

**CITY OF GARDNER, MASSACHUSETTS**

Annual Financial Statements

For the Year Ended June 30, 2016

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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, 2016, 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.

### **Auditors' 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, 2015), which represents 83%, 86%, and 40%, 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Schedule of OPEB Funding Progress,

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Melanson Heath".

March 30, 2017

## **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, 2016.

### **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, liabilities, and deferred outflows/inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The statement of activities presents information showing how the 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 \$(11,281,667) (i.e., net position), a change of \$527,001 in comparison to the (restated) prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$11,185,814, a change of \$985,488 in comparison with the (restated) prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,389,617, a change of \$438,414 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 \$19,669,875, a change of \$(2,750,202) 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 \$2,353,193, which represents an increase of \$182,219 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>    |                   |
|--|--------------------------------|-------------------|---------------------------------|-------------------|-----------------|-------------------|
|  | 2015                           |                   | 2015                            |                   | 2015            |                   |
|  | <u>2016</u>                    | <u>(Restated)</u> | <u>2016</u>                     | <u>(Restated)</u> | <u>2016</u>     | <u>(Restated)</u> |
| Current and other assets               | \$ 20,160,576                  | \$ 19,783,050     | \$ 11,139,240                   | \$ 11,023,168     | \$ 31,299,816   | \$ 30,806,218     |
| Capital assets                         | 45,255,553                     | 43,924,379        | 18,723,882                      | 18,610,264        | 63,979,435      | 62,534,643        |
| Deferred outflows                      | 3,403,289                      | 172,782           | 217,138                         | 10,410            | 3,620,427       | 183,192           |
| Total assets and deferred outflows     | 68,819,418                     | 63,880,211        | 30,080,260                      | 29,643,842        | 98,899,678      | 93,524,053        |
| Long-term liabilities outstanding      | 95,946,807                     | 89,279,842        | 10,089,427                      | 10,978,182        | 106,036,234     | 100,258,024       |
| Other liabilities                      | 3,364,814                      | 4,466,936         | 572,665                         | 607,761           | 3,937,479       | 5,074,697         |
| Deferred inflows                       | 195,179                        | -                 | 12,453                          | -                 | 207,632         | -                 |
| Total liabilities and deferred inflows | 99,506,800                     | 93,746,778        | 10,674,545                      | 11,585,943        | 110,181,345     | 105,332,721       |
| Net position:                          |                                |                   |                                 |                   |                 |                   |
| Invested in capital assets, net        | 33,406,410                     | 30,954,301        | 12,120,768                      | 10,933,461        | 45,527,178      | 41,887,762        |
| Restricted                             | 4,244,714                      | 6,428,845         | -                               | -                 | 4,244,714       | 6,428,845         |
| Unrestricted                           | (68,338,506)                   | (67,249,713)      | 7,284,947                       | 7,124,438         | (61,053,559)    | (60,125,275)      |
| Total net position                     | \$ (30,687,382)                | \$ (29,866,567)   | \$ 19,405,715                   | \$ 18,057,899     | \$ (11,281,667) | \$ (11,808,668)   |

