

**CITY OF GARDNER, MASSACHUSETTS**

Annual Financial Statements

For the Year Ended June 30, 2015

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**Additional Offices:**

Nashua, NH  
Manchester, NH  
Andover, MA  
Ellsworth, ME

## INDEPENDENT AUDITORS' REPORT

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gardner, Massachusetts, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of either the Levi Heywood Library Association, which represent all of the assets, net position, and revenues of the aggregate discretely presented component unit, or the Pension Trust Fund (as of and for the year ending December 31, 2014), which represents 84%, 87%, and 45%, respectively of the assets, net position/fund balance, and revenues/additions of the

aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Levi Heywood Library Association or the Pension Trust Fund, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Levi Heywood Library Association were not audited in accordance with *Government Auditing Standards*.

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

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

## **Opinions**

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gardner, Massachusetts, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 20 to the combined financial statements, in 2014, the Gardner Contributory Retirement System adopted Governmental Accounting Standards Board Statement No. 67, Financial Reporting for Pension Plans. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

*Melanson Heath*

June 16, 2016

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

As management of the City of Gardner, we offer readers this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2015.

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

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

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

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

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

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

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

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows

of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

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

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water, sewer, golf, solid waste and landfill operations.

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

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the water, sewer, golf, solid waste and landfill operations, all of which are considered to be major funds.

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

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

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

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of liabilities exceeded assets by \$(9,714,176) (i.e., net position), a change of \$(1,359,831) in comparison to the (restated) prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$12,215,154, a change of \$(4,678,300) in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,951,203, a change of \$686,244 in comparison with the prior year.
- Total long-term debt (i.e., bonds payable and unamortized bond premium) at the close of the current fiscal year was \$22,420,077, a change of \$(2,726,712) in comparison to the prior year.
- At the close of the current fiscal year, the Stabilization Fund balance (which is combined with the General Fund) was \$2,170,974, which represents an increase of \$50,120 in comparison with the prior year.

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

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 21,797,878	\$ 27,983,433	\$ 11,023,168	\$ 11,075,590	\$ 32,821,046	\$ 39,059,023
Capital assets	43,924,379	37,052,770	18,610,264	18,910,917	62,534,643	55,963,687
Deferred outflows	172,782	-	10,410	-	183,192	-
Total assets and deferred outflows	65,895,039	65,036,203	29,643,842	29,986,507	95,538,881	95,022,710
Long-term liabilities outstanding	89,279,842	53,539,065	10,898,518	10,295,646	100,178,360	63,834,711
Other liabilities	4,466,936	4,491,846	607,761	655,542	5,074,697	5,147,388
Total liabilities	93,746,778	58,030,911	11,506,279	10,951,188	105,253,057	68,982,099
Net position:						
Invested in capital assets, net	30,954,301	30,176,554	10,933,461	9,934,577	41,887,762	40,111,131
Restricted	6,428,845	4,676,390	-	-	6,428,845	4,676,390
Unrestricted	(65,234,885)	(27,847,652)	7,204,102	9,100,742	(58,030,783)	(18,746,910)
Total net position	\$ (27,851,739)	\$ 7,005,292	\$ 18,137,563	\$ 19,035,319	\$ (9,714,176)	\$ 26,040,611

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,061,464	\$ 2,044,265	\$ 8,398,704	\$ 8,221,887	\$ 10,460,168	\$ 10,266,152
Operating grants and contributions	33,018,941	32,942,209	-	-	33,018,941	32,942,209
Capital grants and contributions	887,113	3,281,061	291,547	309,126	1,178,660	3,590,187
General revenues:						
Property taxes	22,395,565	21,269,823	-	-	22,395,565	21,269,823
Excises	1,981,045	1,918,177	-	-	1,981,045	1,918,177
Penalties, interest on taxes	635,781	533,116	-	-	635,781	533,116
Grants and contributions not restricted to specific programs	3,931,240	4,085,092	-	-	3,931,240	4,085,092
Investment income	72,865	70,502	-	7,865	72,865	78,367
Miscellaneous	2,305,180	1,084,124	-	-	2,305,180	1,084,124
Total revenues	<u>67,289,194</u>	<u>67,228,369</u>	<u>8,690,251</u>	<u>8,538,878</u>	<u>75,979,445</u>	<u>75,767,247</u>
Expenses:						
General government	3,192,834	3,586,330	-	-	3,192,834	3,586,330
Public safety	6,397,501	6,049,534	-	-	6,397,501	6,049,534
Education	31,017,340	32,219,196	-	-	31,017,340	32,219,196
Public works	3,976,400	3,729,182	-	-	3,976,400	3,729,182
Health and human services	1,372,655	1,308,040	-	-	1,372,655	1,308,040
Culture and recreation	1,021,900	1,025,651	-	-	1,021,900	1,025,651
Employee benefits	20,728,361	20,762,101	-	-	20,728,361	20,762,101
Interest	544,916	142,697	-	-	544,916	142,697
Intergovernmental	1,319,091	1,283,395	-	-	1,319,091	1,283,395
Enterprise funds combined	-	-	-	-	-	-
Water operations	-	-	2,840,082	2,681,566	2,840,082	2,681,566
Sewer operations	-	-	2,678,775	2,371,724	2,678,775	2,371,724
Golf operations	-	-	751,222	783,082	751,222	783,082
Solid waste operations	-	-	1,458,789	1,445,462	1,458,789	1,445,462
Landfill operations	-	-	39,410	88,214	39,410	88,214
Total expenses	<u>69,570,998</u>	<u>70,106,126</u>	<u>7,768,278</u>	<u>7,370,048</u>	<u>77,339,276</u>	<u>77,476,174</u>
Change in net position before transfers	(2,281,804)	(2,877,757)	921,973	1,168,830	(1,359,831)	(1,708,927)
Transfers, net	<u>-</u>	<u>(3,137)</u>	<u>-</u>	<u>3,137</u>	<u>-</u>	<u>-</u>
Change in net position	(2,281,804)	(2,880,894)	921,973	1,171,967	(1,359,831)	(1,708,927)
Net assets - beginning of year, as restated	<u>(25,569,935)</u>	<u>9,886,186</u>	<u>17,215,590</u>	<u>17,863,352</u>	<u>(8,354,345)</u>	<u>27,749,538</u>
Net assets - end of year	<u>\$ (27,851,739)</u>	<u>\$ 7,005,292</u>	<u>\$ 18,137,563</u>	<u>\$ 19,035,319</u>	<u>\$ (9,714,176)</u>	<u>\$ 26,040,611</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$(9,714,176), a change of \$(1,359,831) from the prior year.

By far the largest portion of net position, \$41,887,762, reflects our investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$6,428,845, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$(65,234,885) in governmental activities and a surplus of \$7,204,102 in business-type activities.

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$(2,281,804). Key elements of this change are as follows:

Consolidated General fund operations	\$ 271,011
Major fund - City Capital Project fund expenditures in excess of transfers in	(6,560,058)
Other funds revenues in excess of expenditures	1,610,747
Depreciation expense in excess of principal debt service	(1,145,875)
Internal service fund operations	(708,093)
Capital assets purchases	9,392,283
Capital asset dispositions	(34,609)
Current year accrual of other post-employment benefit liability	(4,417,446)
Current year accrual of net pension liability (net of deferrals)	165,036
Other	<u>(854,800)</u>
Total	<u>\$ (2,281,804)</u>

**Business-Type Activities.** Business-type activities for the year resulted in a change in net position of \$921,973. Key elements of this change are as follows:

Water enterprise	\$ 831,062
Sewer enterprise	268,989
Golf enterprise	(88,795)
Solid Waste enterprise	(55,873)
Landfill enterprise	<u>(33,410)</u>
Total	<u>\$ 921,973</u>

**D. FINANCIAL ANALYSIS OF THE GOVERNMENT’S FUNDS**

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$12,215,154, a change of \$(4,678,300) in comparison with the prior year. Key elements of this change are as follows:

Consolidated General fund operations	\$ 271,011
Major fund - City Capital Project fund expenditures in excess of transfers in	(6,560,058)
Other funds revenues in excess of expenditures	<u>1,610,747</u>
Total	<u>\$ (4,678,300)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,951,203, while total fund balance was \$6,514,854. As a measure of the general fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>	<u>% of Total 2015 General Fund Expenditures</u>
Unassigned - General fund	\$ 2,780,229	\$ 2,144,105	\$ 636,124	5.5%
Unassigned - Stabilization fund	<u>2,170,974</u>	<u>2,120,854</u>	<u>50,120</u>	<u>4.3%</u>
Total Unassigned fund balance	\$ 4,951,203	\$ 4,264,959	\$ 686,244	9.8%
Total fund balance	\$ 6,514,854	\$ 6,243,843	\$ 271,011	12.8%

The total fund balance of the general fund changed by \$271,011 during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:

(Shortfall) of tax collections compared to budget	\$ (32,046)
Excess of state and local revenues over budget	638,986
Budgetary appropriations unspent by departments	1,594,216
Use of free cash (fund balance) as a funding source	(1,565,032)

Timing Differences:

Difference between prior year encumbrances spent in the current year and current year encumbrances to be spent in subsequent period	(415,233)
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Other:

Stabilization Fund interest and transfers in	<u>50,120</u>
Total	<u>\$ 271,011</u>

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$7,204,102, a decrease of \$(1,896,640) in comparison with the (restated) prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

**E. GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$1,565,032. Major reasons for these amendments include:

- \$ 80,000 increase in veterans appropriations.
- \$ 139,583 increase for general government appropriations.
- \$ 556,500 increase for other public works appropriations.
- \$ 138,500 increase for public safety appropriations
- \$ 107,000 increase in various other departmental appropriations.
- \$ 78,441 transfer to stabilization fund.
- \$ 465,008 transfer to capital project funds.

All of the increase was funded from surplus (free cash).

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

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year end amounted to \$62,534,643 (net of accumulated depreciation), an increase of \$6,570,956 from the prior year. This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, and infrastructure.

Major capital asset events during the current fiscal year included the following:

Depreciation expense - governmental funds	\$ (2,486,065)
Depreciation expense - business-type activities	(1,184,192)
Police station building (in progress)	7,019,368
Streetscape improvements and street construction	1,256,351
Spray Park playground improvements (in progress)	263,857
Bent Mill facility project (in progress)	259,137
Summit Park playground improvements (in progress)	198,652
Gardner High School building repairs and improvements	102,492
Purchase of two police cruisers	75,182
Jackson playground improvements (in progress)	74,674
Land acquired through tax foreclosure	54,916
Sale of foreclosed land	(29,721)
Pump Station Replacement (in progress)	500,024
Design for New Sewer Treatment Plant (in progress)	300,365
Sewer enterprise vehicle	44,243
Golf enterprise vehicle	31,815
Various other activity	89,858
	<u><u>\$ 6,570,956</u></u>

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding, including unamortized bond premium, was \$22,420,077, all of which was backed by the full faith and credit of the City.

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

## **REQUESTS FOR INFORMATION**

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

Mark P. Hawke, Mayor  
John Richard, City Auditor  
City of Gardner  
Gardner City Hall  
95 Pleasant Street  
Gardner, MA 01440

CITY OF GARDNER, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Levi Heywood Library Association
<b>ASSETS</b>				
Current:				
Cash and short-term investments	\$ 8,526,954	\$ 8,371,995	\$ 16,898,949	\$ 224,594
Investments	6,167,536	-	6,167,536	1,243,741
Receivables, net of allowance for uncollectibles:				
Property taxes	1,047,711	-	1,047,711	-
Excises	331,893	-	331,893	-
User fees	-	2,651,173	2,651,173	239,435
Intergovernmental	1,938,374	-	1,938,374	-
Prepaid expenses	668,100	-	668,100	2,529
Noncurrent:				
Receivables, net of allowance for uncollectibles:				
Property taxes	693,337	-	693,337	-
Intergovernmental	2,423,973	-	2,423,973	-
Land and construction in progress	17,297,397	1,811,811	19,109,208	-
Capital assets, net of accumulated depreciation	26,626,982	16,798,453	43,425,435	5,645,618
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>172,782</u>	<u>10,410</u>	<u>183,192</u>	<u>2,298</u>
<b>TOTAL ASSETS AND DEFERRED OUFLOWS OF RESOURCES</b>	<b>65,895,039</b>	<b>29,643,842</b>	<b>95,538,881</b>	<b>7,358,215</b>
<b>LIABILITIES</b>				
Current:				
Warrants payable	1,634,561	498,761	2,133,322	-
Accounts payable	259,137	-	259,137	6,655
Accrued payroll and withholdings	328,606	-	328,606	239,434
Accrued claims payable	1,367,475	-	1,367,475	-
Notes payable	684,400	109,000	793,400	-
Other current liabilities	192,757	-	192,757	-
Current portion of long-term liabilities:				
Bonds payable	1,444,366	1,305,836	2,750,202	-
Other liabilities	-	8,500	8,500	-
Noncurrent:				
Bonds payable, net of current portion	13,221,140	6,448,735	19,669,875	285,000
Other liabilities, net of current portion	42,031,363	1,172,252	43,203,615	-
Net pension liability	32,582,973	1,963,195	34,546,168	-
<b>TOTAL LIABILITIES</b>	<u>93,746,778</u>	<u>11,506,279</u>	<u>105,253,057</u>	<u>531,089</u>
<b>NET POSITION</b>				
Invested in capital assets	30,954,301	10,933,461	41,887,762	5,360,618
Restricted for:				
Grants and other statutory restrictions	3,988,301	-	3,988,301	-
Permanent funds:				
Nonexpendable	2,346,155	-	2,346,155	129,475
Expendable	94,389	-	94,389	150,355
Unrestricted	<u>(65,234,885)</u>	<u>7,204,102</u>	<u>(58,030,783)</u>	<u>1,186,678</u>
<b>TOTAL NET POSITION</b>	<b>\$ <u>(27,851,739)</u></b>	<b>\$ <u>18,137,563</u></b>	<b>\$ <u>(9,714,176)</u></b>	<b>\$ <u>6,827,126</u></b>

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

CITY OF GARDNER, MASSACHUSETTS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Unit
<b>Governmental Activities:</b>								
General government	\$ 3,192,834	\$ 1,114,100	\$ 1,883,117	\$ 200,000	\$ 4,383	\$ -	\$ 4,383	\$ -
Public safety	6,397,501	487,890	169,952	-	(5,739,659)	-	(5,739,659)	-
Education	31,017,340	364,220	27,679,049	-	(2,974,071)	-	(2,974,071)	-
Public works	3,976,400	79,558	8,271	687,113	(3,201,458)	-	(3,201,458)	-
Health and human services	1,372,655	-	698,570	-	(674,085)	-	(674,085)	-
Culture and recreation	1,021,900	15,696	43,923	-	(962,281)	-	(962,281)	-
Employee benefits	20,728,361	-	2,536,059	-	(18,192,302)	-	(18,192,302)	-
Interest	544,916	-	-	-	(544,916)	-	(544,916)	-
Intergovernmental	1,319,091	-	-	-	(1,319,091)	-	(1,319,091)	-
Total Governmental Activities	69,570,998	2,061,464	33,018,941	887,113	(33,603,480)	-	(33,603,480)	-
<b>Business-Type Activities:</b>								
Water operations	2,840,082	3,391,135	-	280,009	-	831,062	831,062	-
Sewer operations	2,678,775	2,936,226	-	11,538	-	268,989	268,989	-
Golf operations	751,222	662,427	-	-	-	(88,795)	(88,795)	-
Solid waste operations	1,458,789	1,402,916	-	-	-	(55,873)	(55,873)	-
Landfill operations	39,410	6,000	-	-	-	(33,410)	(33,410)	-
Total Business-type Activities	7,768,278	8,398,704	-	291,547	-	921,973	921,973	-
Total Primary Government	\$ 77,339,276	\$ 10,460,168	\$ 33,018,941	\$ 1,178,660	(33,603,480)	921,973	(32,681,507)	-
<b>Component Unit:</b>								
Levi Heywood Library Association	\$ 1,148,602	\$ 20,466	\$ -	\$ -	-	-	-	(1,128,136)
<b>General Revenues:</b>								
Property taxes					22,395,565	-	22,395,565	-
Excises					1,981,045	-	1,981,045	-
Penalties, interest and other taxes					635,781	-	635,781	-
Grants and contributions not restricted to specific programs					3,931,240	-	3,931,240	861,851
Investment income					72,865	-	72,865	29,062
Miscellaneous					2,305,180	-	2,305,180	-
Total general revenues					31,321,676	-	31,321,676	890,913
Change in Net Position					(2,281,804)	921,973	(1,359,831)	(237,223)
<b>Net Position:</b>								
Beginning of year, as restated					(25,569,935)	17,215,590	(8,354,345)	7,064,349
End of year					\$ (27,851,739)	\$ 18,137,563	\$ (9,714,176)	6,827,126

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

CITY OF GARDNER, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

	<u>General</u>	<u>City Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and short-term investments	\$ 4,724,898	\$ 32,261	\$ 3,769,795	\$ 8,526,954
Investments	3,019,857	-	2,376,766	5,396,623
Receivables:				
Property taxes	1,098,893	-	-	1,098,893
Tax title	866,671	-	-	866,671
Excises	702,571	-	-	702,571
Intergovernmental	757,407	-	1,180,967	1,938,374
<b>TOTAL ASSETS</b>	<b>\$ 11,170,297</b>	<b>\$ 32,261</b>	<b>\$ 7,327,528</b>	<b>\$ 18,530,086</b>
<b>LIABILITIES</b>				
Warrants payable	\$ 849,465	\$ 5,500	\$ 690,724	\$ 1,545,689
Accounts payable	-	-	259,137	259,137
Accrued payroll and withholdings	328,606	-	-	328,606
Notes payable	-	-	684,400	684,400
Other liabilities	173,029	10,618	9,110	192,757
<b>TOTAL LIABILITIES</b>	<b>1,351,100</b>	<b>16,118</b>	<b>1,643,371</b>	<b>3,010,589</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>3,304,343</b>	<b>-</b>	<b>-</b>	<b>3,304,343</b>
<b>FUND BALANCES</b>				
Nonspendable	-	-	2,346,155	2,346,155
Restricted	-	16,143	4,220,043	4,236,186
Committed	247,530	-	-	247,530
Assigned	1,316,121	-	-	1,316,121
Unassigned	4,951,203	-	(882,041)	4,069,162
<b>TOTAL FUND BALANCES</b>	<b>6,514,854</b>	<b>16,143</b>	<b>5,684,157</b>	<b>12,215,154</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 11,170,297</b>	<b>\$ 32,261</b>	<b>\$ 7,327,528</b>	<b>\$ 18,530,086</b>

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

CITY OF GARDNER, MASSACHUSETTS

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

JUNE 30, 2015

<b>Total Governmental Fund Balances</b>	\$ 12,215,154
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	43,924,379
<ul style="list-style-type: none"><li>• Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds.</li></ul>	172,782
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting (net of allowance for uncollectible accounts) and are not deferred until collection. This accrual also includes future years' State reimbursement of school projects costs.</li></ul>	5,133,122
<ul style="list-style-type: none"><li>• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.</li></ul>	(17,334)
<ul style="list-style-type: none"><li>• Long-term liabilities, including bonds and loans payable, compensated absences, other post-employment benefits, and net pension liability, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</li></ul>	(88,631,506)
<ul style="list-style-type: none"><li>• As noted above, bonds payable are not reported in the governmental funds. Accordingly, unamortized bond premium, is also not recorded in governmental funds.</li></ul>	<u>(648,336)</u>
<b>Net Position of Governmental Activities</b>	<u>\$ (27,851,739)</u>

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

CITY OF GARDNER, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2015

	<u>General</u>	City Capital Project <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 22,312,230	\$ -	\$ -	\$ 22,312,230
Excises	1,988,181	-	-	1,988,181
Penalties, interest and other taxes	635,781	-	-	635,781
Charges for services	985,906	-	662,190	1,648,096
Intergovernmental	24,726,697	-	8,716,762	33,443,459
Licenses and permits	310,786	-	-	310,786
Fines and forfeitures	132,449	-	-	132,449
Investment income	48,524	-	24,341	72,865
Miscellaneous	271,260	-	13,269	284,529
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	51,411,814	-	9,416,562	60,828,376
<b>Expenditures:</b>				
Current:				
General government	2,195,924	-	1,584,854	3,780,778
Public safety	6,332,863	7,025,066	118,102	13,476,031
Education	22,911,848	-	4,633,616	27,545,464
Public works	2,874,463	-	748,677	3,623,140
Health and human services	1,229,617	-	45,799	1,275,416
Culture and recreation	835,980	-	508,026	1,344,006
Employee benefits	11,181,939	-	-	11,181,939
Debt service	1,960,811	-	-	1,960,811
Intergovernmental	1,319,091	-	-	1,319,091
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	50,842,536	7,025,066	7,639,074	65,506,676
Excess (deficiency) of revenues over expenditures	569,278	(7,025,066)	1,777,488	(4,678,300)
<b>Other Financing Sources (Uses):</b>				
Transfers in	241,744	465,008	75,003	781,755
Transfers out	(540,011)	-	(241,744)	(781,755)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(298,267)	465,008	(166,741)	-
Change in fund balance	271,011	(6,560,058)	1,610,747	(4,678,300)
Fund Equity, at Beginning of Year, as reclassified	6,243,843	6,576,201	4,073,410	16,893,454
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Equity, at End of Year	\$ 6,514,854	\$ 16,143	\$ 5,684,157	\$ 12,215,154

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

CITY OF GARDNER, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2015

<b>Net Changes in Fund Balances - Total Governmental Funds</b>	\$ (4,678,300)																				
<ul style="list-style-type: none"> <li>• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table style="margin-left: 40px; width: 100%;"> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">9,392,283</td> </tr> <tr> <td>Disposition of capital assets</td> <td style="text-align: right;">(34,609)</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(2,486,065)</td> </tr> </table> </li> <li>• 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, loans, etc.) differ between the two statements. This amount represents the net change in deferred revenue and allowance for uncollectible accounts. <table style="margin-left: 40px; width: 100%;"> <tr> <td></td> <td style="text-align: right;">(774,252)</td> </tr> </table> </li> <li>• The issuance of long-term debt (e.g., bonds and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net <table style="margin-left: 40px; width: 100%;"> <tr> <td>Repayments of debt (bonds and loans)</td> <td style="text-align: right;">1,340,190</td> </tr> <tr> <td>Amortization of bond premium</td> <td style="text-align: right;">75,705</td> </tr> </table> </li> <li>• Some expenses reported in the Statement of Activities, such as compensated absences, other post-employment benefits (OPEB), and net pension liability, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table style="margin-left: 40px; width: 100%;"> <tr> <td>Change in compensated absence liability</td> <td style="text-align: right;">(156,253)</td> </tr> <tr> <td>Change in OPEB liability</td> <td style="text-align: right;">(4,417,446)</td> </tr> <tr> <td>Change in net pension liability, net of deferrals</td> <td style="text-align: right;">165,036</td> </tr> </table> </li> <li>• 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. <table style="margin-left: 40px; width: 100%;"> <tr> <td></td> <td style="text-align: right;"><u>(708,093)</u></td> </tr> </table> </li> </ul>	Capital outlay purchases	9,392,283	Disposition of capital assets	(34,609)	Depreciation	(2,486,065)		(774,252)	Repayments of debt (bonds and loans)	1,340,190	Amortization of bond premium	75,705	Change in compensated absence liability	(156,253)	Change in OPEB liability	(4,417,446)	Change in net pension liability, net of deferrals	165,036		<u>(708,093)</u>	
Capital outlay purchases	9,392,283																				
Disposition of capital assets	(34,609)																				
Depreciation	(2,486,065)																				
	(774,252)																				
Repayments of debt (bonds and loans)	1,340,190																				
Amortization of bond premium	75,705																				
Change in compensated absence liability	(156,253)																				
Change in OPEB liability	(4,417,446)																				
Change in net pension liability, net of deferrals	165,036																				
	<u>(708,093)</u>																				
<b>Changes in Net Position of Governmental Activities</b>	<b>\$ <u>(2,281,804)</u></b>																				

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

## CITY OF GARDNER, MASSACHUSETTS

## GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original Budget	Final Budget		Positive (Negative)
<b>Revenues and Other Sources:</b>				
Taxes	\$ 22,344,276	\$ 22,344,276	\$ 22,344,276	\$ -
Excise	1,735,000	1,735,000	1,988,181	253,181
Penalties, interest and other taxes	495,000	495,000	635,781	140,781
Charges for services	884,250	884,250	985,906	101,656
Intergovernmental	24,838,238	24,838,238	24,726,697	(111,541)
Licenses and permits	200,000	200,000	310,786	110,786
Fines and forfeits	140,000	140,000	132,449	(7,551)
Investment income	20,000	20,000	26,845	6,845
Miscellaneous	140,500	140,500	271,260	130,760
Transfers in	277,675	277,675	291,744	14,069
Other sources	-	1,565,032	1,565,032	-
Total Revenues and Other Sources	51,074,939	52,639,971	53,278,957	638,986
<b>Expenditures and Other Uses:</b>				
General government	2,213,413	2,352,996	1,592,619	760,377
Public safety	6,316,723	6,455,223	6,340,166	115,057
Education	22,991,400	22,991,400	22,948,288	43,112
Public works	2,490,850	3,047,350	2,986,954	60,396
Health and human services	1,196,767	1,278,767	1,228,974	49,793
Culture and recreation	792,301	897,301	868,461	28,840
Debt service	1,963,812	1,963,812	1,960,811	3,001
Intergovernmental	1,319,091	1,319,091	1,319,091	-
Employee benefits	11,715,579	11,715,579	11,181,939	533,640
Transfers out	75,003	618,452	618,452	-
Total Expenditures and Other Uses	51,074,939	52,639,971	51,045,755	1,594,216
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 2,233,202	\$ 2,233,202

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

## CITY OF GARDNER, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF NET POSITION

JUNE 30, 2015

	Business-Type Activities Enterprise Funds					Total	Governmental
	Water Fund	Sewer Fund	Golf Fund	Solid Waste Fund	Landfill Fund		Internal Service Funds
<b>ASSETS</b>							
Current:							
Cash and short-term investments	\$ 1,880,020	\$ 5,923,657	\$ 68,806	\$ 280,467	\$ 219,045	\$ 8,371,995	\$ -
Investments	-	-	-	-	-	-	770,913
User fees	1,148,013	986,031	-	517,129	-	2,651,173	-
Other assets	-	-	-	-	-	-	668,100
Total current assets	3,028,033	6,909,688	68,806	797,596	219,045	11,023,168	1,439,013
Noncurrent:							
Land and construction in progress	591,769	800,389	419,653	-	-	1,811,811	-
Capital assets, net of accumulated depreciation	13,244,056	3,316,058	146,150	92,189	-	16,798,453	-
Total noncurrent assets	13,835,825	4,116,447	565,803	92,189	-	18,610,264	-
<b>TOTAL ASSETS</b>	16,863,858	11,026,135	634,609	889,785	219,045	29,633,432	1,439,013
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	2,567	1,902	4,015	1,232	694	10,410	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	16,866,425	11,028,037	638,624	891,017	219,739	29,643,842	1,439,013
<b>LIABILITIES</b>							
Current:							
Warrants payable	166,507	186,147	14,030	119,453	12,624	498,761	88,872
Accrued claims payable	-	-	-	-	-	-	1,367,475
Notes payable	-	-	9,000	100,000	-	109,000	-
Current portion of long-term liabilities:							
Bonds payable	1,151,644	154,192	-	-	-	1,305,836	-
Other liabilities	-	-	-	-	8,500	8,500	-
Total current liabilities	1,318,151	340,339	23,030	219,453	21,124	1,922,097	1,456,347
Noncurrent:							
Bonds payable, net of current portion	5,897,806	550,929	-	-	-	6,448,735	-
Other liabilities, net of current portion	138,688	240,368	526,446	96,750	170,000	1,172,252	-
Net pension liability	484,114	358,713	757,134	232,304	130,930	1,963,195	-
Total noncurrent liabilities	6,520,608	1,150,010	1,283,580	329,054	300,930	9,584,182	-
<b>TOTAL LIABILITIES</b>	7,838,759	1,490,349	1,306,610	548,507	322,054	11,506,279	1,456,347
<b>NET POSITION</b>							
Invested in capital assets, net of related debt	6,887,569	3,484,288	561,604	-	-	10,933,461	-
Unrestricted	2,140,097	6,053,400	(1,229,590)	342,510	(102,315)	7,204,102	(17,334)
<b>TOTAL NET POSITION</b>	\$ 9,027,666	\$ 9,537,688	\$ (667,986)	\$ 342,510	\$ (102,315)	\$ 18,137,563	\$ (17,334)

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

CITY OF GARDNER, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities Enterprise Funds						Governmental Activities
	Water Fund	Sewer Fund	Golf Fund	Solid Waste Fund	Landfill Fund	Total	Internal Service Fund
<b>Operating Revenues:</b>							
Charges for services	\$ 3,391,135	\$ 2,936,226	\$ 662,427	\$ 1,402,916	\$ 6,000	\$ 8,398,704	\$ -
Employee contributions	-	-	-	-	-	-	2,342,506
Employer contributions	-	-	-	-	-	-	6,867,840
Total Operating Revenues	<u>3,391,135</u>	<u>2,936,226</u>	<u>662,427</u>	<u>1,402,916</u>	<u>6,000</u>	<u>8,398,704</u>	<u>9,210,346</u>
<b>Operating Expenses:</b>							
Salary and wages	139,948	142,202	376,718	141,623	-	800,491	-
Operating expenses	1,626,834	1,956,722	234,336	1,143,627	39,410	5,000,929	-
Depreciation	626,357	404,941	22,600	130,294	-	1,184,192	-
Administrative assessments	161,142	150,236	117,163	41,251	-	469,792	-
Employee benefits	-	-	-	-	-	-	11,968,299
Total Operating Expenses	<u>2,554,281</u>	<u>2,654,101</u>	<u>750,817</u>	<u>1,456,795</u>	<u>39,410</u>	<u>7,455,404</u>	<u>11,968,299</u>
Operating Income (Loss)	836,854	282,125	(88,390)	(53,879)	(33,410)	943,300	(2,757,953)
<b>Nonoperating Revenues (Expenses):</b>							
Intergovernmental revenue	280,009	11,538	-	-	-	291,547	-
Insurance reimbursement	-	-	-	-	-	-	2,049,860
Interest expense	<u>(285,801)</u>	<u>(24,674)</u>	<u>(405)</u>	<u>(1,994)</u>	<u>-</u>	<u>(312,874)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(5,792)</u>	<u>(13,136)</u>	<u>(405)</u>	<u>(1,994)</u>	<u>-</u>	<u>(21,327)</u>	<u>2,049,860</u>
Change in Net Position	831,062	268,989	(88,795)	(55,873)	(33,410)	921,973	(708,093)
Net Position at Beginning of Year, as restated	<u>8,196,604</u>	<u>9,268,699</u>	<u>(579,191)</u>	<u>398,383</u>	<u>(68,905)</u>	<u>17,215,590</u>	<u>690,759</u>
Net Position at End of Year	<u>\$ 9,027,666</u>	<u>\$ 9,537,688</u>	<u>\$ (667,986)</u>	<u>\$ 342,510</u>	<u>\$ (102,315)</u>	<u>\$ 18,137,563</u>	<u>\$ (17,334)</u>

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

CITY OF GARDNER, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities Enterprise Funds						Governmental Activities
	Water Fund	Sewer Fund	Golf Fund	Solid Waste Fund	Landfill Fund	Total	Internal Service Fund
<b>Cash Flows From Operating Activities:</b>							
Receipts from customers and users	\$ 3,368,547	\$ 2,817,947	\$ 662,427	\$ 1,397,304	\$ 6,000	\$ 8,252,225	\$ -
Payments to vendors and employees	(1,915,002)	(2,152,010)	(698,237)	(1,294,681)	(43,916)	(6,103,846)	-
Receipts from employees and employer	-	-	-	-	-	-	9,210,346
Payments of employee benefits and expenses	-	-	-	-	-	-	(12,251,595)
Net Cash Provided By / (Used for) Operating Activities	1,453,545	665,937	(35,810)	102,623	(37,916)	2,148,379	(3,041,249)
<b>Cash Flows From Non-Capital Financing Activities:</b>							
Insurance reimbursements	-	-	-	-	-	-	2,049,860
Net Cash Provided By Non-Capital Financing Activities	-	-	-	-	-	-	2,049,860
<b>Cash Flows From Capital and Related Financing Activities:</b>							
Receipts from governments	280,009	11,538	-	-	-	291,547	-
Acquisition and construction of capital assets	-	(844,632)	(7,092)	(31,815)	-	(883,539)	-
Principal payments on bonds and notes	(1,140,840)	(169,977)	(31,597)	(100,000)	-	(1,442,414)	-
Interest expense paid	(285,801)	(24,674)	(405)	(1,994)	-	(312,874)	-
Net Cash (Used For) Capital and Related Financing Activities	(1,146,632)	(1,027,745)	(39,094)	(133,809)	-	(2,347,280)	-
<b>Cash Flows From Investing Activities:</b>							
Sale of investments	-	-	-	-	-	-	913,936
Net Cash Provided by Investing Activities	-	-	-	-	-	-	913,936
Net Change in Cash and Short-Term Investments	306,913	(361,808)	(74,904)	(31,186)	(37,916)	(198,901)	(77,453)
Cash and Short Term Investments, Beginning of Year	1,573,107	6,285,465	143,710	311,653	256,961	8,570,896	77,453
Cash and Short Term Investments, End of Year	\$ 1,880,020	\$ 5,923,657	\$ 68,806	\$ 280,467	\$ 219,045	\$ 8,371,995	\$ -
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</b>							
Operating income (loss)	\$ 836,854	\$ 282,125	\$ (88,390)	\$ (53,879)	\$ (33,410)	\$ 943,300	\$ (2,757,953)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:							
Depreciation	626,357	404,941	22,600	130,294	-	1,184,192	-
Changes in assets and liabilities:							
User fee receivables	(22,588)	(118,279)	-	(5,612)	-	(146,479)	-
Prepaid expenses	-	-	-	-	-	-	(668,100)
Warrants and other payables	22,989	75,336	(4,521)	2,261	5,077	101,142	88,872
Accrued / other liabilities	(2,602)	(1,884)	(10,392)	(2,028)	(8,920)	(25,826)	295,932
Compensated absences	-	-	22,543	-	-	22,543	-
Net OPEB obligations	(5,013)	25,515	26,185	32,764	-	79,451	-
Net pension liability, net of deferrals	(2,452)	(1,817)	(3,835)	(1,177)	(663)	(9,944)	-
Net Cash Provided By Operating Activities	\$ 1,453,545	\$ 665,937	\$ (35,810)	\$ 102,623	\$ (37,916)	\$ 2,148,379	\$ (3,041,249)

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

CITY OF GARDNER, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2015

	Private Purpose <u>Trust Funds</u>	Agency <u>Funds</u>	Pension Trust Fund (As of <u>December 31, 2014</u> )
<b><u>ASSETS</u></b>			
Cash and short-term investments	\$ -	\$ 724,372	\$ 78,839
Investments	1,198,702	-	46,951,688
Accounts receivable	<u>-</u>	<u>-</u>	<u>278,514</u>
Total Assets	1,198,702	724,372	47,309,041
<b><u>LIABILITIES AND NET POSITION</u></b>			
Warrants payable	-	37,254	-
Accounts payable	-	-	223,252
Deposits held in custody	-	651,771	-
Other liabilities	<u>-</u>	<u>35,347</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>724,372</u>	<u>223,252</u>
<b><u>NET POSITION</u></b>			
Total net position held in trust for pension benefits and other purposes	\$ <u>1,198,702</u>	\$ <u>-</u>	\$ <u>47,085,789</u>

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

CITY OF GARDNER, MASSACHUSETTS  
 FIDUCIARY FUNDS  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>Private Purpose Trust Funds</u>	<u>Pension Trust Fund (For Year Ended December 31, 2014)</u>
<b>Additions:</b>		
Contributions:		
Employers	\$ -	\$ 3,241,274
Other systems and Commonwealth of Massachusetts	-	31,490
Plan members	-	1,215,224
Contributions	<u>19,025</u>	<u>67,376</u>
Total contributions	19,025	4,555,364
Investment Income:		
Interest and dividends	12,669	1,297,269
Gain on sale of investments	-	2,051,335
Increase in fair value of investments	-	202,834
Less: Management fees	<u>-</u>	<u>(244,084)</u>
Net investment income	<u>12,669</u>	<u>3,307,354</u>
Total additions	31,694	7,862,718
<b>Deductions:</b>		
Benefit payments to plan members and beneficiaries	-	5,304,497
Refunds to plan members and other systems	-	229,097
Administrative expenses	-	125,125
Education expenses	<u>24,116</u>	<u>-</u>
Total deductions	<u>24,116</u>	<u>5,658,719</u>
Net increase	7,578	2,203,999
<b>Net assets:</b>		
Beginning of year	<u>1,191,124</u>	<u>44,881,790</u>
End of year	<u>\$ 1,198,702</u>	<u>\$ 47,085,789</u>

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

## City of Gardner, Massachusetts

### Notes to Financial Statements

#### 1. Summary of Significant Accounting Policies

The accounting policies of the City of Gardner (the City) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

##### A. Reporting Entity

The government is a municipal corporation governed by an elected City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2015, it was determined that the following entities met the required GASB-39 criteria of component units:

Discretely Presented Component Unit - Levi Heywood Library Association (the Association):

The Association is a Massachusetts corporation that is exempt from Federal income taxes under Section 501 (c)(3) of the Internal Revenue Code. The mission of the Association is to provide library services to the citizens of Gardner and neighboring cities.

The Association's staff is employed by the City and this support accounts for over 90% of the Association's operating revenue. Due to the significance of the City's support to the Association's operations, it has been determined to be a component unit of the City.

The Association was audited by other auditors. Additional financial information can be obtained by contacting the Association located at 55 West Lynde Street, Gardner, MA 01440

Blended Component Units - Blended component units are entities that are legally separate, but are so related that they are, in substance, the same as the primary government, providing services entirely or almost entirely for the benefit of the primary government. The following component unit is blended within the primary government and is audited by other auditors:

In the Fiduciary Funds: The Gardner Contributory Retirement System, which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the

accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

The System was audited by other auditors. Additional financial information of the System can be obtained by contacting the System located at Gardner Retirement Board, 95 Pleasant St. #17, Gardner, MA 01440.

**B. Government-Wide and Fund Financial Statements**

**Government-Wide Financial Statements**

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

**Fund Financial Statements**

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

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

**Government-Wide Financial Statements**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*,

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

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

#### Fund Financial Statements

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

The City reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *City Capital Project Fund* is used to account for long-term capital projects on City property, usually funded by bonds and grants.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital

assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The government reports the following major proprietary funds:

- Water fund
- Sewer fund
- Golf fund
- Solid Waste fund
- Landfill fund

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

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

The private-purpose trust fund is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The agency funds account for fiduciary assets held by the City in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

#### *D. Cash and Short-Term Investments*

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

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

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

*E. Investments*

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

Investments of City funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

*F. Property Tax Limitations*

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2015 tax levy reflected an excess capacity of \$1,209.

*G. Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Land improvements	40
Infrastructure	30 - 50
Machinery and equipment	5 - 10
Office equipment and furniture	5 - 10
Vehicles	5

#### *H. Compensated Absences*

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick, personal pay and vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

#### *I. Long-Term Obligations*

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

#### *J. Fund Equity*

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

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

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

- 1) Nonspendable funds are either unspendable in the current form (i.e. inventory or prepaid items) or can never be spent (i.e. perpetual care).

- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., City Council).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

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

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

#### K. Use of Estimates

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

## 2. Stewardship, Compliance and Accountability

### A. Budgetary Information

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget,

as enacted by the City Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at City Council meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the City Council is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the 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.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

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

*B. Budgetary Basis*

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

*C. Budget/GAAP Reconciliation*

The budgetary data for the general fund 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.

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 51,411,814	\$ 50,842,536
Other financing sources/uses (GAAP basis)	241,744	540,011
Reverse the effect of including Stabilization Fund and General Fund activity	28,321	78,441
Adjust tax revenue to accrual basis	32,046	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(1,978,884)
Add end of year appropriation carryforwards to expenditures	-	1,563,651
Recognize fund balance as funding source	<u>1,565,032</u>	<u>-</u>
Budgetary basis	<u>\$ 53,278,957</u>	<u>\$ 51,045,755</u>

#### D. Deficit Fund Equity

The following funds had deficits as of June 30, 2015:

Non Major Funds:	
Chapter 90	\$ (33,839)
School Capital Project fund	(784,345)
Spray Park fund	(63,857)
Internal Service Fund	(17,334)

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

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

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. Massachusetts general law Chapter 44, section 55, limits the City's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The City's policy to limit custodial credit risk consists of complying with applicable Massachusetts General Laws and obtaining collateralization agreements for any amounts in excess of FDIC or DIFM.

As of June 30, 2015, none of the City's bank balance of \$18,672,545 was exposed to custodial credit risk as uninsured, uncollateralized money market

funds held by pledging bank's trust department not in the City's name. The City's total bank balance includes \$1,241,262 of overnight repurchase agreements that are secured by an underlying interest in the purchased securities, all of which are direct obligations of or guaranteed by the U.S. Government.

As of December 31, 2014, the System's bank balance was fully insured under Federal Deposit Insurance Corporation (FDIC).

#### 4. Investments

##### A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55 limits the City's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below is the actual rating as of June 30, 2015 for each investment of the City:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>			
			<u>AAA</u>	<u>A1</u>	<u>A3</u>	<u>BBB+</u>
Certificates of deposit	\$ 1,900,507	\$ 1,900,507	\$ -	\$ -	\$ -	\$ -
Corporate bonds	1,134,419	-	-	152,930	249,530	731,959
Equities	754,256	754,256	-	-	-	-
Mutual funds	716,462	716,462	-	-	-	-
US Treasury notes	<u>2,860,594</u>	<u>-</u>	<u>2,860,594</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 7,366,238</u>	<u>\$ 3,371,225</u>	<u>\$ 2,860,594</u>	<u>\$ 152,930</u>	<u>\$ 249,530</u>	<u>\$ 731,959</u>

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

All of the System's investments as of December 31, 2014 are in PRIT\* which is not subject to credit risk disclosure:

\* Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension

Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.

*B. Custodial Credit Risk*

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

Of the total City investments of \$7,366,238, the City has a custodial credit risk exposure of \$5,018,879 because the related securities are uninsured, unregistered and/or held by the City's brokerage firm (which is also the Counterparty to these securities) but are not in the City's name. The City manages this custodial credit risk with SIPC and excess SIPC.

All of the System's investments are in the state pension investment trust fund, which is not exposed to custodial credit risk.

*C. Concentration of Credit Risk*

The City places no limit on the amount the City may invest in any one issuer. The City does not have an investment in any one issuer (other than U.S. Treasury securities and mutual funds) greater than 5% of total investments.

The System does not have an investment in one issuer (other than PRIT) greater than 5% of total investments.

*D. Interest Rate Risk*

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

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>			
	<u>Fair Value</u>	<u>N/A</u>	<u>Less Than 1</u>	<u>1-5</u>
Certificates of deposit	\$ 1,900,507	\$ -	\$ 1,112,531	\$ 787,976
Corporate bonds	1,134,419	-	151,886	982,533
Equities	754,256	754,256	-	-
Mutual funds	716,462	716,462	-	-
US Treasury notes	<u>2,860,594</u>	<u>-</u>	<u>607,508</u>	<u>2,253,086</u>
Total investments	<u>\$ 7,366,238</u>	<u>\$ 1,470,718</u>	<u>\$ 1,871,925</u>	<u>\$ 4,023,595</u>

None of the System's investments are subject to market interest rate fluctuations.

*E. Foreign Currency Risk*

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City and System do not have policies for foreign currency risk; however, Massachusetts General Laws prohibit foreign investment.

**5. Taxes Receivable**

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

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The City has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2015 consist of the following:

Real Estate		
2015	\$ 746,156	
2014 & prior	<u>294,645</u>	1,040,801
Personal Property		
2015	18,982	
2014	11,691	
2013	10,764	
Prior	<u>15,388</u>	56,825
Deferred Taxes		<u>1,267</u>
Total		<u>\$ 1,098,893</u>

## 6. Allowance for Doubtful Accounts

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

	<u>Governmental</u>
Property taxes	\$ 51,182
Tax title	173,334
Excises	370,678

## 7. Intergovernmental Receivables

The balance reported in the accompanying governmental funds balance sheet represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2015 and are expected to be reimbursed in fiscal year 2016.

The balance reported in the governmental activities statement of net position includes an additional amount (\$2,423,973) that represents future school building project cost reimbursements. This receivable will be paid to the City by the Massachusetts School Building Authority in annual installments of approximately \$808,000 through fiscal year 2018.

## 8. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Convert CIP</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>					
Capital assets, being depreciated:					
Buildings and improvements	\$ 31,015,390	\$ -	\$ -	\$ 4,387,640	\$ 35,403,030
Machinery, equipment, and furnishings	10,072,785	136,519	(45,381)	-	10,163,923
Infrastructure	21,294,741	1,256,352	-	-	22,551,093
Total capital assets, being depreciated	62,382,916	1,392,871	(45,381)	4,387,640	68,118,046
Less accumulated depreciation for:					
Buildings and improvements	(18,541,787)	(1,086,973)	-	-	(19,628,760)
Machinery, equipment, and furnishings	(8,021,052)	(493,075)	40,493	-	(8,473,634)
Infrastructure	(12,482,653)	(906,017)	-	-	(13,388,670)
Total accumulated depreciation	(39,045,492)	(2,486,065)	40,493	-	(41,491,064)
Total capital assets, being depreciated, net	23,337,424	(1,093,194)	(4,888)	4,387,640	26,626,982
Capital assets, not being depreciated:					
Land	3,947,580	60,316	(29,721)	-	3,978,175
Construction in progress (CIP)	9,767,766	7,939,096	-	(4,387,640)	13,319,222
Total capital assets, not being depreciated	13,715,346	7,999,412	(29,721)	(4,387,640)	17,297,397
Governmental activities capital assets, net	\$ <u>37,052,770</u>	\$ <u>6,906,218</u>	\$ <u>(34,609)</u>	\$ <u>-</u>	\$ <u>43,924,379</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 21,077,118	\$ -	\$ -	\$ 21,077,118
Machinery, equipment, and furnishings	2,798,530	83,150	-	2,881,680
Infrastructure	17,739,018	-	-	17,739,018
Total capital assets, being depreciated	41,614,666	83,150	-	41,697,816
Less accumulated depreciation for:				
Buildings and improvements	(9,087,451)	(513,484)	-	(9,600,935)
Machinery, equipment, and furnishings	(2,390,969)	(211,646)	-	(2,602,615)
Infrastructure	(12,236,751)	(459,062)	-	(12,695,813)
Total accumulated depreciation	(23,715,171)	(1,184,192)	-	(24,899,363)
Total capital assets, being depreciated, net	17,899,495	(1,101,042)	-	16,798,453
Capital assets, not being depreciated:				
Land	1,011,422	-	-	1,011,422
Construction in progress (CIP)	-	800,389	-	800,389
Total capital assets, not being depreciated	1,011,422	800,389	-	1,811,811
Business-type activities capital assets, net	\$ <u>18,910,917</u>	\$ <u>(300,653)</u>	\$ <u>-</u>	\$ <u>18,610,264</u>

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

Governmental Activities:	
General government	\$ 85,181
Public safety	278,083
Education	935,485
Public works	998,041
Human services	78,649
Culture and recreation	<u>110,626</u>
Total depreciation expense - governmental activities	<u>\$ 2,486,065</u>
Business-Type Activities:	
Water	\$ 626,357
Sewer	404,941
Golf	22,600
Solid Waste	<u>130,294</u>
Total depreciation expense - business-type activities	<u>\$ 1,184,192</u>

## 9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net assets by the City that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

The following is a summary of deferred outflow of resources balances as of June 30, 2015:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net difference between projected and actual investment earnings on pension plan investments	\$ <u>172,782</u>	\$ <u>10,410</u>
Total deferred outflows of resources	<u>\$ 172,782</u>	<u>\$ 10,410</u>

## 10. Warrants and Accounts Payable

Warrants payable represent 2015 expenditures paid by July 15, 2015 as permitted by law. Accounts payable represent additional 2015 expenditures paid after July 15, 2015.

## 11. Notes Payable

The City had the following notes outstanding at June 30, 2015:

	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2015</u>
Bond anticipation	0.74	05/01/15	04/29/16	\$ 793,400
				<u>\$ 793,400</u>

The following summarizes activity in notes payable during fiscal year 2015:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ 1,000,000	\$ 793,400	\$ (1,000,000)	\$ 793,400

## 12. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the City that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

On the fund basis financial statements the deferred inflow of resources balance as of June 30, 2015 consists of unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The balance of the general fund deferred inflows account is equal to the total of all June 30, 2015 receivable balances, less property tax collected within 60 days of year-end.

## 13. Long-Term Debt

### A. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. A summary of the long-term debt outstanding as of June 30, 2015 follows:

	Serial Maturities Through	Interest Rate(s) %	Loan Balance Outstanding June 30, 2015	Bond Premium Amortization	Total Balance Outstanding June 30, 2015
<u>Governmental Activities:</u>					
School Remodeling	04/01/16	2.0-4.0	\$ 180,000	\$ -	\$ 180,000
Middle School Roof	11/01/17	3.0-5.0	2,237,170	148,135	2,385,305
Police Station	03/01/34	3.0-5.0	11,600,000	500,201	12,100,201
Total Governmental Activities			<u>\$ 14,017,170</u>	<u>\$ 648,336</u>	<u>\$ 14,665,506</u>
<u>Business-Type Activities:</u>					
<u>Water Fund:</u>					
General obligation 2005 - water portion	11/01/17	3.0-5.0	\$ 157,860	\$ 24,113	\$ 181,973
Water treatment (MWPAT 99-16)	08/01/19	2.0	2,764,419	-	2,764,419
Water treatment (MWPAT 00-16A)	08/01/19	2.0	180	-	180
General obligation 2012 - water portion	04/01/22	2.0	2,150,000	16,473	2,166,473
Water treatment (MWPAT 03-10)	08/01/24	2.0	1,824,986	111,419	1,936,405
Total Water Fund			6,897,445	152,005	7,049,450
<u>Sewer Fund:</u>					
General obligation 2005 - sewer portion	11/01/17	3.0-5.0	119,970	22,207	142,177
Sewer treatment (MWPAT 03-10)	08/01/24	2.0	530,817	32,127	562,944
Total Sewer Fund			650,787	54,334	705,121
Total Business-Type Activities			<u>\$ 7,548,232</u>	<u>\$ 206,339</u>	<u>\$ 7,754,571</u>

### B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding (including bond premium amortization) as of June 30, 2015 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,444,366	\$ 552,254	\$ 1,996,620
2017	1,238,214	486,775	1,724,989
2018	1,256,703	428,813	1,685,516
2019	491,326	397,013	888,339
2020	511,326	378,413	889,739
2021 - 2025	2,946,630	1,503,063	4,449,693
2026 - 2030	3,521,630	925,044	4,446,674
2031 and thereafter	3,255,311	297,694	3,553,005
Total	<u>\$ 14,665,506</u>	<u>\$ 4,969,069</u>	<u>\$ 19,634,575</u>
<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,305,836	\$ 284,259	\$ 1,590,095
2017	1,139,144	233,259	1,372,403
2018	1,142,553	183,383	1,325,936
2019	1,119,706	139,259	1,258,965
2020	1,127,005	94,701	1,221,706
2021 - 2025	1,920,327	141,590	2,061,917
Total	<u>\$ 7,754,571</u>	<u>\$ 1,076,451</u>	<u>\$ 8,831,022</u>

**C. Changes in General Long-Term Liabilities**

During the year ended June 30, 2015, the following changes occurred in long-term liabilities:

	Total Balance July 1, 2014 (restated)	Additions	Reductions	Total Balance June 30, 2015	Less Current Portion	Long-Term Portion June 30, 2015
<b><u>Governmental Activities</u></b>						
Bonds payable	\$ 15,357,360	\$ -	\$ (1,340,190)	\$ 14,017,170	(1,368,661)	12,648,509
Unamortized bond premium	724,041	-	(75,705)	648,336	(75,705)	572,631
Other:						
Accrued employee benefits	2,014,569	156,253	-	2,170,822	-	2,170,822
Other post-employment benefits	35,443,095	4,417,446	-	39,860,541	-	39,860,541
Net pension liability	32,575,227	7,746	-	32,582,973	-	32,582,973
Totals	\$ 86,114,292	\$ 4,581,445	\$ (1,415,895)	\$ 89,279,842	\$ (1,444,366)	\$ 87,835,476
<b><u>Business-Type Activities</u></b>						
Bonds payable	\$ 8,826,902	\$ -	\$ (1,278,670)	\$ 7,548,232	\$ (1,273,689)	\$ 6,274,543
Unamortized bond premium	238,486	-	(32,147)	206,339	(32,147)	174,192
Other:						
Landfill postclosure, as restated	187,000	-	(8,500)	178,500	(8,500)	170,000
Accrued employee benefits	28,557	22,543	-	51,100	-	51,100
Other post-employment benefits	871,701	79,451	-	951,152	-	951,152
Net pension liability	1,962,729	466	-	1,963,195	-	1,963,195
Totals	\$ 12,115,375	\$ 102,460	\$ (1,319,317)	\$ 10,898,518	\$ (1,314,336)	\$ 9,584,182

**D. Unamortized Bond Premium**

This balance represents the unamortized bond premium received in connection with several bond issuances. The balance will be amortized as a credit to annual interest expense until the last related bond is retired in fiscal year 2034.

**14. Landfill Closure and Postclosure Care Costs**

State and Federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as a liability in the proprietary fund in each period based on landfill capacity used as of each balance sheet date.

The City stopped accepting waste and closed the landfill in 2006. The \$178,500 reported as landfill post-closure care liability at June 30, 2015 rep-

resents post-closure care costs estimated to be \$8,500 per year for the next 21 years. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The City's Landfill Enterprise Fund is expected to fund the future monitoring costs.

**15. Transfers In/Out**

The City's routine transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the general fund to other funds based on budgetary authorization, and (2) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them.

The City reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2015:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 241,744	\$ 540,011
City Capital Project fund	465,008	-
Nonmajor Governmental Funds:		
Special revenue funds	-	241,744
Capital project funds	75,003	-
Total	<u>\$ 781,755</u>	<u>\$ 781,755</u>

**16. Restricted Net Position**

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

Permanent fund restricted net position is segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings when are available to be spent based on donor restrictions.

**17. Governmental Funds – Balances**

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

The City implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2015:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes capital projects funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing special article appropriations approved by City Council.

Assigned - Represents amounts that are constrained by the City's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various City departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned - Represents amounts that are available to be spent in future periods and deficit balances in non-general fund accounts.

Following is a breakdown of the City's fund balances at June 30, 2015:

	General Fund	City Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 2,346,155	\$ 2,346,155
Total Nonexpendable	-	-	2,346,155	2,346,155
Restricted				
Bonded projects	-	16,143	73,496	89,639
Special revenue funds	-	-	4,052,158	4,052,158
Expendable permanent funds	-	-	94,389	94,389
Total Restricted	-	16,143	4,220,043	4,236,186
Committed				
Special articles	247,530	-	-	247,530
Total Committed	247,530	-	-	247,530
Assigned				
Encumbrances	1,316,121	-	-	1,316,121
Total Assigned	1,316,121	-	-	1,316,121
Unassigned				
General fund	2,780,229	-	-	2,780,229
Stabilization fund	2,170,974	-	-	2,170,974
Deficit fund balances	-	-	(882,041)	(882,041)
Total Unassigned	4,951,203	-	(882,041)	4,069,162
Total Fund Balance	\$ 6,514,854	\$ 16,143	\$ 5,684,157	\$ 12,215,154

## 18. Commitments and Contingencies

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

## 19. Post-Employment Health Care and Life Insurance Benefits

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

*A. Plan Description*

In addition to providing the pension benefits described in the following footnote, the City provides post-employment health care and life insurance benefits for retired employees through the City's insurance plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of January 1, 2014, the actuarial valuation date, approximately 542 retirees and 478 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

*B. Benefits Provided*

The City provides medical and life insurance to retirees and their covered dependents. All active employees who retire from the City and meet the eligibility criteria will receive these benefits.

*C. Funding Policy*

Retirees contribute 25% of the cost of the health plan (50% for surviving spouses), as determined by the City. The City contributes the remainder of the health plan costs on a pay-as-you-go basis.

*D. Annual OPEB Costs and Net OPEB Obligation*

The City's fiscal 2015 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over an initial period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2015, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of January 1, 2014.

	Governmental Funds	Water Fund	Sewer Fund	Golf Fund	Solid Waste Fund	Total
Annual Required Contribution (ARC)	\$ 6,662,850	\$ 9,526	\$ 30,803	\$ 62,298	\$ 32,523	\$ 6,798,000
Interest on net OPEB obligation	1,417,725	5,748	8,594	17,966	2,559	1,452,592
Adjustment to ARC	<u>(1,272,185)</u>	<u>(5,158)</u>	<u>(7,712)</u>	<u>(16,122)</u>	<u>(2,297)</u>	<u>(1,303,474)</u>
Annual OPEB cost	6,808,390	10,116	31,685	64,142	32,785	6,947,118
Contributions made	<u>(2,390,944)</u>	<u>(15,129)</u>	<u>(6,170)</u>	<u>(37,957)</u>	<u>(21)</u>	<u>(2,450,221)</u>
Change in net OPEB obligation	4,417,446	(5,013)	25,515	26,185	32,764	4,496,897
Net OPEB obligation - beginning of year	<u>35,443,095</u>	<u>143,701</u>	<u>214,853</u>	<u>449,161</u>	<u>63,986</u>	<u>36,314,796</u>
Net OPEB obligation - end of year	<u>\$ 39,860,541</u>	<u>\$ 138,688</u>	<u>\$ 240,368</u>	<u>\$ 475,346</u>	<u>\$ 96,750</u>	<u>\$ 40,811,693</u>

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

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual OPEB</u> <u>Costs</u>	<u>Percentage of</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
2015	\$ 6,947,118	35%	\$ 40,811,693
2014	\$ 8,973,744	34%	\$ 36,314,795
2013	\$ 8,551,467	34%	\$ 30,364,318

The City's net OPEB obligation as of June 30, 2015 is recorded as a component of the "other long-term liabilities" line item reported in the accompanying government wide financial statements.

*E. Funded Status and Funding Progress*

The funded status of the plan as of January 1, 2014, the date of the most recent actuarial valuation was as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 92,438
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 92,438</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>22,984</u>
UAAL as a percentage of covered payroll	<u>402%</u>

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

*F. Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the plan as understood by the City and the plan members and include the

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

In the January 1, 2014 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advance funded its obligation. The actuarial assumptions included a 4% interest/discount rate and an annual healthcare cost trend rate of 8% in year 1, decreasing to a 5% long-term rate in year 5. The UAAL is amortized over a period of 30 years, on a closed basis and using a level percent of payroll (using a 3.50% annual rate of increase).

## **20. Gardner Contributory Retirement System**

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

### **A. Plan Description**

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

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

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

Membership of each plan consisted of the following at January 1, 2014:

Retirees and beneficiaries receiving benefits	241
Terminated plan members entitled to but not yet receiving benefits	41
Active plan members	<u>261</u>
Total	<u>543</u>
Number of participating employers	2

*B. Benefits Provided*

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 10 years of creditable service. A retirement allowance may be received upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the City payroll on January 1, 1978, (3) voluntarily left City employment on or after that date, and (4) left accumulated annuity deductions in the fund. A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement.

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 zero, fifty, or one hundred percent of the regular interest which has accrued upon those deductions. However, effective July 1, 2010, members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3% and do not forfeit any interest previously earned on contributions.

C. Contributions

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

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

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

The City's contribution to the System for the year ended June 30, 2015 was \$3,104,816, which was (materially) equal to its annual required contribution.

D. Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2014 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

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

Investments

*Investment Policy*

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

### *Rate of Return*

For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 7.43%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### Net Pension Liability

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

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

The components of the net pension liability of the participating employers at December 31, 2014 were as follows (in thousands):

### Net Pension Liability of Employers

Total pension liability	\$	83,150
Plan fiduciary net position		<u>47,086</u>
Employers' net pension liability	\$	<u>36,064</u>
Plan fiduciary net position as a percentage of total pension liability		56.6%

### Actuarial Assumptions

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

Valuation Date	January 1, 2014 rolled forward to December 31, 2014
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	3.25 - 17.0%
Inflation rate	Not explicitly stated
Post-retirement cost-of-living adjustment	3% of first \$13,000

Actuarial valuation of the ongoing Systems involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the January 1, 2014 valuation were based on the results of the most recent actuarial experience study, which was for the period December 31, 2013.

Mortality rates were based on assumptions that reflect the RP-2000 Employees table projected with the generational mortality with scale BB. Disabled mortality is the healthy retiree table ages set forward 2 years.

During the fiscal year there were no changes in benefit terms or assumptions.

### Target Allocations

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Core Bonds	13.00%	0.97%
Value-Added Bonds	10.00%	3.80%
Large Cap Equities	14.50%	4.61%
Mid/Small Cap Equities	3.50%	4.85%
International Equities	16.00%	5.10%
Emerging Market Equities	6.00%	6.31%
Private Equity	10.00%	6.55%
Real Estate	10.00%	3.40%
Timber/Natural Resources	4.00%	3.64%
Hedge Funds	9.00%	3.64%
Cash/Portfolio Completion	4.00%	0.00%
Total	<u>100.00%</u>	
	Inflation	Not explicitly stated

Discount Rate: The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate: The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (7.00%) or 1 percentage-point higher (9.00%) than the current rate (in thousands):

Fiscal Year Ended	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
June 30, 2015	\$ 43,042	\$ 34,546	\$ 27,659

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

At June 30, 2015, the City reported a liability of \$34.5 million for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the City's proportion was 95.79 percent.

For the year ended June 30, 2015, the City recognized pension expense of \$2,887,738. In addition, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 183,192

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ 45,798
2017	45,798
2018	45,798
2019	<u>45,798</u>
Total	<u>\$ 183,192</u>

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

### A. Plan Description

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

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

*B. Benefits Provided*

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

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

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

*C. Contributions*

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

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

#### D. Actuarial Assumptions

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of January 1, 2014, rolled back to June 30, 2013. This valuation used the following assumptions:

- (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Mortality rates were as follows:
  - Pre-retirement - reflects RP-2000 Employees table adjusted for “white-collar” employment projected 22 years with Scale AA (gender distinct)
  - Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct)
  - Disability – reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) set forward 3 years for males.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund’s target asset allocation as of June 30, 2014 and 2013 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	
		<u>2014</u>	<u>2013</u>
Global equity	43.00%	7.20%	7.70%
Core fixed income	13.00%	2.50%	2.00%
Hedge funds	10.00%	5.50%	4.75%
Private equity	10.00%	8.80%	9.00%
Real estate	10.00%	6.30%	6.00%
Value added fixed income	10.00%	6.30%	6.30%
Timber/natural resources	4.00%	5.00%	5.00%
Total	100.0%		

**E. Discount Rate**

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**F. Sensitivity Analysis**

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

<u>Fiscal Year Ended</u>	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
June 30, 2013	\$ 21,427,000	\$ 17,234,000	\$ 13,672,000
June 30, 2014	20,247,000	15,896,000	12,200,000

**G. Special Funding Situation**

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) and the Commonwealth is a nonemployer contributing entity in MTRS. Since the em-

employers do not contribute directly to MTRS, there is not net pension liability to recognize for each employer.

*H. City Proportions*

In fiscal year 2014 (the most recent measurement period), the City's proportionate share of the MTRS' collective net pension liability and pension expense was \$37,761,081 and \$2,623,444 respectively, based on a proportionate share of 0.2376%. As required by GASB 68, the City has recorded its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities.

**22. Self Insurance**

The City self-insures against claims for most employee health coverage. Annual estimated requirements for claims are provided in the City's annual operating budget.

The City's insurance plans are retrospectively rated policies. In other words, the City contributes a level monthly premium which is adjusted quarterly for actual claims paid.

The City contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the City is liable for up to \$120,000 per incident. The City has no maximum aggregate liability for all claims paid within one year. The claims liability represents an estimate of claims incurred but unpaid at year end, based on past historical costs and claims paid subsequent to year end.

Changes in the aggregate liability for claims for the year ended June 30, 2015 are as follows:

Claims liability, July 1, 2014	\$ 1,407,003
Claims incurred/recognized in fiscal year 2015	11,968,299
Claims paid in fiscal year 2015	<u>(12,007,827)</u>
Claims liability, June 30, 2015	<u>\$ 1,367,475</u>

The claims liability at year end was comprised of the following:

Settlement for claims incurred in 4th quarter of fiscal year 2015 (over/(under) the level monthly premium contributions) and adjusted for in fiscal year 2016	\$ 618,077
Estimated incurred but not reported claims	<u>749,398</u>
Total claims liability	<u>\$ 1,367,475</u>

### 23. Beginning Fund Balance Reclassification

The City's major governmental funds for the fiscal year 2015, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 06/30/14 (as previously reported)	Reclassification	Fund Equity 06/30/15 (as reclassified)
School Capital Project fund - major fund	\$ (676,477)	\$ 676,477	\$ -
Nonmajor funds	<u>4,749,887</u>	<u>(676,477)</u>	<u>4,073,410</u>
Total	<u>\$ 4,073,410</u>	<u>\$ -</u>	<u>\$ 4,073,410</u>

### 24. Beginning Net Position Restatement

The beginning (July 1, 2014) net position of the City has been restated as follows:

	Governmental Activities	Business-Type Activities					Total Business-Type Activities
		Water Fund	Sewer Fund	Golf Fund	Solid Waste Fund	Landfill Fund	
<u>Government Wide</u>							
<u>Financial Statements:</u>							
Net position 06/30/14 as previously reported	\$ 7,005,292	\$ 8,680,603	\$ 9,627,327	\$ 177,763	\$ 630,632	\$ (81,006)	\$ 19,035,319
Record net pension liability in accordance with GASB 68	(32,575,227)	(483,999)	(358,628)	(756,954)	(232,249)	(130,899)	(1,962,729)
Adjust for change in landfill liability estimate	-	-	-	-	-	143,000	143,000
As restated	<u>\$ (25,569,935)</u>	<u>\$ 8,196,604</u>	<u>\$ 9,268,699</u>	<u>\$ (579,191)</u>	<u>\$ 398,383</u>	<u>\$ (68,905)</u>	<u>\$ 17,215,590</u>

### 25. Risk Management

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

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

June 30, 2015

(Unaudited)

(Amounts expressed in thousands)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/14	\$ -	\$ 92,438	\$ 92,438	0.0%	\$ 22,984	402.2%
07/01/12	\$ -	\$ 102,387	\$ 102,387	0.0%	\$ 23,484	436.0%
07/01/10	\$ -	\$ 106,300	\$ 106,300	0.0%	\$ 21,476	495.0%

See Independent Auditors' Report.

CITY OF GARDNER, MASSACHUSETTS  
 SCHEDULE OF PROPORTIONATE SHARE  
 OF THE NET PENSION LIABILITY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (Unaudited)  
 (Amounts expressed in thousands)

<u>Gardner Contributory Retirement System:</u>	<u>2015</u>
Proportion of the net pension liability for the most recent measurement date	95.79%
Proportionate share of the net pension liability for the most recent measurement date	\$ 34,546
Covered-employee payroll for the most recent measurement date	\$ 10,465
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	330.1%
Plan fiduciary net position as a percentage of the total pension liability	56.6%
<u>Massachusetts Teachers' Retirement System:</u>	
Proportion of the net pension liability for the most recent measurement date	0.2376%
The City's proportionate share of the net pension liability for the most recent measurement date	\$ -
Commonwealth of Massachusetts' total proportionate share of the net pension liability that is associated with the City	<u>37,761</u>
Total net pension liability associated with the City	\$ 37,761
Covered-employee payroll for the most recent measurement date	\$ 14,568
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	256.60%
Plan fiduciary net position as a percentage of the total pension liability	61.64%

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

See Independent Auditors' Report.

CITY OF GARDNER, MASSACHUSETTS  
 SCHEDULE OF CONTRIBUTIONS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2015  
 (Unaudited)  
 (Amounts expressed in thousands)

<u>Gardner Contributory Retirement System:</u>	<u>2015</u>
Contractually required contribution for the current fiscal year	\$ 3,105
Contributions in relation to the contractually required contribution	<u>(3,136)</u>
Contribution deficiency (excess)	<u>\$ (31)</u>
Covered-employee payroll for the current fiscal year	\$ 10,815
Contributions as a percentage of covered-employee payroll	29.00%

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

See Independent Auditors' Report.

CITY OF GARDNER, MASSACHUSETTS  
CONTRIBUTORY RETIREMENT SYSTEM

Schedule of Changes in the Net Pension Liability

(Unaudited)

(Amounts expressed in thousands)

	<u>2015</u>
<b>Total pension liability</b>	
Service cost	\$ 1,241
Interest on unfunded liability - time value of \$	6,362
Benefit payments, including refunds of member contributions	<u>(5,466)</u>
Net change in total pension liability	2,137
Total pension liability - beginning	<u>81,013</u>
<b>Total pension liability - ending (a)</b>	<b><u>\$ 83,150</u></b>
<b>Plan fiduciary net position *</b>	
Contributions - employer	\$ 3,273
Contributions - member	1,215
Net investment income	3,307
Benefit payments, including refunds of member contributions	(5,466)
Administrative expense	<u>(125)</u>
Net change in plan fiduciary net position	2,204
Plan fiduciary net position - beginning	<u>44,882</u>
<b>Plan fiduciary net position - ending (b)</b>	<b><u>\$ 47,086</u></b>
<b>Net pension liability (asset) - ending (a-b)</b>	<b><u>\$ 36,064</u></b>

\* Reflects certain rounding and immaterial classification differences from page 23.

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

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

See Independent Auditors' Report.

CITY OF GARDNER, MASSACHUSETTS  
CONTRIBUTORY RETIREMENT SYSTEM

Schedules of Net Pension Liability, Contributions, and Investment Returns

(Unaudited)

(Amounts expressed in thousands)

**Schedule of Net Pension Liability**

	<u>2015</u>
Total pension liability	\$ 83,150
Plan fiduciary net position	<u>47,086</u>
Net pension liability (asset)	<u>\$ 36,064</u>
Plan fiduciary net position as a percentage of the total pension liability	56.6%
Covered employee payroll	\$ 10,936
Participating employer net pension liability (asset) as a percentage of covered employee payroll	329.8%

**Schedule of Contributions**

	<u>2015</u>
Actuarially determined contribution	\$ 3,241
Contributions in relation to the actuarially determined contribution	<u>3,271</u>
Contribution deficiency (excess)	<u>\$ (30)</u>
Covered employee payroll	\$ 11,126
Contributions as a percentage of covered employee payroll	29.4%

**Schedule of Investment Returns**

*Year Ended December 31*

	<u>2014</u>
Annual money weighted rate of return, net of investment expense	7.43%

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

See Independent Auditors' Report.