery and equipment                      | (7,725)                      | (598)            | 33               | (8,290)                   |
| Licensed vehicles                            | (10,016)                     | (460)            | -                | (10,476)                  |
| Total accumulated depreciation               | (101,261)                    | (6,218)          | 33               | (107,446)                 |
| Total capital assets, being depreciated, net | 165,160                      | 2,536            | (2)              | 167,694                   |
| Capital assets, not being depreciated:       |                              |                  |                  |                           |
| Land, easements and right of way             | 9,210                        | -                | -                | 9,210                     |
| Construction in progress                     | 1,090                        | -                | -                | 1,090                     |
| Total capital assets, not being depreciated  | 10,300                       | -                | -                | 10,300                    |
| Governmental activities capital assets, net  | \$ 175,460                   | \$ 2,536         | \$ (2)           | \$ 177,994                |

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| <b>Business-Type Activities:</b>             |                              |                  |                  |                           |
| Capital assets, being depreciated:           |                              |                  |                  |                           |
| Land improvements                            | \$ 227                       | \$ 31            | \$ -             | \$ 258                    |
| Construction                                 | 34,398                       | 44               | -                | 34,442                    |
| Infrastructure                               | 26,448                       | 28               | -                | 26,476                    |
| Machinery and equipment                      | 3,082                        | 111              | -                | 3,193                     |
| Licensed vehicles                            | <u>832</u>                   | <u>-</u>         | <u>-</u>         | <u>832</u>                |
| Total capital assets, being depreciated      | 64,987                       | 214              | -                | 65,201                    |
| Less accumulated depreciation for:           |                              |                  |                  |                           |
| Land improvements                            | (219)                        | -                | -                | (219)                     |
| Construction                                 | (9,158)                      | (710)            | -                | (9,868)                   |
| Infrastructure                               | (17,129)                     | (259)            | -                | (17,388)                  |
| Machinery and equipment                      | (1,867)                      | (108)            | -                | (1,975)                   |
| Licensed vehicles                            | <u>(471)</u>                 | <u>(72)</u>      | <u>-</u>         | <u>(543)</u>              |
| Total accumulated depreciation               | <u>(28,844)</u>              | <u>(1,149)</u>   | <u>-</u>         | <u>(29,993)</u>           |
| Total capital assets, being depreciated, net | 36,143                       | (935)            | -                | 35,208                    |
| Capital assets, not being depreciated:       |                              |                  |                  |                           |
| Land, easements & right of way               | 252                          | -                | -                | 252                       |
| Construction in progress                     | <u>-</u>                     | <u>-</u>         | <u>-</u>         | <u>-</u>                  |
| Total capital assets, not being depreciated  | <u>252</u>                   | <u>-</u>         | <u>-</u>         | <u>252</u>                |
| Business-type activities capital assets, net | \$ <u>36,395</u>             | \$ <u>(935)</u>  | \$ <u>-</u>      | \$ <u>35,460</u>          |

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

**Governmental Activities:**

|  |                     |
|--|---------------------|
| General government                                   | \$ 110,295          |
| Public safety  | 333,380             |
| Education  | 4,539,852           |
| Public works   | 1,216,930           |
| Health and human services                            | 8,887               |
| Culture and recreation                               | <u>7,500</u>        |
| Total depreciation expense - governmental activities | \$ <u>6,216,844</u> |

**Business-Type Activities:**

|            |                     |
|------------|---------------------|
| Enterprise | \$ <u>1,149,369</u> |
|------------|---------------------|

## **11. Deferred Outflows of Resources**

Deferred outflows of resources at June 30, 2016 represent the net differences between projected and actual pension investment earnings of \$5,525,000 and changes in proportion of \$185,000.

## **12. Warrants and Accounts Payable**

Warrants payable represent 2016 expenditures paid by July 15, 2016 as permitted by law. Accounts payable represent additional 2016 expenditures paid after July 15, 2016.