## CHANGES IN NET POSITION

|  | <u>Governmental</u>    |                                  | <u>Business-Type</u> |                                  | <u>Total</u>           |                                  |
|--|------------------------|----------------------------------|----------------------|----------------------------------|------------------------|----------------------------------|
|  | <u>Activities</u>      |                                  | <u>Activities</u>    |                                  |                        |                                  |
|  | <u>2016</u>            | <u>2015</u><br><u>(Restated)</u> | <u>2016</u>          | <u>2015</u><br><u>(Restated)</u> | <u>2016</u>            | <u>2015</u><br><u>(Restated)</u> |
| <b>Revenues:</b>   |                        |                                  |                      |                                  |                        |                                  |
| Program revenues:  |                        |                                  |                      |                                  |                        |                                  |
| Charges for services   | \$ 2,023,998           | \$ 2,061,464                     | \$ 8,703,902         | \$ 8,398,704                     | \$ 10,727,900          | \$ 10,460,168                    |
| Operating grants and contributions                           | 32,309,824             | 31,004,113                       | -                    | -                                | 32,309,824             | 31,004,113                       |
| Capital grants and contributions                             | 2,705,424              | 887,113                          | 278,016              | 291,547                          | 2,983,440              | 1,178,660                        |
| General revenues:  |                        |                                  |                      |                                  |                        |                                  |
| Property taxes   | 23,448,682             | 22,395,565                       | -                    | -                                | 23,448,682             | 22,395,565                       |
| Excises  | 2,097,043              | 1,981,045                        | -                    | -                                | 2,097,043              | 1,981,045                        |
| Penalties, interest on taxes                                 | 620,763                | 635,781                          | -                    | -                                | 620,763                | 635,781                          |
| Grants and contributions not restricted to specific programs | 4,146,524              | 3,931,240                        | -                    | -                                | 4,146,524              | 3,931,240                        |
| Investment income  | 109,188                | 72,865                           | -                    | -                                | 109,188                | 72,865                           |
| Miscellaneous  | 851,750                | 2,305,180                        | -                    | -                                | 851,750                | 2,305,180                        |
| Total revenues   | <u>68,313,196</u>      | <u>65,274,366</u>                | <u>8,981,918</u>     | <u>8,690,251</u>                 | <u>77,295,114</u>      | <u>73,964,617</u>                |
| <b>Expenses:</b>   |                        |                                  |                      |                                  |                        |                                  |
| General government   | 2,881,001              | 3,192,834                        | -                    | -                                | 2,881,001              | 3,192,834                        |
| Public safety  | 6,856,284              | 6,397,501                        | -                    | -                                | 6,856,284              | 6,397,501                        |
| Education  | 32,271,772             | 31,017,340                       | -                    | -                                | 32,271,772             | 31,017,340                       |
| Public works   | 3,508,831              | 3,976,400                        | -                    | -                                | 3,508,831              | 3,976,400                        |
| Health and human services                                    | 1,490,061              | 1,372,655                        | -                    | -                                | 1,490,061              | 1,372,655                        |
| Culture and recreation                                       | 979,972                | 1,021,900                        | -                    | -                                | 979,972                | 1,021,900                        |
| Employee benefits  | 18,754,064             | 20,728,361                       | -                    | -                                | 18,754,064             | 20,728,361                       |
| Interest   | 484,582                | 544,916                          | -                    | -                                | 484,582                | 544,916                          |
| Intergovernmental  | 1,907,444              | 1,319,091                        | -                    | -                                | 1,907,444              | 1,319,091                        |
| Water operations   | -                      | -                                | 2,932,419            | 2,840,082                        | 2,932,419              | 2,840,082                        |
| Sewer operations   | -                      | -                                | 2,361,679            | 2,678,775                        | 2,361,679              | 2,678,775                        |
| Golf operations  | -                      | -                                | 922,193              | 751,222                          | 922,193                | 751,222                          |
| Solid waste operations                                       | -                      | -                                | 1,373,875            | 1,458,789                        | 1,373,875              | 1,458,789                        |
| Landfill operations  | -                      | -                                | 43,936               | 39,410                           | 43,936                 | 39,410                           |
| Total expenses   | <u>69,134,011</u>      | <u>69,570,998</u>                | <u>7,634,102</u>     | <u>7,768,278</u>                 | <u>76,768,113</u>      | <u>77,339,276</u>                |
| Change in net position                                       | (820,815)              | (4,296,632)                      | 1,347,816            | 921,973                          | 527,001                | (3,374,659)                      |
| Net assets - beginning of year, as restated                  | <u>(29,866,567)</u>    | <u>(25,569,935)</u>              | <u>18,057,899</u>    | <u>17,135,926</u>                | <u>(11,808,668)</u>    | <u>(8,434,009)</u>               |
| Net assets - end of year                                     | <u>\$ (30,687,382)</u> | <u>\$ (29,866,567)</u>           | <u>\$ 19,405,715</u> | <u>\$ 18,057,899</u>             | <u>\$ (11,281,667)</u> | <u>\$ (11,808,668)</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 \$(11,281,667), a change of \$527,001 from the prior year.

By far the largest portion of net position, \$45,527,178, 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, \$4,244,714, 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 \$(68,338,506) in governmental activities and a surplus of \$7,284,947 in business-type activities.

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$(820,815). Key elements of this change are as follows:

|  |                     |
|--|---------------------|
| Consolidated General fund operations   | \$ 670,231          |
| Major fund - School Capital Project fund revenues and transfers in in excess of expenditures | 283,378             |
| Other funds revenues in excess of expenditures   | 31,879              |
| Depreciation expense in excess of principal debt service                                     | (1,206,092)         |
| Internal service fund operations   | 1,133,520           |
| Capital assets purchases   | 4,210,200           |
| Capital asset dispositions   | (304,273)           |
| Current year accrual of other post-employment benefit liability                              | (4,667,540)         |
| Current year accrual of net pension liability (net of deferrals)                             | (418,420)           |
| Other  | <u>(553,698)</u>    |
| Total  | <u>\$ (820,815)</u> |

**Business-Type Activities.** Business-type activities for the year resulted in a change in net position of \$1,347,816. Key elements of this change are as follows:

|                        |                     |
|------------------------|---------------------|
| Water enterprise       | \$ 804,524          |
| Sewer enterprise       | 717,987             |
| Golf enterprise        | (180,568)           |
| Solid Waste enterprise | 49,809              |
| Landfill enterprise    | <u>(43,936)</u>     |
| Total                  | <u>\$ 1,347,816</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 \$11,185,814, a change of \$985,488 in comparison with the (restated and reclassified) prior year. Key elements of this change are as follows:

|  |                   |
|--|-------------------|
| Consolidated General fund operations   | \$ 670,231        |
| Major fund - School Capital Project fund revenues and transfers in in excess of expenditures | 283,378           |
| Other funds revenues in excess of expenditures   | <u>31,879</u>     |
| Total  | <u>\$ 985,488</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 \$5,389,617, while total fund balance was \$7,185,085. 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>6/30/16</u>   | <u>6/30/15</u>   | <u>Change</u>  | <u>% of Total 2016<br/>General Fund<br/>Expenditures</u> |
|---------------------------------|------------------|------------------|----------------|--|
| Unassigned - General fund       | \$ 3,036,424     | \$ 2,780,229     | \$ 256,195     | 5.9%   |
| Unassigned - Stabilization fund | <u>2,353,193</u> | <u>2,170,974</u> | <u>182,219</u> | <u>4.6%</u>  |
| Total Unassigned fund balance   | \$ 5,389,617     | \$ 4,951,203     | \$ 438,414     | 10.5%  |
| Total fund balance              | \$ 7,185,085     | \$ 6,514,854     | \$ 670,231     | 13.9%  |

The total fund balance of the general fund changed by \$670,231 during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:

|   |             |
|---|-------------|
| (Excess) of tax collections compared to budget      | \$ 255,455  |
| Excess of state and local revenues over budget      | 1,208,935   |
| Budgetary appropriations unspent by departments     | 914,398     |
| Use of free cash (fund balance) as a funding source | (2,139,023) |

Timing Differences:

|   |         |
|---|---------|
| Difference between prior year encumbrances spent in the current year and current year encumbrances to be spent in subsequent period | 231,817 |
|---|---------|

Other:

|  |                   |
|--|-------------------|
| Stabilization Fund interest and transfers in | 182,219           |
| Reverse effect of GAAP accruals              | (40,663)          |
| Overlay deficits raised in the current year  | 57,093            |
| Total  | <u>\$ 670,231</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 \$7,284,947, an increase of \$80,845 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 \$2,139,023. Major reasons for these amendments include:

- \$ 755,003 increase for general government appropriations.
- \$ 280,750 increase for other public works appropriations.
- \$ 396,889 increase for public safety appropriations
- \$ 4,385 increase in various other departmental appropriations.
- \$ 106,454 transfer to stabilization fund.
- \$ 595,542 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 \$63,979,435 (net of accumulated depreciation), an increase of \$1,444,792 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             | \$ (2,574,753) |
| Depreciation expense - business-type activities       | (1,159,587)    |
| Police station building (in progress)                 | 208,650        |
| Spray Park playground improvements (in progress)      | 14,224         |
| Bent Mill facility project (in progress)              | 641,787        |
| ESS School building (in progress)                     | 1,821,273      |
| Department of public works new building (in progress) | 41,709         |
| Downtown business development project (in progress)   | 195,272        |
| Purchase of two police cruisers                       | 70,495         |
| Purchase of fire vehicle                              | 45,731         |
| Purchase of DPW vehicle                               | 56,100         |
| Purchase of DPW dump truck                            | 185,168        |
| Streetscape improvements and street construction      | 900,683        |
| Land acquired through tax foreclosure                 | 19,215         |
| Sale of foreclosed land                               | (168,362)      |
| Disposal of old Police station building               | (135,911)      |
| Pump station replacement (in progress)                | 94,221         |
| Design for new sewer treatment plant (in progress)    | 671,040        |
| Purchase of two vehicles for the sewer operation      | 102,970        |
| Purchase of dump truck for the sewer operation        | 278,695        |
| Water main improvements                               | 74,593         |
| Purchase of vehicle for solid waste operation         | 28,245         |
| Purchase of golf equipment                            | 23,441         |
| Various other purchases                               | 9,893          |
|   | <hr/>          |
|   | \$ 1,444,792   |

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding, including unamortized bond premium, was \$19,669,875, 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:

Mr. Mark P. Hawke, Mayor  
Mr. 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, 2016

|  | Primary Government     |                      |                        | Component           |
|--|------------------------|----------------------|------------------------|---------------------|
|  | Governmental           | Business-Type        | Total                  | Unit                |
|  | Activities             | Activities           |                        | Levi Heywood        |
|  |                        |                      |                        | Library Association |
| <b>ASSETS</b>  |                        |                      |                        |                     |
| Current:   |                        |                      |                        |                     |
| Cash and short-term investments                            | \$ 10,688,373          | \$ 8,307,915         | \$ 18,996,288          | \$ 199,664          |
| Investments  | 3,327,022              | -                    | 3,327,022              | 946,887             |
| Receivables, net of allowance for uncollectibles:          |                        |                      |                        |                     |
| Property taxes   | 992,759                | -                    | 992,759                | -                   |
| Excises  | 297,850                | -                    | 297,850                | -                   |
| User fees  | -                      | 2,831,325            | 2,831,325              | 207,363             |
| Intergovernmental  | 2,072,271              | -                    | 2,072,271              | -                   |
| Prepaid expenses   | 308,631                | -                    | 308,631                | 2,633               |
| Noncurrent:  |                        |                      |                        |                     |
| Receivables, net of allowance for uncollectibles:          |                        |                      |                        |                     |
| Property taxes   | 857,688                | -                    | 857,688                | -                   |
| Intergovernmental  | 1,615,982              | -                    | 1,615,982              | -                   |
| Land and construction in progress                          | 19,793,084             | 2,577,072            | 22,370,156             | -                   |
| Capital assets, net of accumulated depreciation            | 25,462,469             | 16,146,810           | 41,609,279             | 5,538,378           |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                      | <b>3,403,289</b>       | <b>217,138</b>       | <b>3,620,427</b>       | <b>-</b>            |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>     | <b>68,819,418</b>      | <b>30,080,260</b>    | <b>98,899,678</b>      | <b>6,894,925</b>    |
| <b>LIABILITIES</b>   |                        |                      |                        |                     |
| Current:   |                        |                      |                        |                     |
| Warrants payable   | 1,557,202              | 196,305              | 1,753,507              | -                   |
| Accounts payable   | 310,278                | 376,360              | 686,638                | 2,372               |
| Accrued payroll and withholdings                           | 204,825                | -                    | 204,825                | 207,363             |
| Accrued claims payable                                     | 504,202                | -                    | 504,202                | -                   |
| Notes payable  | 600,000                | -                    | 600,000                | -                   |
| Other current liabilities                                  | 188,307                | -                    | 188,307                | -                   |
| Current portion of long-term liabilities:                  |                        |                      |                        |                     |
| Bonds payable  | 1,238,214              | 1,139,144            | 2,377,358              | -                   |
| Other liabilities  | -                      | 12,294               | 12,294                 | -                   |
| Noncurrent:  |                        |                      |                        |                     |
| Bonds payable, net of current portion                      | 11,982,926             | 5,309,591            | 17,292,517             | -                   |
| Other liabilities, net of current portion                  | 46,688,946             | 1,329,178            | 48,018,124             | -                   |
| Net pension liability                                      | 36,036,721             | 2,299,220            | 38,335,941             | -                   |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                       | <b>195,179</b>         | <b>12,453</b>        | <b>207,632</b>         | <b>-</b>            |
| <b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b> | <b>99,506,800</b>      | <b>10,674,545</b>    | <b>110,181,345</b>     | <b>209,735</b>      |
| <b>NET POSITION</b>  |                        |                      |                        |                     |
| Invested in capital assets                                 | 33,406,410             | 12,120,768           | 45,527,178             | 5,645,619           |
| Restricted for:  |                        |                      |                        |                     |
| Grants and other statutory restrictions                    | 3,731,709              | -                    | 3,731,709              | -                   |
| Permanent funds:   |                        |                      |                        |                     |
| Nonexpendable  | 455,968                | -                    | 455,968                | 223,219             |
| Expendable   | 57,037                 | -                    | 57,037                 | 153,922             |
| Unrestricted   | (68,338,506)           | 7,284,947            | (61,053,559)           | 662,430             |
| <b>TOTAL NET POSITION</b>                                  | <b>\$ (30,687,382)</b> | <b>\$ 19,405,715</b> | <b>\$ (11,281,667)</b> | <b>\$ 6,685,190</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, 2016

|  | 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   | \$ 2,881,001  | \$ 1,212,241         | \$ 1,155,195                       | \$ -                             | \$ (513,565)  | \$ -                     | \$ (513,565)    | \$ -           |
| Public safety  | 6,856,284     | 494,804              | 271,714                            | -                                | (6,089,766)   | -                        | (6,089,766)     | -              |
| Education  | 32,271,772    | 219,994              | 27,494,872                         | 1,772,652                        | (2,784,254)   | -                        | (2,784,254)     | -              |
| Public works   | 3,508,831     | 66,413               | 99,905                             | 932,772                          | (2,409,741)   | -                        | (2,409,741)     | -              |
| Health and human services                                    | 1,490,061     | -                    | 887,248                            | -                                | (602,813)   | -                        | (602,813)       | -              |
| Culture and recreation                                       | 979,972       | 30,546               | 49,585                             | -                                | (899,841)   | -                        | (899,841)       | -              |
| Employee benefits  | 18,754,064    | -                    | 2,351,305                          | -                                | (16,402,759)  | -                        | (16,402,759)    | -              |
| Interest   | 484,582       | -                    | -                                  | -                                | (484,582)   | -                        | (484,582)       | -              |
| Intergovernmental  | 1,907,444     | -                    | -                                  | -                                | (1,907,444)   | -                        | (1,907,444)     | -              |
| Total Governmental Activities                                | 69,134,011    | 2,023,998            | 32,309,824                         | 2,705,424                        | (32,094,765)  | -                        | (32,094,765)    | -              |
| <b>Business-Type Activities:</b>                             |               |                      |                                    |                                  |   |                          |                 |                |
| Water operations   | 2,932,419     | 3,469,893            | -                                  | 267,050                          | -   | 804,524                  | 804,524         | -              |
| Sewer operations   | 2,361,679     | 3,068,700            | -                                  | 10,966                           | -   | 717,987                  | 717,987         | -              |
| Golf operations  | 922,193       | 741,625              | -                                  | -                                | -   | (180,568)                | (180,568)       | -              |
| Solid waste operations                                       | 1,373,875     | 1,423,684            | -                                  | -                                | -   | 49,809                   | 49,809          | -              |
| Landfill operations  | 43,936        | -                    | -                                  | -                                | -   | (43,936)                 | (43,936)        | -              |
| Total Business-type Activities                               | 7,634,102     | 8,703,902            | -                                  | 278,016                          | -   | 1,347,816                | 1,347,816       | -              |
| Total Primary Government                                     | \$ 76,768,113 | \$ 10,727,900        | \$ 32,309,824                      | \$ 2,983,440                     | (32,094,765)  | 1,347,816                | (30,746,949)    | -              |
| <b>Component Unit:</b>                                       |               |                      |                                    |                                  |   |                          |                 |                |
| Levi Heywood Library Association                             | \$ 1,134,705  | \$ 44,335            | \$ -                               | \$ -                             | -   | -                        | -               | (1,090,370)    |
| <b>General Revenues:</b>                                     |               |                      |                                    |                                  |   |                          |                 |                |
| Property taxes   |               |                      |                                    |                                  | 23,448,682  | -                        | 23,448,682      | -              |
| Excises  |               |                      |                                    |                                  | 2,097,043   | -                        | 2,097,043       | -              |
| Penalties, interest and other taxes                          |               |                      |                                    |                                  | 620,763   | -                        | 620,763         | -              |
| Grants and contributions not restricted to specific programs |               |                      |                                    |                                  | 4,146,524   | -                        | 4,146,524       | 811,300        |
| Investment income  |               |                      |                                    |                                  | 109,188   | -                        | 109,188         | 39,084         |
| Miscellaneous  |               |                      |                                    |                                  | 851,750   | -                        | 851,750         | 98,050         |
| Total general revenues                                       |               |                      |                                    |                                  | 31,273,950  | -                        | 31,273,950      | 948,434        |
| Change in Net Position                                       |               |                      |                                    |                                  | (820,815)   | 1,347,816                | 527,001         | (141,936)      |
| <b>Net Position:</b>   |               |                      |                                    |                                  |   |                          |                 |                |
| Beginning of year, as restated                               |               |                      |                                    |                                  | (29,866,567)  | 18,057,899               | (11,808,668)    | 6,827,126      |
| End of year  |               |                      |                                    |                                  | \$ (30,687,382)                                     | \$ 19,405,715            | \$ (11,281,667) | \$ 6,685,190   |

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

CITY OF GARDNER, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2016

|   | <u>General</u>       | <u>School<br/>Capital Project<br/>Fund</u> | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|----------------------|--|--|---|
| <b>ASSETS</b>   |                      |  |  |   |
| Cash and short-term investments   | \$ 5,688,582         | \$ 154,174                                 | \$ 4,155,504                               | \$ 9,998,260                            |
| Investments   | 2,225,146            | -  | 480,232                                    | 2,705,378                               |
| Receivables:  |                      |  |  |   |
| Property taxes  | 1,058,128            | -  | -  | 1,058,128                               |
| Tax title   | 1,072,110            | -  | -  | 1,072,110                               |
| Excises   | 674,896              | -  | -  | 674,896                                 |
| Intergovernmental   | 909,113              | 544,453                                    | 618,705                                    | 2,072,271                               |
| Due from other funds  | 5,281                | -  | -  | 5,281                                   |
|   | <u>11,633,256</u>    | <u>698,627</u>                             | <u>5,254,441</u>                           | <u>17,586,324</u>                       |
| <b>TOTAL ASSETS</b>   | <b>\$ 11,633,256</b> | <b>\$ 698,627</b>                          | <b>\$ 5,254,441</b>                        | <b>\$ 17,586,324</b>                    |
| <b>LIABILITIES</b>  |                      |  |  |   |
| Warrants payable  | \$ 538,838           | \$ 597,171                                 | \$ 421,193                                 | \$ 1,557,202                            |
| Accounts payable  | -                    | -  | 310,278                                    | 310,278                                 |
| Accrued payroll and withholdings  | 204,825              | -  | -  | 204,825                                 |
| Due to other funds  | -                    | -  | 5,281                                      | 5,281                                   |
| Notes payable   | -                    | 600,000                                    | -  | 600,000                                 |
| Other liabilities   | 169,891              | 2,423                                      | 15,993                                     | 188,307                                 |
|   | <u>913,554</u>       | <u>1,199,594</u>                           | <u>752,745</u>                             | <u>2,865,893</u>                        |
| <b>TOTAL LIABILITIES</b>  | <b>913,554</b>       | <b>1,199,594</b>                           | <b>752,745</b>                             | <b>2,865,893</b>                        |
| <b>DEFERRED INFLOWS OF RESOURCES</b>  | <b>3,534,617</b>     | <b>-</b>                                   | <b>-</b>                                   | <b>3,534,617</b>                        |
| <b>FUND BALANCES</b>  |                      |  |  |   |
| Nonspendable  | -                    | -  | 455,968                                    | 455,968                                 |
| Restricted  | -                    | -  | 4,045,728                                  | 4,045,728                               |
| Committed   | 718,705              | -  | -  | 718,705                                 |
| Assigned  | 1,076,763            | -  | -  | 1,076,763                               |
| Unassigned  | 5,389,617            | (500,967)                                  | -  | 4,888,650                               |
|   | <u>7,185,085</u>     | <u>(500,967)</u>                           | <u>4,501,696</u>                           | <u>11,185,814</u>                       |
| <b>TOTAL FUND BALANCES</b>  | <b>7,185,085</b>     | <b>(500,967)</b>                           | <b>4,501,696</b>                           | <b>11,185,814</b>                       |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES AND FUND BALANCES</b> | <b>\$ 11,633,256</b> | <b>\$ 698,627</b>                          | <b>\$ 5,254,441</b>                        | <b>\$ 17,586,324</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, 2016

|  |                               |
|--|-------------------------------|
| <b>Total Governmental Fund Balances</b>  | \$ 11,185,814                 |
| <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>  | 45,255,553                    |
| <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>  | 3,208,110                     |
| <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>                       | 4,493,762                     |
| <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> | 1,116,186                     |
| <ul style="list-style-type: none"><li>• Long-term liabilities, including bonds 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>                 | (95,374,176)                  |
| <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>(572,631)</u>              |
| <b>Net Position of Governmental Activities</b>   | <b>\$ <u>(30,687,382)</u></b> |

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, 2016

|   | <u>General</u>      | <u>School<br/>Capital Project<br/>Fund</u> | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|---------------------|--|--|---|
| <b>Revenues:</b>  |                     |  |  |   |
| Property taxes  | \$ 23,321,891       | \$ -                                       | \$ -                                       | \$ 23,321,891                           |
| Excises   | 2,131,086           | -  | -  | 2,131,086                               |
| Penalties, interest and other taxes                             | 620,763             | -  | -  | 620,763                                 |
| Charges for services  | 1,035,528           | -  | 545,297                                    | 1,580,825                               |
| Intergovernmental   | 25,268,645          | 1,772,652                                  | 6,574,616                                  | 33,615,913                              |
| Licenses and permits  | 326,241             | -  | -  | 326,241                                 |
| Fines and forfeitures   | 116,932             | -  | -  | 116,932                                 |
| Investment income (loss)  | 105,615             | -  | (11,099)                                   | 94,516                                  |
| Miscellaneous   | 312,059             | -  | 203,181                                    | 515,240                                 |
|   | <u>53,238,760</u>   | <u>1,772,652</u>                           | <u>7,311,995</u>                           | <u>62,323,407</u>                       |
| Total Revenues  |                     |  |  |   |
| <b>Expenditures:</b>  |                     |  |  |   |
| Current:  |                     |  |  |   |
| General government  | 2,342,135           | -  | 1,473,430                                  | 3,815,565                               |
| Public safety   | 6,524,134           | -  | 347,605                                    | 6,871,739                               |
| Education   | 22,611,600          | 1,821,273                                  | 4,794,226                                  | 29,227,099                              |
| Public works  | 2,482,113           | -  | 973,419                                    | 3,455,532                               |
| