

**CITY OF GARDNER**

**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2013**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of the City of Gardner, Massachusetts, as of and for the year ended June 30, 2013, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gardner's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, 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, the discretely presented component units, and the aggregate remaining fund information for the City of Gardner, Massachusetts, as of June 30, 2013 (except for the City of Gardner Retirement System which is as of December 31, 2012), and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013, on our consideration of the City of Gardner, Massachusetts' 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

**GEORGE V. MCKENNA, CPA**  
P.O. Box 537  
HARVARD, MA 01451  
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The budgetary comparison information and Management's Discussion and Analysis on pages 42 and 43 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

November 12, 2013

*George V. McKenna, CPA*

**CITY OF GARDNER**  
**STATEMENT OF NET ASSETS**  
**June 30, 2013**

	<u>Primary Government</u>			<u>Component Unit</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Levi Heywood Library</u>	<u>Retirement System 12/31/12</u>
<b>ASSETS</b>					
<b>CURRENT:</b>					
Cash and cash equivalents	\$ 9,373,979	\$ 7,509,246	\$ 16,883,225	\$ 232,609	\$ 39,823
Investments	5,141,370	-	5,141,370	1,403,266	37,565,221
Receivables, net of allowance for uncollectibles:					
Real estate and personal property taxes	1,194,319	-	1,194,319	-	-
Tax liens	678,926	-	678,926	-	-
Motor vehicle excise	599,293	-	599,293	-	-
Taxes in Litigation	-	-	-	-	-
User Fees	-	1,704,828	1,704,828	-	-
Departmental and other	736,267	-	736,267	-	-
Tax foreclosures	652,114	-	652,114	-	-
Due from Commonwealth	1,719,484	-	1,719,484	-	-
Intergovernmental	1,549,817	-	1,549,817	-	-
Other	-	-	-	233,567	3,013,959
Other assets	-	-	-	11,392	-
<b>NONCURRENT:</b>					
Restricted:					
Cash	1,107,655	279,716	1,387,371	-	-
Investments	-	-	-	-	-
Due from Commonwealth	3,231,964	-	3,231,964	-	-
Capital assets, net of accumulated depreciation	29,677,492	17,283,054	46,960,546	6,016,937	-
<b>TOTAL ASSETS</b>	<u>55,662,680</u>	<u>26,776,844</u>	<u>82,439,524</u>	<u>7,897,771</u>	<u>40,619,003</u>
<b>LIABILITIES</b>					
<b>CURRENT:</b>					
Warrants payable and accrued expenses	932,144	540,385	1,472,529	233,567	207,638
Accrued payroll and withholding	381,534	-	381,534	-	-
Other liabilities	1,076,507	-	1,076,507	-	-
Deferred revenues - Bond Premium	246,893	270,633	517,526	-	-
Accrued interest	58,191	129,093	187,284	-	-
Bonds and notes payable	5,681,476	1,631,126	7,312,602	-	-
Compensated absences	250,000	-	250,000	-	-
<b>NONCURRENT:</b>					
Bonds and notes payable	3,357,360	8,826,902	12,184,262	550,000	-
Compensated absences	2,155,161	54,917	2,210,078	-	-
Post employment benefits	29,635,574	728,744	30,364,318	-	-
<b>TOTAL LIABILITIES</b>	<u>43,774,840</u>	<u>12,181,800</u>	<u>55,956,640</u>	<u>783,567</u>	<u>207,638</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	29,299,094	6,825,026	36,124,120	5,473,846	-
Non-spendable	443,400	-	443,400	-	-
Restricted	6,397,417	-	6,397,417	227,571	-
Committed	830,694	-	830,694	-	-
Assigned	2,408,518	-	2,408,518	-	-
Unrestricted	(27,491,283)	7,770,018	(19,721,265)	1,412,787	-
<b>TOTAL NET ASSETS</b>	<u>\$ 11,887,840</u>	<u>\$ 14,595,044</u>	<u>\$ 26,482,884</u>	<u>\$ 7,114,204</u>	<u>\$ 40,411,365</u>

See notes to financial statements.

**CITY OF GARDNER  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2013**

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	Library	Retirement System
<b>Primary Government:</b>									
<i>Governmental Activities:</i>									
General government	\$ 3,037,426	\$ 438,027	\$ 552,455	\$ -	\$ (2,046,944)	\$ -	\$ (2,046,944)	\$ -	\$ -
Public safety	6,253,982	1,173,190	252,745	-	(4,828,047)	-	(4,828,047)	-	-
Education	26,496,879	493,289	22,395,099	-	(3,608,491)	-	(3,608,491)	-	-
Public works	3,246,843	79,058	372,536	-	(2,795,249)	-	(2,795,249)	-	-
Health and human services	1,179,551	59,481	651,103	-	(468,967)	-	(468,967)	-	-
Culture and recreation	887,530	19,491	46,103	-	(821,936)	-	(821,936)	-	-
Community and economic development	625,633	-	935,345	-	309,712	-	309,712	-	-
Retirement	2,848,351	73,980	-	-	(2,774,371)	-	(2,774,371)	-	-
Property and liability insurance	372,708	-	-	-	(372,708)	-	(372,708)	-	-
Fringe benefits	14,942,790	-	2,140,587	-	(12,802,203)	-	(12,802,203)	-	-
State and county charges	1,241,562	-	-	-	(1,241,562)	-	(1,241,562)	-	-
Interest	277,837	-	-	-	(277,837)	-	(277,837)	-	-
<b>Total Governmental Activities</b>	<b>61,411,092</b>	<b>2,336,516</b>	<b>27,345,973</b>	<b>-</b>	<b>(31,728,603)</b>	<b>-</b>	<b>(31,728,603)</b>	<b>-</b>	<b>-</b>
<i>Business-Type Activities:</i>									
Proprietary services	6,151,555	8,172,637	-	-	-	2,021,082	2,021,082	-	-
<b>Total primary government</b>	<b>67,562,647</b>	<b>10,509,153</b>	<b>27,345,973</b>	<b>-</b>	<b>(31,728,603)</b>	<b>2,021,082</b>	<b>(29,707,521)</b>	<b>(326,199)</b>	<b>(2,380,724)</b>
<b>Component Unit:</b>									
Retirement System	5,399,637	-	3,018,913	-	-	-	-	-	-
Heywood Library	1,132,893	-	806,694	-	-	-	-	-	-
<i>General Revenues:</i>									
Real estate and personal property, net of reserve for abatements					20,306,001		20,306,001		
Motor vehicle and other excise taxes					1,591,085		1,591,085		
Penalties and interest on taxes					350,506		350,506		
Payments in lieu of taxes					59,555		59,555		
Tax liens					138,032		138,032		
Grants and contributions not restricted									
specific programs					4,136,119	328,973	4,465,092		
Miscellaneous					93,820	122,361	216,181	99,818	
Investment income					56,998	12,648	69,646	135,637	
<i>Special Items:</i>									
Gain on sales of fixed assets					1		1		
Retirement contributions from employee's Transfers, net					443,173	(443,173)	-		1,054,064
<b>Total general revenues, special items and transfers</b>					<b>27,175,290</b>	<b>20,809</b>	<b>27,196,099</b>	<b>235,455</b>	<b>5,840,795</b>
<b>Change in Net Assets</b>					<b>(4,553,313)</b>	<b>2,041,891</b>	<b>(2,511,422)</b>	<b>(90,744)</b>	<b>3,460,071</b>
<b>Beginning of the Year</b>					<b>16,441,153</b>	<b>12,553,153</b>	<b>28,994,306</b>	<b>7,204,948</b>	<b>36,951,294</b>
<b>End of the Year</b>					<b>11,887,840</b>	<b>14,595,044</b>	<b>26,482,884</b>	<b>7,114,204</b>	<b>40,411,365</b>

See notes to financial statements.

**CITY OF GARDNER  
BALANCE SHEET  
June 30, 2013**

ASSETS	General	Stabilization	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments	\$ 4,647,201	\$ 1,894,712	\$ -	\$ 5,283,986	\$ 11,825,899
Receivables, net of allowance for uncollectibles:					
Real estate and personal property taxes	1,194,319	-	-	-	1,194,319
Tax liens	678,926	-	-	-	678,926
Motor vehicle excise	599,293	-	-	-	599,293
Departmental and other	671,771	-	-	64,496	736,267
Tax foreclosures	652,114	-	-	-	652,114
Due from Commonwealth	273,293	-	-	1,446,191	1,719,484
Intergovernmental	4,039,955	-	-	741,826	4,781,781
Other assets	-	-	-	-	-
Cash - restricted	-	-	-	1,107,655	1,107,655
Investments - restricted	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 12,756,872</b>	<b>\$ 1,894,712</b>	<b>\$ -</b>	<b>\$ 8,644,154</b>	<b>\$ 23,295,738</b>
 <b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES:</b>					
Warrants payable	\$ 624,043	\$ -	\$ -	\$ 308,101	\$ 932,144
Accrued payroll & withholding	381,534	-	-	-	381,534
Other liabilities	-	-	-	559,208	559,208
Deferred revenues	7,660,296	-	-	2,252,513	9,912,809
Bonds and notes payable	-	-	-	4,744,876	4,744,876
<b>TOTAL LIABILITIES</b>	<b>8,665,873</b>	<b>-</b>	<b>-</b>	<b>7,864,698</b>	<b>16,530,571</b>
<b>FUND BALANCES:</b>					
Non-spendable	-	-	-	440,625	440,625
Restricted	1,799,058	-	-	2,353,446	4,152,504
Committed	-	72,680	-	753,189	825,869
Assigned	236,367	-	-	-	236,367
Unassigned	2,055,574	1,822,032	-	(2,767,804)	1,109,802
<b>TOTAL FUND BALANCES</b>	<b>4,090,999</b>	<b>1,894,712</b>	<b>-</b>	<b>779,456</b>	<b>6,765,167</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 12,756,872</b>	<b>\$ 1,894,712</b>	<b>\$ -</b>	<b>\$ 8,644,154</b>	<b>\$ 23,295,738</b>

See notes to financial statements.

**CITY OF GARDNER**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**  
**For the Year Ended June 30, 2013**

Total governmental fund balances	\$	6,765,167
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		29,677,492
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		9,912,809
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 Assets.		2,172,151
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.		(58,191)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds and notes payable		(9,038,836)
BAN payable		4,744,876
Bond premium		(246,893)
Compensated absences		(2,405,161)
Post employment benefits		<u>(29,635,574)</u>
Net assets of governmental activities	\$	<u><u>11,887,840</u></u>

See notes to financial statements.

**CITY OF GARDNER  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
For the Year Ended June 30, 2013**

	General	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds	\$ 20,056,930	\$ -	\$ -	\$ 20,056,930
Motor vehicle and other excise taxes	1,658,888	-	-	1,658,888
Penalties and interest on taxes	350,506	-	-	350,506
Licenses and permits	265,056	-	-	265,056
Intergovernmental	24,169,843	-	5,441,254	29,611,097
Charges for services	518,958	-	1,351,592	1,870,550
Fines and forfeitures	144,752	-	-	144,752
Investment income	20,195	23,804	6,903	50,902
Tax liens	79,823	-	-	79,823
Contributions and donations	-	-	420,555	420,555
Payments in lieu of taxes	67,055	-	-	67,055
Miscellaneous	93,875	-	35,558	129,433
<b>TOTAL REVENUES</b>	<b>47,425,881</b>	<b>23,804</b>	<b>7,255,862</b>	<b>54,705,547</b>
<b>EXPENDITURES:</b>				
Current:				
General government	2,437,288	-	641,772	3,079,060
Public safety	5,416,305	-	2,276,166	7,692,471
Education	21,233,771	-	5,183,462	26,417,233
Public works	2,641,861	-	1,017,482	3,659,343
Community and economic development	-	-	625,633	625,633
Health and human services	1,145,608	-	29,553	1,175,161
Culture and recreation	812,478	-	30,483	842,961
Retirement	2,848,351	-	-	2,848,351
Property and liability insurance	372,708	-	-	372,708
Fringe benefits	7,068,055	-	-	7,068,055
State and county charges	1,241,562	-	-	1,241,562
Debt service:				
Principal	1,796,500	-	-	1,796,500
Interest	285,790	-	-	285,790
<b>TOTAL EXPENDITURES</b>	<b>47,300,277</b>	<b>-</b>	<b>9,804,551</b>	<b>57,104,828</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>125,604</b>	<b>23,804</b>	<b>(2,548,689)</b>	<b>(2,399,281)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	832,987	334,256	740,076	1,907,319
Transfers out	(1,068,074)	-	(396,072)	(1,464,146)
Sale of assets	-	-	-	-
Proceeds from issuance of debt	-	-	770,000	770,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(235,087)</b>	<b>334,256</b>	<b>1,114,004</b>	<b>1,213,173</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES</b>	<b>(109,483)</b>	<b>358,060</b>	<b>(1,434,685)</b>	<b>(1,186,108)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	<b>4,200,482</b>	<b>1,536,652</b>	<b>2,214,141</b>	<b>7,951,275</b>
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ 4,090,999</b>	<b>\$ 1,894,712</b>	<b>\$ 779,456</b>	<b>\$ 6,765,167</b>

See notes to financial statements.

**CITY OF GARDNER**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2013**

Net change in fund balances - total governmental funds	\$	(1,186,108)
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. This is the amount by which capital outlays exceeded depreciation in the current period.		1,524,549
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.		(458,576)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		1,040,549
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest, is not reported until due.		7,953
In the statement of activities, only the gain on the sale of assets is reported, whereas in governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.		-
Some expenses reported in the Statement of Activities, such as compensated absences and post-employment fringe benefits, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Compensated absences		239,469
Net Other Post-employment Benefits Obligation		(6,467,020)
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		745,871
Change in net assets of governmental activities	\$	<u><u>(4,553,313)</u></u>

See notes to financial statements.

**CITY OF GARDNER  
 PROPRIETAREY FUNDS  
 STATEMENT OF NET ASSETS  
 June 30, 2013**

	<u>Business-type Activities - Enterprise Fund</u>	<u>Governmental Activities - Internal Service Funds</u>
	<u>Water, Sewer, Golf Landfill &amp; Solid Waste</u>	
<b>ASSETS</b>		
<b>CURRENT:</b>		
Cash and short-term investments	\$ 7,509,246	\$ 2,689,450
User fees, net of allowance for uncollectibles	<u>1,704,828</u>	<u>-</u>
Total current assets	<u>9,214,074</u>	<u>2,689,450</u>
<b>NONCURRENT:</b>		
Restricted cash and short-term investments:		
Capital Projects	279,716	-
Capital assets, net of accumulated depreciation	17,283,054	-
Other assets	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>17,562,770</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>26,776,844</u>	<u>2,689,450</u>
<b>LIABILITIES</b>		
<b>CURRENT:</b>		
Warrants payable	540,385	-
Accrued liabilities	-	517,299
Deferred revenue- Bond Premium	270,633	-
Bonds and notes payable	1,631,126	-
Compensated absences	-	-
Accrued interest	<u>129,093</u>	<u>-</u>
Total current liabilities	<u>2,571,237</u>	<u>517,299</u>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:</b>		
Customer deposits payable	<u>-</u>	<u>-</u>
<b>NONCURRENT:</b>		
Bonds and notes payable	8,826,902	-
Compensated absences	54,917	-
Post-employment fringe benefits	<u>728,744</u>	<u>-</u>
Total noncurrent liabilities	<u>9,610,563</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>12,181,800</u>	<u>517,299</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	6,825,026	-
Restricted for employee benefits	-	2,172,151
Unrestricted	<u>7,770,018</u>	<u>-</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 14,595,044</u>	<u>\$ 2,172,151</u>

See notes to financial statements.

**CITY OF GARDNER  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 For the Year Ended June 30, 2013**

	<u>Business-type Activities - Enterprise Fund</u>	<u>Governmental Activities - Internal Service Fund</u>
	<u>Water, Sewer, Golf Landfill &amp; Solid Waste</u>	
<b><u>OPERATING REVENUES:</u></b>		
Charges for services	\$ 8,172,637	\$ -
Employer contributions	-	6,274,977
Employee contributions	-	2,140,587
Miscellaneous	55,483	-
	<u>8,228,120</u>	<u>8,415,564</u>
<b>TOTAL OPERATING REVENUES</b>		
<b><u>OPERATING EXPENSES:</u></b>		
Cost of services and administration	5,464,210	-
Depreciation	1,028,164	-
Employee benefits	(855,431)	7,682,692
	<u>5,636,943</u>	<u>7,682,692</u>
<b>TOTAL OPERATING EXPENSES</b>		
<b>OPERATING INCOME (LOSS)</b>	<u>2,591,177</u>	<u>732,872</u>
<b><u>NONOPERATING REVENUES (EXPENSES):</u></b>		
Intergovernmental	318,973	-
Investment income	12,648	12,999
Amortized bond premium	76,878	-
Interest expense	(514,612)	-
	<u>(106,113)</u>	<u>12,999</u>
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET</b>		
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<u>2,485,064</u>	<u>745,871</u>
<b><u>TRANSFERS:</u></b>		
Transfers out	(443,173)	-
Transfers in	-	-
	<u>(443,173)</u>	<u>-</u>
<b>CHANGE IN NET ASSETS</b>	2,041,891	745,871
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>12,553,153</u>	<u>1,426,280</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 14,595,044</u>	<u>\$ 2,172,151</u>

See notes to financial statements.

**CITY OF GARDNER  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
For th Year Ended June 30, 2013**

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Water, Sewer, Golf Landfill & Solid Waste	
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from customers and users	\$ 8,131,709	\$ 2,140,587
Receipts from interfund services provided	-	6,274,977
Payments to vendors	(5,339,620)	-
Payments for interfund services used	-	(7,791,528)
	<u>2,792,089</u>	<u>624,036</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>		
Operating transfers	(443,173)	-
Intergovernmental subsidy	318,973	-
	<u>(124,200)</u>	<u>-</u>
NET CASH PROVIDED (USED FOR) NONCAPITAL FINANCING ACTIVITIES		
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Proceeds from the issuance of bonds and notes	3,205,000	-
Acquisition and construction of capital assets	(240,959)	-
Principal payments on bonds and notes	(4,530,334)	-
Bond premium	79,309	-
Interest expense	(568,342)	-
	<u>(2,055,326)</u>	<u>-</u>
NET CASH (USED FOR) CAPITAL RELATED FINANCING ACTIVITIES		
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Investment income	12,648	12,999
	<u>12,648</u>	<u>12,999</u>
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS	625,211	637,035
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	7,163,751	2,052,415
	<u>7,163,751</u>	<u>2,052,415</u>
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	\$ <u>7,788,962</u>	\$ <u>2,689,450</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</u>		
Operating income (loss)	\$ <u>2,591,177</u>	\$ <u>732,872</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	1,028,164	-
Changes in assets and liabilities:		
User fees	(96,411)	-
Warrants payable	110,453	-
Accrued liabilities	-	(108,836)
Employee benefits	(855,431)	-
Accrued compensated absences	14,137	-
	<u>200,912</u>	<u>(108,836)</u>
Total adjustments	200,912	(108,836)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ <u>2,792,089</u>	\$ <u>624,036</u>

See notes to financial statements.



**CITY OF GARDNER  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
For the Year Ended June 30, 2013**

	<u>Pension Trust Fund (As of December 31, 2012)</u>	<u>Private Purpose Trust Funds</u>
<b><u>ADDITIONS:</u></b>		
Contributions:		
Employer	\$ 2,889,138	\$ -
Employee	1,054,064	-
Intergovernmental	129,775	-
Private donations	-	38,079
	<u>4,072,977</u>	<u>38,079</u>
Net investment income:		
Interest and dividends	1,181,918	16,304
Realized gains net of losses	956,295	-
Net appreciation in fair value of investments	2,648,518	-
	<u>4,786,731</u>	<u>16,304</u>
Total investment income	4,786,731	16,304
Less investment expense	<u>(197,045)</u>	<u>-</u>
Net investment income	<u>4,589,686</u>	<u>16,304</u>
Intergovernmental	-	-
Transfers from other systems	-	-
	<u>-</u>	<u>-</u>
TOTAL ADDITIONS	<u>8,662,663</u>	<u>54,383</u>
<b><u>DEDUCTIONS:</u></b>		
Retirement benefits	4,788,948	-
Administration	107,908	-
Refunds and transfers to other systems	305,736	-
Educational scholarships	-	21,096
	<u>5,202,592</u>	<u>21,096</u>
TOTAL DEDUCTIONS	<u>5,202,592</u>	<u>21,096</u>
CHANGE IN NET ASSETS	3,460,071	33,287
NET ASSETS AT BEGINNING OF YEAR	<u>36,951,294</u>	<u>1,145,799</u>
NET ASSETS AT END OF YEAR	<u>\$ 40,411,365</u>	<u>\$ 1,179,086</u>

See notes to financial statements.

**CITY OF GARDNER**  
**NOTES TO FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2013**

**Note 1: Significant Accounting Policies**

The accounting policies of the City of Gardner conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

**Reporting Entity -**

The accompanying financial statements include all funds of the City of Gardner. The Levi Heywood Memorial Library Association, Inc. was audited by other auditors. Based upon the substantial funding support by the City to the Library, we have determined that the Levi Heywood Memorial Library Association, Inc. is a component unit of the City of Gardner. Also included are the funds and account groups of agencies, authorities, boards and other organizational entities which are includable in the City's financial reporting entity. The City is the entity that exercises oversight responsibility over the component units. The criteria, in the oversight entity's combined financial statements are: selection of governing authority, designation of management, ability to significantly influence operations, accountability over fiscal matters and scope of public service. The inclusion of component units in the City's combined financial statements does not affect their separate legal standing.

**Government-Wide and Fund Financial Statements**

***Government-Wide Financial Statements***

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities such as employee pensions plans. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services with report fees, fines and forfeitures, and other charges to uses of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets.

## CITY OF GARDNER

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2013

#### Note 1: Significant Accounting Policies (Continued)

##### **Government-Wide and Fund Financial Statements (Continued)**

These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

##### ***Fund Financial Statement***

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns all other funds are reported as non-major funds.

##### **Measurement Focus, Basis of Accounting, and Presentation**

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Pension trust funds recognize employer and participant contributions in the period in which contributions are due and the City has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both

## CITY OF GARDNER

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2013

#### Note 1: Significant Accounting Policies (Continued)

##### Measurement Focus, Basis of Accounting and Presentation (Continued)

measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

##### **Cash and Investments**

Cash deposits are reported at carrying amounts which reasonably estimate fair value. Investments are reported at fair value using selected fair market value pricing provided by the money management firms.

##### **Inventories and Prepaids**

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary fund and similar component unit inventories are recorded at the lower of cost or market on a first-in, first-out basis.

Prepaids record payment to vendor that benefit future reporting periods and are also reported on the consumption basis. Both inventories and prepaids are similarly reported in government-wide and fund financial statements.

##### **Capital Assets, Depreciation, and Amortization**

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary and components unit capital assets are also reported in their respective fund.

**CITY OF GARDNER**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended June 30, 2013**

**Note 1: Significant Accounting Policies (Continued)**

**Capital Assets, Depreciation, and Amortization (Continued)**

Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with cost of \$5,000 or more as purchase and construction outlays occur. The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using time straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, for depreciable assets are as follows:

Buildings	40
Improvements, other than buildings	10-40
Motor vehicles	5
Furniture, machinery, and equipment	10
Infrastructure	30-50

**Long-Term Debt and Bond Discounts/Premiums**

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities. Bond issuance cost, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method similar to the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

**Fund Equity**

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes.

**CITY OF GARDNER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended June 30, 2013**

**Note 1: Significant Accounting Policies (Continued)**

GOVERNMENTAL FUNDS

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

Special Revenue Funds - Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditure for specific purposes.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

PROPRIETARY FUNDS

The Enterprise Funds reflect the revenues and expenses of activities that are similar to private sector business operations. The accrual basis of accounting is used to measure the net income and financial position. The operations reported in these funds are the City's water supply system (Water Fund), the sewer treatment facility (Sewer Fund), the landfill facility (Landfill Fund) and the municipal golf course (Golf Course Fund).

FIDUCIARY FUNDS

The Fiduciary Funds accounts for assets and various deposits held by the City in a custodial capacity as an agent or custodian on behalf of others.

INTERNAL SERVICE FUND

The Internal Service Fund is used to account for the risk management function of the health insurance benefits provided to the employees of the City.

**CITY OF GARDNER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended June 30, 2013**

**Note 1: Significant Accounting Policies (Continued)**

**Encumbrances -**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Continued appropriations which are carried over to the ensuing fiscal year are reported as reserve for various purposes. Continued appropriations represent amounts appropriated for specific programs or projects which were not completed during the fiscal year. Continued appropriations are reported as expenditures under budgetary accounting principles.

**Long-Term Debt -**

*Government-wide and Proprietary Fund Financial Statements* - Long term debt is reported as liabilities in government wide and proprietary fund statements of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount

*Government Fund Financial Statements* – The face amount of governmental funds long term debt is reported as other financing sources. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds, are reported as General Government expenditures.

**Compensated Absences -**

Under terms of contracts and City ordinances, employees of the City earn varying amounts of vacation time. An employee may carry vacation time forward into the next fiscal year based upon the rates specified in the contracts and City ordinances. In the event of termination, an employee is paid for all accumulated vacation.

Employees earn one and one-quarter (1 1/4) days of sick leave per month in their first year of employment with the City. After their first full year of employment with the City, fifteen (15) days of sick leave are provided for per year, beginning each January 1. Under terms of contracts and City ordinances, employees are entitled to sick leave buy-back upon retirement or death. Payments are accounted for as expenditures in the year payment is made.

As of 7/1/99, newly hired employees are no longer eligible to buy back unused sick leave upon retirement or death.

## CITY OF GARDNER

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2013

#### Note 1: Significant Accounting Policies (Continued)

##### Deferred Compensation Plan -

The City offers to employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan allows employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unexpected emergency circumstances.

##### Deferred and Unearned Revenue -

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

##### Retirement Plan -

The plan is a contributory defined benefit plan covering all City of Gardner Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Teachers' Retirement Board.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

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. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

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 differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80 - 85% pension and 15 - 20% annuity.

## CITY OF GARDNER

### NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2013

#### Note 1: Significant Accounting Policies (Continued)

##### Retirement Plan - (Continued)

Active members contribute either 5, 7, 8, or 9 % of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2 percent on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Cost-of-living adjustments and any other increase in benefits imposed by state law granted between 1981 and 1996 are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as determined by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement benefits that were due each year. Systems had not statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually reduced such liability.

Administrative expenses are funded through excess investment income.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

## CITY OF GARDNER

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2013

#### Note 1: Significant Accounting Policies (Continued)

##### Retirement Plan (Continued) -

###### Accounting Policies

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission. All investments are stated at market value at the end of the year with the exception of fixed income securities which are at an amortized cost basis.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8 or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, a members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income or appropriated by the governmental units for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is credited to this Reserve account.

**CITY OF GARDNER**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended June 30, 2013**

**Note 1: Significant Accounting Policies (Continued)**

**Retirement Plan (Continued) -**

Accounting Policies (Continued)

The Investment Income Account is credited all income derived from invested funds. At the end of the year the income credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

The "Governmental Accounting Standards Board" (GASB) statement numbers 25 and 27 actuarial information as determined by the Stone Consulting, Inc. is as follows:

(1) Actuarial Accrued Liability	\$74,709,178.
(2) Actuarial Value of Assets	<u>40,411,365.</u>
(3) Unfunded Actuarial Accrued Liability (UAAL)	<u>\$34,297,813.</u>
(4) Funded Ratio (2)/(1)	54.0%

**CITY OF GARDNER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended June 30, 2013**

**Note 1: Significant Accounting Policies (Continued)**

**Retirement Plan (Continued) –**

Schedule of Funding Progress  
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a percent of Covered Payroll
_____	(a)	(b)	(b-a)	(a/b)	(c)	(b-a) /c
1/1/2013	\$40,411.	\$74,709.	\$34,298.	54%	\$10,546.	325%
1/1/2011	\$38,222.	\$69,105.	\$30,883.	55%	\$10,202.	303%
1/1/2008	\$44,333.	\$62,777.	\$18,444.	71%	\$10,442.	177%
1/1/2007	\$40,547.	\$60,176.	\$19,630.	67%	\$10,072.	195%
1/1/2006	\$35,799.	\$57,564.	\$21,765.	62%	\$9,523.	229%
1/1/2005	\$32,866.	\$55,001.	\$22,135.	60%	\$8,906.	249%

## CITY OF GARDNER

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2013

#### Note 1: Significant Accounting Policies (Continued)

##### Retirement Plan (Continued) -

The actuarial cost method, factors and some of the assumptions used in determining cost estimates are presented below:

1. Member Data: The member data used in the determination of cost estimates consists of pertinent information with respect to the active, inactive, retired, and disabled members of the employer as supplied by the employer to the actuary.
2. Valuation Date: January 1, 2013
3. Actuarial Cost Method: The costs of the Plan have been determined in accordance with the individual entry age normal actuarial cost method.
4. Rate of Investment Return: It is assumed that the assets of the fund will accumulate at a compound annual rate of 8.0% per annum.
5. Salary Scale: It is assumed that salaries, including longevity, will increase at a rate of as follows:
  - 11.40% Year 1
  - 17.00% Year 2
  - 4.00% Years 10, 20 & 30
  - 3.25% All other
6. Cost-of-Living Increases: A 3% COLA on the first \$13,000 of a members retirement allowance is assumed.
7. Value of Investments: Assets held by the fund are valued at market value adjusted for receivables and payables.
8. Annual Rate of Withdrawal Prior to Retirement: Annual rates of withdrawal prior to retirement are based on an analysis of actual experience.
9. Annual Rate of Mortality: The RP-2000 mortality table for annuitants (sex distinct).

## CITY OF GARDNER

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2013

#### **Note 1: Significant Accounting Policies (Continued)**

##### **Use of Estimates**

The preparation of basic financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of 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.

##### **Total Column**

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

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

#### **Note 2: Property Taxes**

Property taxes attach as an enforceable lien on property as of July 1. Taxes are levied for the fiscal year and payable in two installments on November 1 and May 1. The City bills and collects property taxes. City property tax revenues are recognized when collected under the modified accrual revenue recognition method.

The City is permitted under state law to levy property taxes up to 2.5% of the full and fair cash value of the property. In addition, the law limits the amount by which property tax assessments can be increased to 2.5% of the preceding year's limit plus additional growth. The City may impose fees to provide for certain specific services rendered. The fees, however, may not exceed the actual cost of providing the related service.

## CITY OF GARDNER

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2013

#### **Note 3: Budgetary Basis of Accounting**

The City's budget is comprised primarily of the following components: the aggregate annual appropriations for expenditures and operating transfers; amounts raised to fund prior fiscal years deficits, if any; the aggregate of all non-property tax revenues expected to be collected and transfers from surplus funds (free cash).

The Mayor submits to the City Council an operating budget for the proposed expenditures for the upcoming fiscal year commencing on July 1st. The budget, as enacted by the City Council, also establishes appropriations that are to be funded by certain revenues. The original budget is amended during the fiscal year as required by changing conditions.

Departments are limited to the line items as voted. 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.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which may be carried over to the ensuing fiscal year.

The General Fund budget is prepared under the City's budgetary basis which generally differs from GAAP as follows:

- Budgeted revenues are recorded when cash is received, except for property taxes which is recorded as revenue when levied (budgetary basis) compared to modified accrual (GAAP basis).
- Encumbrances and continuing appropriations are recorded as expenditures (budgetary basis) compared to a reservation of fund balance (GAAP basis).
- Certain accounts and/or transactions are presented in the General Fund (budgetary basis) as compared to a separate fund (GAAP basis).

Budgetary data 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 with budgetary data.

**CITY OF GARDNER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended June 30, 2013**

**Note 4: Temporary Loans**

Under State law and by approval of the City Council, the City is authorized to borrow funds on a temporary basis for the following purposes:

To fund operating costs prior to the collection of tax revenues by issuance of revenue anticipation notes ("RANS").

To fund capital project costs incurred prior to the selling of permanent debt by issuance of bond anticipation notes ("BANS").

To fund grant-aided project costs incurred prior to the receipt of grants by issuance of federal and state grants anticipation notes ("FANS", "SANS").

The temporary loan notes are general obligations of the City and carry maturity dates which are limited by statute to not more than twelve months.

As of June 30, 2013 and for the year then ended, temporary borrowings were as follows:

<u>BORROWINGS</u>	<u>BANS</u>	<u>Interest Rates</u>
Outstanding, beginning of the year	\$4,274,000.	
Issued	5,117,176.	1.25%
Matured	<u>4,274,000.</u>	
Outstanding, end of year	<u>\$5,117,176.</u>	

**CITY OF GARDNER**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended June 30, 2013**

**Note 5: Changes in Long-Term Debt**

The following is a summary of bond transactions of the City for the year ended June 30, 2013:

Long-term debt payable July 1, 2012	\$16,599,822.
Debt issued	3,205,000.
Debt retired	<u>{5,425,134.}</u>
Long-term debt payable at June 30, 2013	<u>\$14,379,688.</u>

Long-term debt payable at June 30, 2013 is comprised of the following individual issues:

<u>Primary Government</u>	<u>Original Issue</u>	<u>Payable June 30, 2013</u>	<u>Fiscal Year Maturity</u>
<b>Governmental Activities:</b>			
Municipal Purpose '03	\$3,530,000.	\$ 550,000.	2016
Refunding Bonds-2005	7,686,510.	<u>3,743,960.</u>	2018
		<u>4,293,960.</u>	
<b>Business Type Activities:</b>			
<b>Sewer Enterprise Fund</b>			
Snake Pond	1,286,875.	639,865.	2025
Refunding Bonds-2005	1,032,637.	<u>328,405.</u>	2018
		<u>968,270.</u>	
<b>Water Enterprise Fund</b>			
Crystal Lake WPAT '99	9,977,649.	3,741,947.	2020
Water Projects '12	3,205,000.	2,850,000.	2022
Crystal Lake WPAT '02	985,570.	246.	2020
Snake Pond	3,205,861.	2,132,630.	2025
Refunding Bond-2005	1,171,025.	<u>392,635.</u>	2018
		<u>9,117,458.</u>	
	Total	<u>\$14,379,688.</u>	

**CITY OF GARDNER**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2013**

**Note 5: Changes in Long-term Debt (Continued)**

The annual requirements to amortize all debt principal outstanding as of June 30, 2013.

<u>Fiscal Year</u>	<u>Total</u>
2014	2,195,427.
2015	2,218,860.
2016	2,232,350.
2017	1,839,506.
2018-2025	<u>5,893,545.</u>
Total	<u>\$14,379,688.</u>

The following is the computation of the City's legal debt margin of June 30, 2013

Equalized valuation – personal property and real estate, January 1, 2013		\$1,264,252,300.
Debt limit – 5% of equalized valuation		63,212,615.
Amount of debt applicable to debt limit:		
Total bonded debt	\$14,379,688.	
Less – bonded debt not included in computation of legal debt margin as defined in Massachusetts statutes	<u>13,829,688.</u>	<u>550,000.</u>
Legal debt margin		<u>\$ 62,392,615.</u>

**CITY OF GARDNER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended June 30, 2013**

**Note 6: Deposits and Investments**

State and local statutes place certain limitations on the nature of deposits and investments available to the City. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain prescribed levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U. S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the State treasurers investment pool Massachusetts Municipal Depository Trust ("MMDT").

Deposits – Primary Government

The following summary presents the amount of the City's deposits which are insured or collateralized with securities held by the City or its agent in the City's name (Category 1), those deposits which are collateralized with securities held by the pledging financial institution's trust departments or agent in the City's name (Category 2) and those deposits which are not collateralized (Category 3) at June 30, 2013.

	<u>Category</u>			<u>Total *</u>	<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash and cash equivalents	<u>\$ 750,000.</u>	<u>\$18,268,927.</u>	<u>\$1,269,099</u>	<u>\$20,288,026.</u>	<u>\$16,883,225.</u>

\* Does not include cash and investments of the Gardner Retirement System and the Levi Heywood Memorial Library.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be recovered. The City does not have a policy for custodial credit risk of deposits. As of June 30, 2013 none of the bank deposits were uninsured or uncollateralized.

**CITY OF GARDNER**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended June 30, 2013**

**Note 6: Deposits and Investments (Continued)**

Investments - Primary Government

	<u>Market Value *</u>
Money Markets	\$ 631,263.
Equity Securities	7,898.
Debt Securities	<u>4,502,209.</u>
	<u>\$5,141,370.</u>

\* Does not include cash and investments of the Gardner Retirement System and the Levi Heywood Memorial Library.

The composition of the City's bank deposits and investments fluctuates depending primarily on the timing of real estate tax receipts, proceeds from borrowings, collection of State and Federal aid, and capital outlays throughout the year.

Investment Risk

**Interest Rate Risk – Debt Securities**

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will impact the fair value of the securities. The City does not maintain a policy for interest rate risk of debt securities.

**Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of failure by an outside independent company, the City may not recover the full value of investments in the possession of the outside company. The City does not have a policy for custodial credit risk.

**Credit Risk – Debt Securities**

Credit risk for debt securities is the risk that an issuer of the security will not fulfill payment of its financial obligations. The City does not have a policy for credit risk of debt securities.

**CITY OF GARDNER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended June 30, 2013**

**Note 6: Deposits and Investments (Continued)**

<u>Deposits</u>	Levi Heywood Memorial Library Association, Inc. <u>June 30, 2013</u>	City of Gardner Retirement System <u>December 31, 2012</u>
Cash and equivalents	\$ <u>232,609.</u>	\$ <u>39,823.</u>

Deposits are recorded at fair value.

\* Deposits of the City of Gardner Retirement System are invested in the Pension Reserves Investment Trust Fund, a State sponsored investment pool fund.

<u>Investments</u>			
Money market	45,719.		
Domestic equities	829,844.		
Fixed income – Mutual funds	517,611.		
Certificate of deposits	<u>10,092.</u>		
	<u>\$1,403,266.</u>		
Pension Reserves Investment Trust (pooled funds)			<u>\$37,565,221.</u>

Investments are recorded at fair value using selected fair market value price quotations.

**CITY OF GARDNER**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended June 30, 2013**

**Note 7: Capital Assets**

	<u>Beginning</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u>
<b><u>Governmental:</u></b>				
Land	\$ 2,721,857.	\$ 583,717.	\$ -.	\$ 3,305,574.
Buildings	30,921,100.	94,290.	-	31,015,390.
Infrastructure	19,555,082.	899,909.	-	20,454,991.
Vehicles	7,364,840.	161,518.	(26,778.)	7,499,580.
Equipment	1,428,595.	510,283.	(44,605.)	1,894,273.
Other	474,914.	-	(159,101.)	315,813.
Construction in progress	<u>270,065.</u>	<u>1,687,633.</u>	<u>-.</u>	<u>1,957,698.</u>
	<u>62,736,453.</u>	<u>3,937,350.</u>	<u>(230,484.)</u>	<u>66,443,319.</u>
Accumulated Depreciation	( 34,583,510.)	(2,412,801.)	<u>230,484.</u>	(36,765,827.)
Capital Assets – Governmental	<u>\$28,152,943.</u>	<u>\$1,524,549.</u>	<u>\$ -.</u>	<u>\$29,677,492.</u>
<b><u>Business Type Activities:</u></b>				
<b><u>Water:</u></b>				
Land	\$ 591,769.		\$ -.	\$ 591,769.
Buildings	13,896,786.		-	13,896,786.
Infrastructure	13,687,723.		-	13,687,723.
Vehicles	246,908.		-	246,908.
Equipment	<u>773,222.</u>	<u>-</u>	<u>-</u>	<u>773,222.</u>
	<u>29,196,408.</u>	<u>-</u>	<u>-</u>	<u>29,196,408.</u>
Accumulated Depreciation	(13,709,502.)	(623,028.)	<u>-</u>	(14,332,530.)
Capital Assets – Water	<u>\$15,486,906.</u>	<u>\$ (623,028.)</u>	<u>\$ -.</u>	<u>\$14,863,878.</u>

**CITY OF GARDNER**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended June 30, 2013**

**Note 7: Capital Assets (Continued)**

	<u>Beginning</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u>
<u>Sewer:</u>				
Buildings	\$17,542,254.	\$ -.	-	\$17,542,254.
Infrastructure	3,832,114.	240,959.	-	4,073,073.
Vehicles	<u>724,394.</u>	<u>-.</u>	<u>-.</u>	<u>724,394.</u>
	<u>22,098,762.</u>	<u>240,959.</u>	<u>-.</u>	<u>22,339,721.</u>
Accumulated Depreciation	<u>(20,609,791.)</u>	<u>(242,574.)</u>	<u>-.</u>	<u>(20,852,365.)</u>
Capital Assets – Sewer	<u>\$ 1,488,971.</u>	<u>\$ (1,615.)</u>	<u>\$ -.</u>	<u>\$ 1,487,356.</u>
<u>Golf:</u>				
Land	\$ 419,653.	-	\$ -.	\$ 419,653.
Buildings/equipment	384,891.	-	-	384,891.
Vehicles	<u>43,212.</u>	<u>-.</u>	<u>-.</u>	<u>43,212.</u>
	<u>847,756.</u>	<u>-.</u>	<u>-.</u>	<u>847,756.</u>
Accumulated Depreciation	<u>(198,268.)</u>	<u>(35,449.)</u>	<u>-.</u>	<u>(233,717.)</u>
Capital Assets – Golf	<u>\$ 649,488.</u>	<u>(35,449.)</u>	<u>-.</u>	<u>\$ 614,039.</u>
<u>Solid Waste:</u>				
Equipment	<u>\$ 635,563.</u>	<u>-.</u>	<u>-.</u>	<u>\$ 635,563.</u>
	<u>635,563.</u>	<u>-.</u>	<u>-.</u>	<u>635,563.</u>
Accumulated Depreciation	<u>(190,669.)</u>	<u>(127,113.)</u>	<u>-.</u>	<u>(317,782.)</u>
Capital Assets – Solid Waste	<u>\$ 444,894.</u>	<u>(127,113.)</u>	<u>-.</u>	<u>\$ 317,781.</u>
Capital Assets - Business Type	<u>\$18,070,259.</u>	<u>\$(787,205.)</u>	<u>\$ -.</u>	<u>\$17,283,054.</u>

## CITY OF GARDNER

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2013

#### Note 8: Litigation

According to the City Solicitor, there is no litigation, individually or collectively, that will materially affect these financial statements.

#### Note 9: Fiscal 2014 Budget

The City has authorized a fiscal year 2014 operating, capital and proprietary fund budget totaling \$55,746,217. The City has certified its fiscal year 2014 tax rate at \$18.87 per \$1,000 assessed valuation.

#### Note 10: Health Care

The City provides health care insurance to all employees who work over twenty (20) hours per week. The City has two plan providers; Harvard Pilgrim Health and Blue Cross/Blue Shield both indemnity self insured plans. Under the indemnity plan the City pays the actual claims incurred up to \$115,000 per insured member after which specific stop loss insurance covers the remaining claims. The City pays 75% and the employee pays 25% of the health care cost. The City level funds the plan at a monthly payment of \$778,900. The incurred but not reported claims amount was \$517,299 at June 30, 2013.

#### Post 11: Other Post-Employment Benefits (OPEB)

##### Plan Description

The City provides health and life insurance coverage for its retiree's under a single-employer defined benefit plan. A brief observation of the retiree medical and life insurance plans is as follows.

The number of participants in the plan as of July 1, 2012 date of the actuarial valuation is as follows:

Active employees	485
Retired employees	<u>372</u>
	<u>857</u>

##### a. Plan Type:

##### Medical

Pre-65 retirees have the choice of the Harvard Pilgrim Health Plan, Blue Cross Blue Shield HMO New England Plan, and the Blue Shield Blue Cross Choice Plan offered by

Post-65 retirees have the choice of the above plans, as well as the Blue Cross Blue Shield Medex Plan.

**CITY OF GARDNER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended June 30, 2013**

**Post 11: Other Post-Employment Benefits (OPEB) (continued)**

a. Plan Type: **Medical** (continued)

**Life Insurance**

Retirees may elect life insurance coverage through Boston Mutual Life Insurance.

b. Eligibility: Age 55 with 10 years of service or 20 years of service.

c. Benefit/Cost Sharing: **Medical**  
The City covers 75% for all plans except the Blue Choice Plan, which is 50%.

**Life Insurance**

The City pays 75% of the life insurance premium.

d. Spouse Benefit: The Town covers the same percentage of the medical premium as for the retirees.

e. Surviving Spouse Benefit: Yes.

f. Annual Medical Premiums as of December 1, 2011 (effective renewal date):

Plan*	<u>Individual</u>	<u>Family</u>
BCBS New England	\$6,439.68	\$16,867.20
Harvard Pilgrim	\$8,119.68	\$21,267.84
Medex	\$5,040.00	

\* Blue Choice Plan not provided as no current participants are enrolled in this plan.

g. Annual Life Insurance Premium for 2012: Retirees pay \$18.36 per \$5,000 of life insurance per annum

**CITY OF GARDNER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended June 30, 2013**

**Post 11: Other Post-Employment Benefits (OPEB) (continued)**

**GASB 45 DISCLOSURE REQUIREMENTS**

	<u>7/1/2011 - 6/30/2012</u>	<u>7/1/2012 - 6/30/2013</u>
A. Annual OPEB Cost and Net OPEB Obligation		
1. Annual Required Contribution (ARC)	\$ 9,552,506.	\$ 8,449,826.
2. Interest on net OPEB Obligation	705,498.	990,109.
3. Adjustment to ARC	<u>(736,578.)</u>	<u>(888,468.)</u>
4. Annual OPEB Cost (Expense)	9,521,426.	8,551,467.
5. Contribution made (assumed middle of year) *	<u>(2,406,143.)</u>	<u>(2,939,878.)</u>
6. Increase in net OPEB Obligation	7,115,283.	5,611,589.
7. Net OPEB Obligation – beginning of year	<u>17,637,446.</u>	<u>24,752,729.</u>
8. Net OPEB Obligation – end of year	<u>\$24,752,729.</u>	<u>\$30,364,318.</u>

\* Contribution made was assumed to equal Expected Benefit Payments

The annual OPEB Cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years ending 2012 and 2013 are as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>	<u>Covered Payroll</u>	<u>OPEB Cost % of Pay</u>
6/30/2012	9,521,426.	25.3%	24,752,729.	22,174,308.	42.9%
6/30/2013	8,551,467.	34.4%	30,364,318.	23,853,565.	35.8%

**B. Funding Status and Funding Progress**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (AAL) ((b-a)/c)</u>
7/1/2008	\$0.	\$94,863,000.	\$94,863,000.	0.0%	\$18,217,000.	520.7%
7/1/2010	\$0.	106,300,420.	106,300,420	0.0%	21,476,327.	493.0%
7/1/2012	\$0.	102,386,571.	102,386,571	0.0%	23,853,565.	436.0%

**CITY OF GARDNER**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended June 30, 2013**

**Post 11: Other Post-Employment Benefits (OPEB) (continued)**

**GASB 45 DISCLOSURE REQUIREMENTS (continued)**

C. Methods and Assumptions

- Interest Rate	4.00%
- 2012 Medical Trend Rates	9.00%
- Ultimate Medical Trend Rate	5.00%
- Year Ultimate Trend Rates Reached	2019
- Actuarial Cost Method	Projected Unit Credit
- Annual Payroll Increase	3.25%

**Note 12: Lease Commitments**

The City did not have any lease commitments for the fiscal year ended June 30, 2013.

**Note 13: On Behalf Payments**

The Commonwealth of Massachusetts made “on behalf of” payments for the City of Gardner to the Massachusetts Teacher’s Retirement System in the amount of \$5,111,079 for the fiscal year ended June 30, 2013.

**Note 14: Loans Authorized and Un-issued**

At June 30, 2013 the City had \$10,981,508 in loans authorized and un-issued.

**Note 15: Risk Management**

The City insures its general liability risk through a pool coverage plan (premium based) with the Massachusetts Interlocal Insurance Association. Premiums are recorded as expenditures when received.

**CITY OF GARDNER**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended June 30, 2013**

**Note 16: Commitments and Contingencies**

The City participates in a number of federal and state grant agreements. The amount of expenditures, if any, which may be disallowed by the granting agencies cannot be measured at this time.

In December 2005 the landfill site was closed and capping was completed in 2006. The cost of this project was paid by Waste Management in accordance with the air rights agreement. The City has reserved \$320,678 in a post-closure monitoring fund to pay for monitoring costs over the next 30 years.

**Note 17: Use of Estimates**

Management has used estimates in the preparation of the aforementioned financial statements. Actual results may vary from the estimates that were used.

**Note 18: Total Column**

Government-wide Financial Statements –

The total column represents consolidated financial information.

Fund Financial Statements –

The total column represents data that is not comparable to consolidated financial information.

## **Supplementary Information**

**CITY OF GARDNER  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
For the Year Ended June 30, 2013**

	<u>Budgeted Amounts</u>		Actual Budgetary Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>REVENUES:</b>				
Real estate and personal property taxes, net of reserve for abatements	\$ 20,353,528	\$ 20,417,129	\$ 20,056,930	\$ (360,199)
Motor vehicle and other excise taxes	1,551,000	1,521,000	1,658,888	137,888
Tax Liens	-	-	79,823	79,823
Penalties and interest on taxes	200,000	200,000	350,506	150,506
Licenses and permits	227,000	227,000	265,056	38,056
Intergovernmental	24,101,999	24,084,741	24,169,843	85,102
Charges for services	416,664	398,822	518,958	120,136
Fines and forfeitures	181,000	166,000	144,752	(21,248)
Investment income	20,000	15,000	20,195	5,195
Payments in lieu of taxes	31,000	31,000	67,055	36,055
Miscellaneous	-	-	93,875	93,875
<b>TOTAL REVENUES</b>	<u>47,082,191</u>	<u>47,060,692</u>	<u>47,425,881</u>	<u>365,189</u>
<b>EXPENDITURES:</b>				
Current:				
General government	2,435,510	2,434,713	2,437,288	(2,575)
Public safety	5,441,027	5,593,702	5,416,305	177,397
Education	21,305,121	21,331,285	21,233,771	97,514
Public works	2,251,747	2,555,897	2,641,861	(85,964)
Health and human services	1,073,258	1,186,249	1,145,608	40,641
Culture and recreation	780,449	840,609	812,478	28,131
Retirement	2,855,789	2,852,413	2,848,351	4,062
Property and liability insurance	430,000	415,000	372,708	42,292
Fringe benefits	7,609,615	7,474,230	7,068,055	406,175
State and county charges	1,237,191	1,241,562	1,241,562	-
Debt service:				
Principal	1,805,500	1,805,500	1,796,500	9,000
Interest	307,800	307,800	285,790	22,010
<b>TOTAL EXPENDITURES</b>	<u>47,533,007</u>	<u>48,038,960</u>	<u>47,300,277</u>	<u>738,683</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(450,816)	(978,268)	125,604	1,103,872
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	398,000	658,458	832,987	174,529
Transfers out	(52,500)	(1,044,256)	(1,068,074)	(23,818)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>345,500</u>	<u>(385,798)</u>	<u>(235,087)</u>	<u>150,711</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES/ USE OF PRIOR YEAR BUDGETARY FUND BALANCE</b>	(105,316)	(1,364,066)	(109,483)	1,254,583
<b>BUDGETARY FUND BALANCE AT BEGINNING OF YEAR</b>	<u>4,200,482</u>	<u>4,200,482</u>	<u>4,200,482</u>	<u>-</u>
<b>BUDGETARY FUND BALANCE AT END OF YEAR</b>	<u>\$ 4,095,166</u>	<u>\$ 2,836,416</u>	<u>\$ 4,090,999</u>	<u>\$ 1,254,583</u>

See notes to financial statements.

## Management's Discussion and Analysis

The City of Gardner presents its financial reports for the fiscal year ending June 30, 2013.

The basic financial statements included in this report are in two parts. The government-wide financial statements provide both long-term and short-term information about the city's overall financial status. The fund financial statements focus on the individual parts of city government, showing more detail than the government-wide statements.

Funds are divided into three categories as follows:

Governmental funds tell how general government services were financed and what remains for future spending. Governmental funds include the General Fund, through which general government services such as public safety, public works, and education are funded, the Stabilization Fund, which is a reserve used to stabilize the tax levy, and the Nonmajor Funds, which include the combination of smaller special revenue (grants, gifts, and revolving) funds and capital projects.

Proprietary funds offer short and long term financial information about governmental activities that operate like a business. The city operates five such enterprises—water, sewer, golf course, landfill closure, and solid waste.

Fiduciary funds are financial relationships in which the city acts solely as a trustee or agent for the benefit of others. They are primarily educational scholarships. Money held in escrow for performance requirements of land development, bid guarantees, and the like have been reported with the nonmajor governmental funds because of the benefit that may accrue to the city if the developer or bidder fails to fulfill his obligations.

### Financial Analysis of City

#### Net Assets

#### City of Gardner Net Assets (in millions of dollars)

	Governmental Activities		Business-type Activities		Total FY12	Total FY13	Total % Change FY12 to FY13
	FY12	FY13	FY12	FY13			
Current & Other Assets	\$26.3	\$26.0	\$8.8	\$9.5	\$35.1	\$35.5	1.14%
Capital Assets	<u>28.2</u>	<u>29.7</u>	<u>18.0</u>	<u>17.3</u>	<u>46.2</u>	<u>47.0</u>	1.73%
Total Assets	\$54.5	\$55.7	\$26.8	\$26.8	\$81.3	\$82.5	1.48%
Longterm Debt Outstanding	\$5.3	\$4.3	\$11.3	\$10.1	\$16.6	\$14.4	-13.25%
Other Liabilities	<u>32.7</u>	<u>39.5</u>	<u>3.0</u>	<u>2.1</u>	<u>35.7</u>	<u>41.6</u>	16.53%
Total Liabilities	\$38.0	\$43.8	\$14.3	\$12.2	\$52.3	\$56.0	7.07%
Invested in Capital Assets							
Net of Related Debt	\$27.6	\$29.3	\$6.3	\$6.8	\$33.9	\$36.1	6.49%
Restricted	8.1	10.1	0.0	0.0	8.1	10.1	24.69%
Unrestricted	<u>(19.2)</u>	<u>(27.5)</u>	<u>6.2</u>	<u>7.8</u>	<u>(13.0)</u>	<u>(19.7)</u>	51.54%
Total Net Assets	\$16.5	\$11.9	\$12.5	\$14.6	\$29.0	\$26.5	-8.62%

Total net assets decreased from FY12 to FY13 by \$2.5 million. Net assets for governmental activities decreased \$4.6 million. This decrease is the result of a \$0.3

million decrease in current and other assets, an increase of \$1.5 million in capital assets, and an increase of \$5.8 million in total liabilities.

Net assets for business type activities increased \$2.1 million. It is the result of a \$0.7 million increase in current and other assets, a \$0.7 million decrease in capital assets, and a \$2.1 million decrease in total liabilities.

### Change in Net Assets

#### City of Gardner Change in Net Assets

( in millions of dollars )

	Governmental Activities		Business-type Activities		Total FY12	% Change	
	FY12	FY13	FY12	FY13		FY13	FY12toFY13
<u>Revenue</u>							
Program Revenue							
Charges for Services	\$1.7	\$2.3	\$8.3	\$8.2	\$10.0	\$10.5	5.00%
Operating Grants and Contributions	28.0	27.4			28.0	27.4	-2.14%
Capital Grants and Contributions	2.2	0.0			2.2	0.0	-100.00%
General Revenue							
Property Taxes	19.3	20.3			19.3	20.3	5.18%
Other Taxes	2.3	2.1			2.3	2.1	-8.70%
Unrestricted Grants and Contributions	3.9	4.1	0.3	0.3	4.2	4.4	4.76%
Other	0.2	0.2	0.1	0.1	0.3	0.3	NA
<b>Total Revenue</b>	<b>\$57.6</b>	<b>\$56.4</b>	<b>\$8.7</b>	<b>\$8.6</b>	<b>\$66.3</b>	<b>\$65.0</b>	<b>-1.96%</b>
<u>Expense</u>							
General Government	\$2.5	\$3.0			2.5	3.0	20.00%
Public Safety	5.5	6.3			5.5	6.3	14.55%
Education	26.6	26.5			26.6	26.5	-0.38%
Public Works	3.1	3.2			3.1	3.2	3.23%
Health & Human Services	1.2	1.2			1.2	1.2	0.00%
Culture & Recreation	1.1	0.9			1.1	0.9	-18.18%
Community and Economic Development	0.7	0.6			0.7	0.6	-14.29%
Retirement	2.7	2.8			2.7	2.8	3.70%
Property & Liability Insurance	0.4	0.4			0.4	0.4	0.00%
Fringe Benefits	15.5	14.9			15.5	14.9	-3.87%
State & County Charges	1.2	1.2			1.2	1.2	0.00%
Interest	0.3	0.3			0.3	0.3	0.00%
Water Enterprise			3.1	2.4	3.1	2.4	-22.58%
Sewer Enterprise			3.0	1.9	3.0	1.9	-36.67%
Golf Course Enterprise			0.6	0.5	0.6	0.5	-16.67%
Landfill Closure Enterprise			0.1	0.1	0.1	0.1	0.00%
Solid Waste Enterprise			1.3	1.3	1.3	1.3	0.00%
<b>Total Expense</b>	<b>\$60.8</b>	<b>\$61.3</b>	<b>\$8.1</b>	<b>\$6.2</b>	<b>\$68.9</b>	<b>\$67.5</b>	<b>-2.03%</b>
Excess (Deficiency) before Adjustments	(\$3.2)	(\$4.9)	\$0.6	\$2.4	(\$2.6)	(\$2.5)	
Prior period adjustment for rescinded motor vehicle adjustments						0.0	
Prior period adjustment for reclassification of police detail receivables						0.0	
Transfers	0.5	0.4	(\$0.5)	(\$0.4)	0.0	0.0	
<b>Increase (Decrease) in Net Assets</b>	<b>(\$2.7)</b>	<b>(\$4.5)</b>	<b>\$0.1</b>	<b>\$2.0</b>	<b>(\$2.6)</b>	<b>(\$2.5)</b>	
<u>Net Assets</u>							
Beginning of Year	\$19.1	\$16.4	\$12.5	\$12.6	\$31.6	\$29.0	-8.23%
End of Year	\$16.4	\$11.9	\$12.6	\$14.6	\$29.0	\$26.5	-8.62%

Revenue for governmental activities decreased \$1.2 million. Property and other taxes increased \$0.8 million, charges for services increased by \$0.6 million, operating grants decreased \$0.6 million, capital grants decreased \$2.2 million, unrestricted grants increased by \$0.2 million, and other revenue remained even.

Expenses for governmental activities increased \$0.5 million. Fringe benefit expenses decreased \$0.6 million, the result of a \$0.5 million decrease in health insurance expenses and a \$0.1 million decrease to the net OPEB obligation accrual. Public safety expenses increased \$0.8 million, general government expenses increased \$0.5 million, public works expenses increased \$0.1 million, and retirement expenses increased \$0.1 million. Culture and recreation expenses decreased \$0.2 million, education expenses decreased \$0.1 million, and community and economic development expenses decreased \$0.1 million.

### Business-type Activities

The five enterprise funds—water, sewer, golf course, landfill closure, and solid waste—continue to operate with positive fund balances. Revenue decreased by \$0.1 million. Expenses and transfers out decreased \$2.0 million.

## Financial Analysis of the City's Funds

Combined governmental funds reported by the city decreased by \$1.2 million.

The General Fund reported a deficit of revenue over expenditures of \$109,483 compared to a deficit of \$228,368 last year. Revenues increased \$1.5 million and expenditures increased \$0.4 million. Other financing sources decreased \$1.0 million. The city did not incur a legal deficit for snow & ice removal in FY13.

The Stabilization Fund increased in value by \$358,060.

Nonmajor Governmental Funds decreased \$1,434,685 compared to a decrease of \$816,513 last year. Revenues decreased by \$2.8 million, expenses decreased \$2.1 million, and other financing sources increased \$0.1 million.

## General Fund Budget Highlights

The city continued to operate under tight fiscal constraints caused by the revenue raising limits of Proposition 2½. The FY13 budget continued to rely on conservative revenue estimates and minimal growth in expenses.

In November, 2012, the state Department of Revenue certified free cash of \$1,408,781. Free cash is the accumulated excess of revenue over expenditures, with adjustments made for any outstanding deficits in the non-major funds. This amount compares to a figure of \$1,685,797 the previous year.

Once free cash was certified, the city transferred \$281,756 to the Stabilization Fund. There were no changes in staffing levels. Non-school personnel, both union and non-union, received a 2% pay increase on July 1, 2012. It was the first across the board increase since July 1, 2007. School personnel also received a 2% increase.

As it has for many years, the city funded the school department budget just above the net minimum required by state law.

By the end of FY2013, actual revenues exceeded budgeted revenues by \$365,189, and actual expenditures were less than budgeted expenditures by \$738,683.

## Capital Assets and Debt

### Capital Assets

The breakdown of capital assets for the city is shown in the following table:

	Governmental Activities		Business-type Activities		Total FY12	% Change	
	FY12	FY13	FY12	FY13		FY13	FY12toFY13
Land	\$2.7	\$3.3	\$1.0	\$1.0	\$3.7	\$4.3	16.2%
Buildings & Improvements	14.3	13.4	10.3	9.9	24.6	23.3	-5.3%
Vehicles	1.2	1.0	0.1	0.3	1.3	1.3	0.0%
Equipment	0.9	1.2	0.5	0.4	1.4	1.6	14.3%
Textbooks	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Infrastructure	8.8	8.9	6.2	5.7	15.0	14.6	-2.7%
Construction in Progress	0.3	1.9	0.0	0.0	0.3	1.9	
Total	\$28.2	\$29.7	\$18.1	\$17.3	\$46.3	\$47.0	1.5%

During FY2013, the city completed road reconstruction projects on lower Main Street and Connors Street, and repaved several other streets. A fence was installed around the Gardner Municipal Airport. Preliminary work at Gardner High School to redo the science labs and replace windows and doors was underway, with project completion expected before the start of the 2013-14 school year. These projects, as well as the replacement of the Gardner Middle School boiler, are being done with assistance from the Massachusetts School Building Authority. Work also began on a new heating system in City Hall and on the reconstruction of Greenwood Playground. A new police station and dispatch center project continued with additional land taking and site preparation and cleanup. This project is expected to take two more years to complete.

### Long Term Debt

	Governmental Activities		Business-type Activities		Total FY12	% Change	
	FY12	FY13	FY12	FY13		FY13	FY12toFY13
Outstanding Bonds Authorized and Unissued	\$5.3	\$4.3	\$11.3	\$10.1	\$16.6	\$14.4	-13.25%
	\$15.8	\$15.7	\$0.5	\$0.4	\$16.3	\$16.1	-1.23%

In December, 2012, the city authorized additional borrowing of \$3,736,384 for science lab upgrades, door and window replacement, and boiler replacement at the high school and for boiler replacement at the middle school. Of these amounts, 78.95% will be reimbursed by the Massachusetts School Building Authority. In May, 2013, the city authorized \$200,000 in borrowing for site cleanup at the new police station site. Funding for this loan is expected to come from a Brownfield revolving loan fund. Finally, in June, 2013, the loan authorization for the new police station and dispatch center was reduced by \$910,000 to recognize the appropriation of funds from other sources. The full \$12,000,000 originally authorized was later restored in August, 2013.

## Future Expectations

The city enacted a balanced budget for FY2013. As in past years, the city worked with conservative revenue estimates and thorough expense forecasts. Non-school employees, both union and non-union, received a 2% pay increase. Health insurance costs have remained steady, because of changes made to plan design in FY2013. City services are being maintained, in spite of the fact that non-school state aid continues to be less than the level that existed in FY2002.

Work is progressing on a new police station and dispatch center. Site preparation is complete and construction underway. Project completion is expected in early, 2015.

Economic development continues with the opening of Heywood-Wakefield Commons. It is a 78 unit assisted living facility in a remodeled former furniture manufacturing plant.

The city has reached agreement with a firm to build a second solar energy generating facility on property owned by the Gardner Redevelopment Authority. When completed, this project will add to the city's local revenues through a PILOT agreement.

The sewer enterprise fund balance continues to grow as planned. The city is building a reserve in anticipation of having to repair and expand the current treatment plant. Preliminary work on these projects has begun.

In December, 2013, the Department of Revenue certified free cash of \$1,446,730. Some of these funds will be used to further increase the Stabilization Fund and to make additional funds available for the new police station and dispatch center project.

The city expects to break even or have a modest gain in its general fund balance during FY14. Enterprise funds are expected to continue to operate with positive balances.

Questions about this report should be directed to the City Auditor, 95 Pleasant Street, Room 126, Gardner, MA 01440.

**CITY OF GARDNER  
GARDNER, MASSACHUSETTS**

**REPORT OF FEDERAL AWARDS EXPENDITURES**

**FOR THE YEAR ENDED JUNE 30, 2013**

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**INDEPENDENT AUDITOR'S REPORT**  
**ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR**  
**PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE**  
**WITH OMB CIRCULAR A-133**

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

**Compliance**

We have audited the compliance of the City of Gardner, Massachusetts with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2013. The City of Gardner's major federal programs are identified in the schedule of federal awards expenditures. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Gardner's management. Our responsibility is to express an opinion on the City of Gardner's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Gardner's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Gardner's compliance with those requirements.

In our opinion, the City of Gardner complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2013.

**Internal Control Over Compliance**

The management of the City of Gardner is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Gardner's internal control over compliance with requirements that could have a direct and

**Internal Control Over Compliance (Continued)**

material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

**Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the City of Gardner, Massachusetts as of and for the year ended June 30, 2013 and have issued our report thereon dated November 12, 2013. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended for the information of management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

November 12, 2013

*George V. McKenna, CPA*

**INDEPENDENT AUDITOR'S REPORT**  
**ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL**  
**REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN**  
**ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of the City of Gardner, Massachusetts as of and for the year ended June 30, 2013, and have issued our report thereon, dated November 12, 2013. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City of Gardner's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non compliance that are required to be reported under Government Auditing Standards.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Gardner's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The Honorable Mayor and City Council  
City of Gardner, Massachusetts  
Page Two

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

November 12, 2013

*George V. McKenna, CPA*

**CITY OF GARDNER  
Gardner, Massachusetts**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES**

**For the Year Ended June 30, 2013**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education</u>		
Passed Through State Department of Education:		
Early Childhood Allocation	84.173*	\$ 39,437.
Title I	84.010*	643,743.
Title III	84.151	17,058.
PL 94-142	84.027*	798,800.
Title II	84.367	112,232.
ARRA -Race to the Top	84.367*	<u>122,864.</u>
Total U.S. Department of Education		<u>1,696,749.</u>
 <u>U.S. Department of Agriculture</u>		
School Lunch Program	10.555*	523,655.
 <u>U.S. Department of Housing and Urban Development</u>		
Small Cities Program	14.218*	633,460.
 <u>U.S. Department of Transportation</u>		
Federal Aviation Administration		
Airport Improvement Program	16.710	<u>298,970.</u>
Total Federal Awards Expenditures		<u>\$3,190,219.</u>

\*Denotes major program

**CITY OF GARDNER  
Gardner, Massachusetts**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES**

**For the Year Ended June 30, 2013**

**I. Summary of Significant Accounting Policies**

The accounting policies and financial reporting practices of the City of Gardner, Massachusetts conform to the generally accepted accounting principles as applicable to governments, except for the accounting treatment of fixed assets.

**Basis of Presentation**

The accompanying schedule of federal financial assistance includes the federal grant transactions of the City. The receipts and proceeds from federal grants are recorded on the modified accrual basis whereby revenue is recognized when it becomes available and measurable. Disbursements of federal grant funds are recorded on the accrual basis.

**II. Scope of Audit**

The City of Gardner, Massachusetts is a governmental agency established by the laws of the Commonwealth of Massachusetts. All operations related to the City's federal grant programs, (Department of Agriculture, Department of Housing and Urban Development, Department of Transportation and Department of Education), are included in the scope of the OMB Circular A-133 Audit Requirements for audits of state and local governments. The Department of Housing and Community Development - Commonwealth of Massachusetts has been designated as the City's oversight agency for the Single Audit.

**CITY OF GARDNER  
Gardner, Massachusetts**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For the Year Ended June 30, 2013**

**A. Summary of Audit Results**

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Gardner, Massachusetts.
2. No reportable conditions relating to the audit of the financial statements are reported in the independent auditors report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of the City of Gardner Massachusetts were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the independent auditors report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the City of Gardner, Massachusetts expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the City of Gardner, Massachusetts reported.

7. The programs tested as major programs include:

<u>PROGRAM</u>	<u>CFDA NO.</u>
PL 94-142	84.027
Title 1	84.010
Small Cities Program (HUD)	14.218
School Lunch Program	10.555

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Gardner, Massachusetts was not determined to be a low-risk auditee.

**CITY OF GARDNER  
Gardner, Massachusetts**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For the Year Ended June 30, 2013**

**B. Findings - Financial Statement Audit**

None

**C. Findings and Questioned Costs - Major Federal Award Programs Audit**

None

**CITY OF GARDNER  
GARDNER, MASSACHUSETTS**

**MANAGEMENT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2013**

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**INDEPENDENT AUDITOR'S REPORT**  
**ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL**  
**REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN**  
**ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and City Councilors  
City of Gardner, Massachusetts

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gardner, Massachusetts as of and for the year ended June 30, 2013 which collectively comprise the City of Gardner's basic financial statements and have issued our report thereon, dated November 12, 2013. 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.

**Compliance**

As part of obtaining reasonable assurance about whether the City of Gardner's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City of Gardner's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Gardner's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Gardner's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Gardner's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the

The Honorable Mayor and City Councilors  
City of Gardner, Massachusetts  
Page two

City of Gardner's financial statements that is more than inconsequential will not be prevented or detected by the City of Gardner's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Gardner's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did identify one deficiency in the internal control system that we consider to be a material weaknesses, as defined above. This deficiency is explained in our observation labeled *Prior Year Finding - Student Activity Funds* on the following page.

We noted certain other matters that we have reported to the City of Gardner that follow in this report as recommendations that should be considered by management.

This report is intended solely for the information and use by the Mayor, City management staff and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

November 12, 2013

**George V. McKenna, CPA  
Certified Public Accountant  
Harvard, Massachusetts  
(978) 897-4632**

**CITY OF GARDNER  
GARDNER, MASSACHUSETTS**

**MANAGEMENT REPORT**

**For the Year Ended June 30, 2013**

**I. STUDENT ACTIVITY FUNDS – PRIOR YEAR FINDING**

**Observation - Management Report - June 30, 2012**

During the course of our audit testing we were informed of a theft of Student Activity Funds at the Gardner High School. The incident occurred on April 5, 2012 sometime after 3:30 p.m. The funds totaled approximately \$1,756 of which approximately \$1,100 was in currency. The funds were earmarked for the Class of 2013. The funds were stored in a metal cash box that was placed in a file cabinet at the end of the school day. The file cabinet was secured with the standard push in lock assembly. The file cabinet is located in the vault room at the Main Office. The vault room is locked when the last person to leave secures the door to the office area. The theft was discovered when parents called the Main Office questioning why their checks had not been cashed. An investigation ensued and it was determined that the metal cash box had not been delivered to the Central Office for preparation of the bank deposit at the end of each week in compliance with the school policy. It is unknown as to the whereabouts of the missing funds.

There have been no other incidents since this one. The standard push in lock assembly on the file cabinet has been replaced with a steel bar and padlock. The combination to the vault room has been changed. The keys to the padlock and the combination to the vault room are in the custody of the high school principal and the office secretary.

We recommend that the School District's Superintendent, Business Manager and Principals review the process for collecting and remitting all school related funds for bank deposit to strengthen the internal controls over this function. We are available to provide any guidance necessary in this effort.

**Current Status of Finding**

During Fiscal Year 2013 additional shortages of student activity funds collected as proceeds at various events were reported by the program coordinators to the Gardner High School Principal. From information obtained in a *Police Report* prepared by the Gardner Police Department, the Principal failed to initiate any corrective action and did not notify the School Superintendent of the missing funds. The amount of the missing funds cannot be determined but it is believed to be several thousand dollars over a period of two years. The Principal left employment with the Gardner School District in June 2013.

**CITY OF GARDNER  
GARDNER, MASSACHUSETTS**

**MANAGEMENT REPORT**

**For the Year Ended June 30, 2013**

**II. POLICE DETAIL ACCOUNTS RECEIVABLE COLLECTION**

We observed several accounts receivable in the *Police Detail Accounts Receivable Aging* that are greater than 90 days outstanding. Accounts receivable unpaid after 90 days from the invoice issuance date indicates risk of accounts being uncollectible or disputed billings. If the outstanding account balances are deemed uncollectible those balances should be written off the aging list after authorized approval by the Chief of Police or his designee. Any future requests for police details from vendors delinquent or in default should demand payment of any account balances previously written off as uncollectible.

**CITY OF GARDNER  
GARDNER, MASSACHUSETTS**

**MANAGEMENT REPORT**

**For the Year Ended June 30, 2013**

**III. ACCOUNTS PAYABLE VENDOR CHECKS**

Our testing of the City's vendor bank account disclosed some vendor checks that were greater than 60 days outstanding from date of issuance. Vendor checks not cashed after two months from date of issuance indicate misplacement or perhaps lost in mailing. We recommend the City Treasurer review the vendor outstanding check listing each month for checks greater than 60 days outstanding and initiate communication with the vendor for replacement of the check.

**CITY OF GARDNER  
GARDNER, MASSACHUSETTS**

**REPORT OF FEDERAL AWARDS EXPENDITURES**

**FOR THE YEAR ENDED JUNE 30, 2013**

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**INDEPENDENT AUDITOR'S REPORT**  
**ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR**  
**PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE**  
**WITH OMB CIRCULAR A-133**

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

**Compliance**

We have audited the compliance of the City of Gardner, Massachusetts with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2013. The City of Gardner's major federal programs are identified in the schedule of federal awards expenditures. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Gardner's management. Our responsibility is to express an opinion on the City of Gardner's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Gardner's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Gardner's compliance with those requirements.

In our opinion, the City of Gardner complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2013.

**Internal Control Over Compliance**

The management of the City of Gardner is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Gardner's internal control over compliance with requirements that could have a direct and

**Internal Control Over Compliance (Continued)**

material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

**Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the City of Gardner, Massachusetts as of and for the year ended June 30, 2013 and have issued our report thereon dated November 12, 2013. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended for the information of management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

November 12, 2013

**INDEPENDENT AUDITOR'S REPORT**  
**ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL**  
**REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN**  
**ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of the City of Gardner, Massachusetts as of and for the year ended June 30, 2013, and have issued our report thereon, dated November 12, 2013. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City of Gardner's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non compliance that are required to be reported under Government Auditing Standards.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Gardner's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The Honorable Mayor and City Council  
City of Gardner, Massachusetts  
Page Two

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

November 12, 2013

**CITY OF GARDNER  
Gardner, Massachusetts**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES**

**For the Year Ended June 30, 2013**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education</u>		
Passed Through State Department of Education:		
Early Childhood Allocation	84.173*	\$ 39,437.
Title I	84.010*	643,743.
Title III	84.151	17,058.
PL 94-142	84.027*	798,800.
Title II	84.367	112,232.
ARRA -Race to the Top	84.367*	<u>122,864.</u>
Total U.S. Department of Education		<u>1,696,749.</u>
 <u>U.S. Department of Agriculture</u>		
School Lunch Program	10.555*	523,655.
 <u>U.S. Department of Housing and Urban Development</u>		
Small Cities Program	14.218*	633,460.
 <u>U.S. Department of Transportation</u>		
Federal Aviation Administration		
Airport Improvement Program	16.710	<u>298,970.</u>
Total Federal Awards Expenditures		<u>\$3,190,219.</u>

\*Denotes major program

**CITY OF GARDNER  
Gardner, Massachusetts**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES**

**For the Year Ended June 30, 2013**

**I. Summary of Significant Accounting Policies**

The accounting policies and financial reporting practices of the City of Gardner, Massachusetts conform to the generally accepted accounting principles as applicable to governments, except for the accounting treatment of fixed assets.

**Basis of Presentation**

The accompanying schedule of federal financial assistance includes the federal grant transactions of the City. The receipts and proceeds from federal grants are recorded on the modified accrual basis whereby revenue is recognized when it becomes available and measurable. Disbursements of federal grant funds are recorded on the accrual basis.

**II. Scope of Audit**

The City of Gardner, Massachusetts is a governmental agency established by the laws of the Commonwealth of Massachusetts. All operations related to the City's federal grant programs, (Department of Agriculture, Department of Housing and Urban Development, Department of Transportation and Department of Education), are included in the scope of the OMB Circular A-133 Audit Requirements for audits of state and local governments. The Department of Housing and Community Development - Commonwealth of Massachusetts has been designated as the City's oversight agency for the Single Audit.

**CITY OF GARDNER  
Gardner, Massachusetts**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For the Year Ended June 30, 2013**

**A. Summary of Audit Results**

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Gardner, Massachusetts.
2. No reportable conditions relating to the audit of the financial statements are reported in the independent auditors report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of the City of Gardner Massachusetts were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the independent auditors report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the City of Gardner, Massachusetts expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the City of Gardner, Massachusetts reported.
7. The programs tested as major programs include:

<u>PROGRAM</u>	<u>CFDA NO.</u>
PL 94-142	84.027
Title 1	84.010
Small Cities Program (HUD)	14.218
School Lunch Program	10.555

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Gardner, Massachusetts was not determined to be a low-risk auditee.

**CITY OF GARDNER  
Gardner, Massachusetts**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For the Year Ended June 30, 2013**

**B. Findings - Financial Statement Audit**

None

**C. Findings and Questioned Costs - Major Federal Award Programs Audit**

None