## **13. Accrued Liabilities**

The City had the following accrued liabilities as of June 30, 2016:

|                           | <u>Governmental Activities</u> | <u>Business-Type Activities</u> |
|---------------------------|--------------------------------|---------------------------------|
| Salaries and wages        | \$ 609,756                     | \$ 49,420                       |
| Interest on debt          | 536,185                        | 193,269                         |
| Tailings                  | <u>102,863</u>                 | <u>5,501</u>                    |
| Total accrued liabilities | <u>\$ 1,248,804</u>            | <u>\$ 248,190</u>               |

## **14. Bond Anticipation Notes Payable**

The City had the following notes outstanding at June 30, 2016:

|  | <u>Interest Rate</u> | <u>Date of Issue</u> | <u>Date of Maturity</u> | <u>Balance at 6/30/16</u> |   |
|--|----------------------|----------------------|-------------------------|---------------------------|---|
| High School Revitalization             | 0.55 - 2.00%         | 08/07/15             | 08/05/16                | \$ 5,415,000              | * |
| High School Athletic Facility          | 2.75%                | 06/03/16             | 08/05/16                | 2,583,000                 | * |
| Departmental Equipment                 | 1.25%                | 02/25/13             | 08/05/16                | 3,413,000                 | * |
| Various Energy Efficiency Improvements | 1.55%                | 03/24/16             | 08/05/16                | <u>3,400,540</u>          | * |
|  |                      |                      |                         | <u>\$ 14,811,540</u>      |   |

\*See Note 29.

The following summarizes activity in notes payable during fiscal year 2016:

|  | <u>Balance Beginning of Year</u> | <u>New Issues</u>    | <u>Maturities</u>      | <u>Balance End of Year</u> |
|--|----------------------------------|----------------------|------------------------|----------------------------|
| High School Revitalization             | \$ 20,415,000                    | \$ 5,415,000         | \$ (20,415,000)        | \$ 5,415,000               |
| High School Athletic Facility          | 3,200,000                        | 2,583,000            | (3,200,000)            | 2,583,000                  |
| Departmental Equipment                 | -                                | 3,413,000            | -                      | 3,413,000                  |
| Various Energy Efficiency Improvements | -                                | 3,400,540            | -                      | 3,400,540                  |
|  | <u>\$ 23,615,000</u>             | <u>\$ 14,811,540</u> | <u>\$ (23,615,000)</u> | <u>\$ 14,811,540</u>       |

## **15. Other Current Liabilities**

Other current liabilities as of June 30, 2016 consist of the following:

|                                 | <u>Governmental<br/>Activities</u> |
|---------------------------------|------------------------------------|
| IBNR (see Note 27)              | \$ 600,000                         |
| Employee withholdings and other | <u>38,221</u>                      |
| Total other current liabilities | <u>\$ 638,221</u>                  |

## **16. Capital Lease Obligations**

The City's outstanding lease agreements include the acquisition of public works equipment. These leases qualify as capital leases. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2016:

| <u>Fiscal<br/>Year</u>                  | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| 2017                                    | \$ <u>96,835</u>                   |
| Total minimum lease payments            | <u>96,835</u>                      |
| Less amount representing interest       | <u>(1,451)</u>                     |
| Present Value of Minimum Lease Payments | <u>\$ 95,384</u>                   |

The following is an analysis for the leased assets included in capital assets at June 30, 2016:

|                                     | <u>Governmental<br/>Activities</u> |
|-------------------------------------|------------------------------------|
| Machinery, vehicles and equipment   | \$ 469,889                         |
| Less: accumulated depreciation      | <u>(183,344)</u>                   |
| Equipment under capital leases, net | <u>\$ 286,545</u>                  |

## **17. Long-Term Debt**

### **A. Long-Term Debt Supporting Activities**

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

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

**B. General Obligation Bonds and Other Long-Term Debt**

General obligation bonds and loans currently outstanding are as follows:

|  | Original<br>Issue<br><u>Amount</u> | Serial<br>Maturities<br><u>Through</u> | Interest<br><u>Rate(s)%</u> | Amount<br>Outstanding<br><u>as of<br/>6/30/16</u> |
|--|------------------------------------|--|-----------------------------|---|
| <b><u>Governmental Activities:</u></b> |                                    |  |                             |   |
| Timony School Expansion                | \$ 21,190,000 *                    | 11/01/16                               | 5.01%                       | \$ 1,670,000                                      |
| Landfill Closure                       | 3,500,000 *                        | 11/01/16                               | 5.01%                       | 180,000   |
| Tenney School Expansion                | 22,850,000 *                       | 05/15/17                               | 4.79%                       | 1,815,000   |
| Additional School Expansion            | 6,500,000 *                        | 10/15/19                               | 5.00%                       | 570,000   |
| Library                                | 4,800,000 *                        | 10/15/19                               | 5.00%                       | 1,015,000   |
| Landfill Closure                       | 85,000                             | 09/01/21                               | 3.91%                       | 30,000  |
| Road and Surface Drains                | 3,500,000                          | 08/15/16                               | 4.30%                       | 270,000   |
| High School                            | 18,085,000                         | 09/01/41                               | variable                    | 32,165,000  |
| Departmental Equipment                 | 2,300,000                          | 09/01/22                               | variable                    | 1,425,000   |
| Dileo Judgment                         | 594,000                            | 09/01/29                               | variable                    | 505,000   |
| Total Governmental Activities          |                                    |  |                             | \$ <u>39,645,000</u>                              |

\*Partially refunded, original amount shown

|   | Original<br>Issue<br><u>Amount</u> | Serial<br>Maturities<br><u>Through</u> | Interest<br><u>Rate(s)%</u> | Amount<br>Outstanding<br><u>as of<br/>6/30/16</u> |
|---|------------------------------------|--|-----------------------------|---|
| <b><u>Business-Type Activities:</u></b>         |                                    |  |                             |   |
| Sewer (MWPAT)                                   | \$ 395,100 *                       | 08/01/18                               | variable                    | \$ 101,200  |
| Storm Water Management (MWPAT)                  | 468,063 *                          | 08/01/23                               | variable                    | 225,000   |
| Water Distribution System (MWPAT)               | 5,786,500 *                        | 07/15/25                               | 2.00%                       | 3,194,750   |
| Water Distribution System                       | 700,000                            | 08/15/27                               | 4.16%                       | 495,000   |
| Water Treatment Plant                           | 1,250,000                          | 08/15/27                               | 4.16%                       | 880,000   |
| Water Distribution System (MWPAT)               | 18,550,000 *                       | 07/15/27                               | 2.00%                       | 12,023,603  |
| Storm Water Management (MWPAT)                  | 200,000 *                          | 07/15/27                               | 2.00%                       | 120,514   |
| Water Tank (MWPAT)                              | 750,000 *                          | 07/15/27                               | 2.00%                       | 317,312   |
| Sewer Rehabilitation and<br>Replacement (MWPAT) | 1,117,204 *                        | 07/15/28                               | 2.00%                       | 736,112   |
| Storm Water Management (MWPAT)                  | 12,243                             | 07/15/27                               | 2.00%                       | 9,063   |
| Water Treatment Plant<br>Improvement (MWPAT)    | 650,000                            | 07/15/30                               | 2.00%                       | 491,765   |
| Sewer Rehabilitation (MWPAT)                    | 452,604                            | 07/15/32                               | 2.00%                       | <u>369,882</u>                                    |
| Total Business-Type Activities                  |                                    |  |                             | \$ <u>18,964,201</u>                              |

\*Partially refunded, original amount shown.

***C. Future Debt Service***

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2016 are as follows:

| <u>Governmental</u> | <u>Principal</u>     | <u>Interest</u>      | <u>Total</u>         |
|---------------------|----------------------|----------------------|----------------------|
| 2017                | \$ 5,460,000         | \$ 1,346,015         | \$ 6,806,015         |
| 2018                | 1,450,000            | 1,221,433            | 2,671,433            |
| 2019                | 1,485,000            | 1,173,094            | 2,658,094            |
| 2020                | 1,535,000            | 1,115,044            | 2,650,044            |
| 2021                | 1,325,000            | 1,055,563            | 2,380,563            |
| 2022 - 2026         | 6,235,000            | 4,486,406            | 10,721,406           |
| 2027 - 2031         | 6,955,000            | 3,356,722            | 10,311,722           |
| 2032 - 2036         | 7,380,000            | 2,140,159            | 9,520,159            |
| 2037 - 2041         | 5,925,000            | 972,088              | 6,897,088            |
| 2042 - 2043         | <u>1,895,000</u>     | <u>60,500</u>        | <u>1,955,500</u>     |
| Total               | <u>\$ 39,645,000</u> | <u>\$ 16,927,024</u> | <u>\$ 56,572,024</u> |

| <u>Business-Type</u> | <u>Principal</u>     | <u>Interest</u>     | <u>Total</u>         |
|----------------------|----------------------|---------------------|----------------------|
| 2017                 | \$ 1,474,740         | \$ 417,523          | \$ 1,892,263         |
| 2018                 | 1,502,274            | 383,069             | 1,885,343            |
| 2019                 | 1,530,443            | 348,594             | 1,879,037            |
| 2020                 | 1,528,462            | 313,757             | 1,842,219            |
| 2021                 | 1,566,742            | 278,318             | 1,845,060            |
| 2022 - 2026          | 8,263,322            | 838,755             | 9,102,077            |
| 2027 - 2031          | 3,047,387            | 88,932              | 3,136,319            |
| 2032 - 2034          | <u>50,831</u>        | <u>1,099</u>        | <u>51,930</u>        |
| Total                | <u>\$ 18,964,201</u> | <u>\$ 2,670,047</u> | <u>\$ 21,634,248</u> |

***D. Bond Authorizations***

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2016 are as follows:

| <u>Date Authorized</u> | <u>Purpose</u>                           | <u>Amount</u>       |
|------------------------|--|---------------------|
| 07/05/06               | Sewer rehab and East Capital St. Project | \$ 202,796          |
| 07/05/06               | Stormwater Management                    | 681                 |
| 06/15/10               | Methuen High School                      | 3,047,826           |
| 11/03/10               | Sewer System Rehab Projects              | 146,795             |
| 10/02/14               | Energy Efficiency Improvements           | 338,278             |
| 04/01/15               | Athletic Facilities Project              | <u>1,424,310</u>    |
|                        | Total                                    | <u>\$ 5,160,686</u> |

### *E. Changes in Long-Term Liabilities*

During the year ended June 30, 2016, the following changes occurred in long-term liabilities (in thousands):

|                                | Total<br>Balance<br>7/1/15 | Additions        | Reductions        | Total<br>Balance<br>6/30/16 | Less<br>Current<br>Portion | Equals<br>Long-Term<br>6/30/16 |
|--------------------------------|----------------------------|------------------|-------------------|-----------------------------|----------------------------|--------------------------------|
| <b>Governmental Activities</b> |                            |                  |                   |                             |                            |                                |
| General obligation debt        | \$ 31,005                  | \$ 15,000        | \$ (6,360)        | \$ 39,645                   | \$ (5,460)                 | \$ 34,185                      |
| Unamortized bond premium       | 746                        | -                | (49)              | 697                         | (49)                       | 648                            |
| Subtotal                       | <u>31,751</u>              | <u>15,000</u>    | <u>(6,409)</u>    | <u>40,342</u>               | <u>(5,509)</u>             | <u>34,833</u>                  |
| Net OPEB obligation            | 58,598                     | 7,463            | -                 | 66,061                      | -                          | 66,061                         |
| Net pension liability          | 97,576                     | 5,535            | -                 | 103,111                     | -                          | 103,111                        |
| Other:                         |                            |                  |                   |                             |                            |                                |
| Capital leases                 | 189                        | -                | (94)              | 95                          | (95)                       | -                              |
| Landfill closure               | 520                        | -                | (40)              | 480                         | (40)                       | 440                            |
| Accrued employee benefits      | 3,602                      | 1,299            | -                 | 4,901                       | (2,451)                    | 2,450                          |
| Subtotal                       | <u>4,311</u>               | <u>1,299</u>     | <u>(134)</u>      | <u>5,476</u>                | <u>(2,586)</u>             | <u>2,890</u>                   |
| Totals                         | <u>\$ 192,236</u>          | <u>\$ 29,297</u> | <u>\$ (6,543)</u> | <u>\$ 214,990</u>           | <u>\$ (8,095)</u>          | <u>\$ 206,895</u>              |

|  | Total<br>Balance<br>7/1/15 | Additions     | Reductions        | Total<br>Balance<br>6/30/16 | Less<br>Current<br>Portion | Equals<br>Long-Term<br>6/30/16 |
|--|----------------------------|---------------|-------------------|-----------------------------|----------------------------|--------------------------------|
| <b>Business-Type Activities</b>            |                            |               |                   |                             |                            |                                |
| General obligation debt<br>and MWPAT loans | \$ 20,397                  | \$ -          | \$ (1,432)        | \$ 18,965                   | \$ (1,475)                 | \$ 17,490                      |
| Net OPEB obligation                        | 1,266                      | 161           | -                 | 1,427                       | -                          | 1,427                          |
| Net pension liability                      | 4,235                      | 646           | -                 | 4,881                       | -                          | 4,881                          |
| Other:                                     |                            |               |                   |                             |                            |                                |
| Capital leases                             | 59                         | -             | (59)              | -                           | -                          | -                              |
| Accrued employee benefits                  | 184                        | -             | (31)              | 153                         | -                          | 153                            |
| Subtotal                                   | <u>243</u>                 | <u>-</u>      | <u>(90)</u>       | <u>153</u>                  | <u>-</u>                   | <u>153</u>                     |
| Totals                                     | <u>\$ 26,141</u>           | <u>\$ 807</u> | <u>\$ (1,522)</u> | <u>\$ 25,426</u>            | <u>\$ (1,475)</u>          | <u>\$ 23,951</u>               |

For more information related to net OPEB obligation and net pension liability see Notes 24 and 25.

**18. Landfill Postclosure Care Costs**

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

The \$480,000 is reported as landfill postclosure care liability at June 30, 2016. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

**19. Deferred Inflows of Resources**

Deferred inflows of resources at June 30, 2016 reported on governmental funds balance sheet represent unavailable revenues associated with receivables less the 60-day property tax collections.

**20. Governmental Funds - Balances**

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

The following types of fund balances are reported at June 30, 2016:

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

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

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

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

Following is a breakdown of the City's fund balances at June 30, 2016:

|  | General Fund        | High School Revitalization | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|----------------------------|-----------------------------|--------------------------|
| <b>Nonspendable</b>                                  |                     |                            |                             |                          |
| Nonexpendable perpetual care permanent fund          | \$ -                | \$ -                       | \$ 417,055                  | \$ 417,055               |
| <b>Total Nonspendable</b>                            | <b>-</b>            | <b>-</b>                   | <b>417,055</b>              | <b>417,055</b>           |
| <b>Restricted</b>                                    |                     |                            |                             |                          |
| Bonded projects:                                     |                     |                            |                             |                          |
| Nevins library expansion                             | -                   | -                          | 122,372                     | 122,372                  |
| Special revenue funds:                               |                     |                            |                             |                          |
| Revolving fund - MCTV/Verizon                        | -                   | -                          | 556,981                     | 556,981                  |
| Revolving fund - MPS before and after school program | -                   | -                          | 674,528                     | 674,528                  |
| Revolving fund - MCTV                                | -                   | -                          | 524,663                     | 524,663                  |
| Revolving fund - state SPED reimbursement            | -                   | -                          | 322,412                     | 322,412                  |
| Revolving fund - MGEP                                | -                   | -                          | 298,357                     | 298,357                  |
| Revolving fund - building safety task force          | -                   | -                          | 236,432                     | 236,432                  |
| Revolving fund - currier preschool                   |                     |                            | 108,765                     | 108,765                  |
| Revolving funds - all remaining                      | -                   | -                          | 504,700                     | 504,700                  |
| State grants - Rail trail                            | -                   | -                          | 300,000                     | 300,000                  |
| State grants - all remaining                         | -                   | -                          | 120,616                     | 120,616                  |
| Federal grant fund - Title I                         | -                   | -                          | 115,916                     | 115,916                  |
| Federal grants - all remaining                       | -                   | -                          | 415,869                     | 415,869                  |
| School lunch   | -                   | -                          | 151,185                     | 151,185                  |
| Other funds  | -                   | -                          | 281,820                     | 281,820                  |
| Expendable trust                                     | -                   | -                          | 291,934                     | 291,934                  |
| Other trusts   | -                   | -                          | 98,365                      | 98,365                   |
| <b>Total Restricted</b>                              | <b>-</b>            | <b>-</b>                   | <b>5,124,915</b>            | <b>5,124,915</b>         |
| <b>Assigned</b>                                      |                     |                            |                             |                          |
| General government                                   | 19,927              | -                          | -                           | 19,927                   |
| Education  | 618,025             | -                          | -                           | 618,025                  |
| Public works   | 160,973             | -                          | -                           | 160,973                  |
| <b>Total Assigned</b>                                | <b>798,925</b>      | <b>-</b>                   | <b>-</b>                    | <b>798,925</b>           |
| <b>Unassigned</b>                                    | <b>4,004,745</b>    | <b>(5,128,803)</b>         | <b>(6,484,830)</b>          | <b>(7,608,888)</b>       |
| <b>Total Unassigned</b>                              | <b>4,004,745</b>    | <b>(5,128,803)</b>         | <b>(6,484,830)</b>          | <b>(7,608,888)</b>       |
| <b>Total Fund Balance</b>                            | <b>\$ 4,803,670</b> | <b>\$ (5,128,803)</b>      | <b>\$ (942,860)</b>         | <b>\$ (1,267,993)</b>    |

## 21. Restricted Net Position

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

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

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

## **22. Interfund Transfers**

The City reports interfund transfers between several funds. The following is an analysis of interfund transfers made in fiscal year 2016:

| <u>Governmental Funds:</u>  | <u>Transfers In</u> | <u>Transfers Out</u> |
|-----------------------------|---------------------|----------------------|
| General Fund                | \$ 370,109          | \$ -                 |
| Nonmajor Funds:             |                     |                      |
| Special Revenue Funds:      |                     |                      |
| Revolving funds             | -                   | 521,904              |
| State grants                | 65,526              | -                    |
| Other special revenue funds | 103,026             | -                    |
| Expendable trust funds      | -                   | 10,361               |
| Other trust funds           | -                   | 2,566                |
| Capital Project Funds:      |                     |                      |
| Stadium project             | -                   | 1,691                |
| Permanent Funds:            |                     |                      |
| Perpetual care funds        | -                   | 2,139                |
| Subtotal Nonmajor Funds     | <u>168,552</u>      | <u>538,661</u>       |
| Grand Total                 | <u>\$ 538,661</u>   | <u>\$ 538,661</u>    |

Transfers out of the special revenue revolving funds, to the general fund, represent \$234,404 of Comcast franchise fees and \$300,000 from the before and after school program for transportation costs.

Transfers into other special revenue funds represent \$50,000 from the sale of cemetery lots to cover maintenance costs incurred in the general fund and other reimbursement of costs.

## **23. Commitments and Contingencies**

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

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

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

## **24. Post-Employment Healthcare and Life Insurance Benefits**

### **Other Post-Employment Benefits**

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

#### **A. Plan Description**

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

#### **B. Benefits Provided**

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

#### **C. Funding Policy**

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

#### **D. Annual OPEB Costs and Net OPEB Obligation**

The City's fiscal 2016 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is

projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2016, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of June 30, 2016.

|   |                      |
|---|----------------------|
| Annual Required Contribution (ARC)      | \$ 11,624,871        |
| Interest on net OPEB obligation         | 2,394,570            |
| Adjustment to ARC                       | <u>(2,287,560)</u>   |
| Annual OPEB cost                        | 11,731,881           |
| Contributions made                      | <u>4,107,506</u>     |
| Increase in net OPEB obligation         | 7,624,375            |
| Net OPEB obligation - beginning of year | <u>59,864,262</u>    |
| Net OPEB obligation - end of year       | \$ <u>67,488,637</u> |

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

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

#### *E. Funded Status and Funding Progress*

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

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future

employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

#### ***F. Actuarial Methods and Assumptions***

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

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

### **25. Retirement System**

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

#### ***A. Plan Description***

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

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

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

Membership of each plan consisted of the following at June 30, 2016:

|   |              |
|---|--------------|
| Retirees and beneficiaries receiving benefits                           | 420          |
| Inactive members entitled to a return of employee contributions         | 54           |
| Inactive members with a vested right to a deferred or immediate benefit | 16           |
| Active plan members   | <u>616</u>   |
| Total   | <u>1,106</u> |
| Number of participating employers                                       | 2            |

#### Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

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

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

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

### Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

### Participants Contributions

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

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

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

#### Employer Contributions

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

The City's contribution to the System for the year ended June 30, 2016 was \$9,585,440, which was equal to its annual required contribution.

#### *B. Summary of Significant Accounting Policies*

The accounting policies of the System as reflected in the accompanying financial statements for the year ended June 30, 2016 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized as revenue in the period in which the members provide services to the employer. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

#### Investments

##### *Investment Policy*

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

##### *Rate of Return*

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 0.56%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### Net Pension Liability

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

#### *C. Net Pension Liability of Participating Employers*

The net pension liability was based on an actuarial valuation dated January 1, 2014, and rolled forward to December 31, 2015.

The components of the net pension liability of the participating employers at June 30, 2016 were as follows (in thousands):

#### Net Pension Liability of Employers

|   |                   |
|---|-------------------|
| Total pension liability   | \$ 230,063        |
| Plan fiduciary net position   | <u>118,765</u>    |
| Employers' net pension liability                                      | \$ <u>111,298</u> |
| Plan fiduciary net postion as a percentage of total pension liability | 51.6%             |

#### Actuarial Assumptions

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

|   |                                   |
|---|-----------------------------------|
| Valuation Date                            | 1/1/14 rolled forward to 12/31/15 |
| Actuarial cost method                     | Entry Age                         |
| Actuarial assumptions:                    |                                   |
| Investment rate of return                 | 7.75%                             |
| Projected salary increases                | 4.25-4.75%                        |
| Inflation rate                            | not explicitly assumed            |
| Post-retirement cost-of-living adjustment | 3% of fist \$14,000               |

Actuarial valuation of the ongoing Systems involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined

regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the December 31, 2015 valuation were based on the results of the most recent actuarial experience study, which was for the period January 1, 2012 through December 31, 2013.

Mortality rates were based on pre-retirement rates that reflect the RP-2000 Employees table projected 20 years with Scale AA (gender distinct). Post retirement rates reflect the RP-2000 Healthy Annuitant table projected 17 years with Scale AA (gender distinct). For disabled retirees, this table is set forward 3 years for males.

### Target Allocations

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

| <u>Asset Class</u>              | <u>Target Asset Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|---------------------------------|--------------------------------|---|
| Global equity                   | 40.00%                         | 7.08%   |
| Core fixed income               | 13.00%                         | 2.29%   |
| Value-added fixed income        | 10.00%                         | 6.39%   |
| Private equity                  | 10.00%                         | 8.50%   |
| Real estate                     | 10.00%                         | 6.50%   |
| Timberland                      | 4.00%                          | 6.76%   |
| Hedge funds                     | 9.00%                          | 5.75%   |
| Portfolio completion strategies | <u>4.00%</u>                   | <u>5.74%</u>                                  |
| Total                           | <u>100.00%</u>                 |   |

Discount Rate: The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active

and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the proportionate share of the net pension liability to changes in the discount rate:* The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.75%) or 1 percentage-point higher (8.75%) than the current rate (in thousands):

| Year Ended        | Current                   |                             |                           |
|-------------------|---------------------------|-----------------------------|---------------------------|
|                   | 1%<br>Decrease<br>(6.75%) | Discount<br>Rate<br>(7.75%) | 1%<br>Increase<br>(8.75%) |
| December 31, 2015 | \$ 132,397                | \$ 107,992                  | \$ 86,928                 |

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

At June 30, 2016, the City reported a liability of \$ 107,992,000 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the City's proportion was 97.03 percent.

For the year ended June 30, 2016, the City recognized pension expense of approximately \$10,691,000. In addition, the City reported deferred outflows of resources related to pension for the net difference between projected and actual investment earnings on pension plan investments of \$5,525,000 and for changes in proportional share of \$185,000.

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

| Year ended June 30: |                 |  |
|---------------------|-----------------|--|
| 2017                | \$ 1,421        |  |
| 2018                | 1,421           |  |
| 2019                | 1,423           |  |
| 2020                | <u>1,445</u>    |  |
| Total               | \$ <u>5,710</u> |  |

## 26. Massachusetts Teachers' Retirement System (MTRS)

### A. Plan Description

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

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

### B. Benefits Provided

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

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

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

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

*C. Contributions*

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

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

*D. Actuarial Assumptions*

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015. This valuation used the following assumptions:

- (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Mortality rates were as follows:
  - Pre-retirement - reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct)
  - Post-retirement - reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct)
  - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year 2014 set forward 4 years

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

major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2015 are summarized in the following table:

| <u>Asset Class</u>              | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|---------------------------------|--------------------------|---|
| Global equity                   | 40.0%                    | 6.9%  |
| Core fixed income               | 13.0%                    | 2.4%  |
| Private equity                  | 10.0%                    | 8.5%  |
| Real estate                     | 10.0%                    | 6.5%  |
| Value added fixed income        | 10.0%                    | 5.8%  |
| Hedge funds                     | 9.0%                     | 5.8%  |
| Portfolio completion strategies | 4.0%                     | 5.5%  |
| Timber/natural resources        | 4.0%                     | 6.6%  |
| Total                           | <u>100.0%</u>            |   |

#### *E. Discount Rate*

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

#### *F. Sensitivity Analysis*

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

| <u>Fiscal Year Ended</u> | <u>1% Decrease to 7%</u> | <u>Current Discount Rate 8%</u> | <u>1% Increase to 9%</u> |
|--------------------------|--------------------------|---------------------------------|--------------------------|
| June 30, 2015            | \$ 25,449,000            | \$ 20,489,643                   | \$ 16,221,000            |

#### G. Special Funding Situation

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

#### H. City Proportions

In fiscal year 2015 (the most recent measurement period), the Town's proportionate share of the MTRS' collective net pension liability and pension expense was \$150,564,692 and \$12,212,137 respectively, based on a proportionate share of 0.734833%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide.

### **27. Self-insurance**

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

Changes in the aggregate liability for claims for the year ended June 30, 2016 are as follows:

|   | <u>Year Ended<br/>June 30, 2016</u> | <u>Year Ended<br/>June 30, 2015</u> |
|---|-------------------------------------|-------------------------------------|
| Unpaid claims, beginning of fiscal year | \$ 587,382                          | \$ 1,342,246                        |
| Claims incurred (including IBNRs)       | 18,925,796                          | 16,511,054                          |
| Claims paid                             | <u>(18,913,178)</u>                 | <u>(17,265,918)</u>                 |
| Unpaid claims, end of fiscal year       | <u>\$ 600,000</u> *                 | <u>\$ 587,382</u>                   |

\* This liability is considered to be all current.

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

opments on claims already reported. As a result, the City believes that the estimate is reasonable.

**28. Risk Management**

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

**29. Subsequent Events**

On August 5, 2016, the City issued \$2,915,000 general obligation bond anticipation notes maturing on January 27, 2017 with an interest rate of 1.25 percent, related to the High School Revitalization project.

On July 26, 2016, the City issued \$11,896,000 general obligation State qualified bonds maturing on September 1, 2036 with interest rates ranging from 2.00 to 4.00 percent. The bonds relate to the following projects: High School Athletic Facility, Departmental Equipment, Various Energy Efficiency Improvements, and the High School Revitalization.

These two transactions refinance all bond anticipation notes which were outstanding at June 30, 2016.

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

**June 30, 2016**

**(Unaudited)**

**Other Post-Employment Benefits**

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

See Independent Auditors' Report.

**CITY OF METHUEN, MASSACHUSETTS**  
**SCHEDULE OF PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2016**

(in thousands)  
 (Unaudited)

**Methuen Contributory Retirement System**

| <u>Fiscal Year</u> | <u>Proportion of the Net Pension Liability</u> | <u>Proportionate Share of the Net Pension Liability</u> | <u>Covered Payroll</u> | <u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u> | <u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u> |
|--------------------|--|---|------------------------|--|--|
| June 30, 2016      | 97.03%   | \$107,992   | \$ 41,242              | 261.85%  | 51.6%  |
| June 30, 2015      | 96.81%   | \$101,811   | \$ 40,441              | 251.75%  | 51.6%  |

**Massachusetts Teachers' Retirement System**

| <u>Fiscal Year</u> | <u>Proportion of the Net Pension Liability</u> | <u>Proportionate Share of the Net Pension Liability</u> | <u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the City</u> | <u>Total Net Pension Liability Associated with the City</u> | <u>Covered Payroll</u> | <u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u> | <u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u> |
|--------------------|--|---|---|---|------------------------|--|--|
| June 30, 2016      | 0.73%  | \$ -  | \$ 150,565  | \$ 150,565  | \$ 50,177              | 0%   | 55.38%   |
| June 30, 2015      | 0.73%  | \$ -  | \$ 116,314  | \$ 116,314  | \$ 50,065              | 0%   | 61.64%   |

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

See Independent Auditors' Report.

**CITY OF METHUEN, MASSACHUSETTS**

**SCHEDULE OF PENSION CONTRIBUTIONS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2016**

(in thousands)  
(Unaudited)

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

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

See Independent Auditors' Report.

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

**Schedule of Changes in the Net Pension Liability (in thousands)**

**Required Supplementary Information**

(in thousands)  
(Unaudited)

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

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

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

See Independent Auditors' Report.

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

**Schedules of Net Pension Liability, Contributions, and Investment Returns**

**Required Supplementary Information**

(in thousands)  
(Unaudited)

2015                    2014

**Schedule of Net Pension Liability**

|   | <u>2015</u>       | <u>2014</u>       |
|---|-------------------|-------------------|
| Total pension liability   | \$ 230,063        | \$ 220,253        |
| Plan fiduciary net position   | <u>118,765</u>    | <u>115,087</u>    |
| Net pension liability (asset)   | <u>\$ 111,298</u> | <u>\$ 105,166</u> |
| Plan fiduciary net position as a percentage of the total pension liability                          | 51.6%             | 52.3%             |
| Covered payroll   | \$ 32,256         | \$ 32,256         |
| Participating employer net pension liability (asset)<br>as a percentage of covered employee payroll | 345%              | 326%              |

**Schedule of Contributions**

|  | <u>2015</u>  | <u>2014</u>  |
|--|--------------|--------------|
| Actuarially determined contribution                                  | \$ 9,879     | \$ 9,094     |
| Contributions in relation to the actuarially determined contribution | <u>9,879</u> | <u>9,094</u> |
| Contribution deficiency (excess)                                     | <u>\$ -</u>  | <u>\$ -</u>  |
| Covered payroll  | \$ 32,256    | \$ 32,256    |
| Contributions as a percentage of covered payroll                     | 30.6%        | 28.2%        |

**Schedule of Investment Returns**

*Year ended December 31*

|   | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|
| Annual money weighted rate of return, net of investment expense | 0.56%       | 7.76%       |

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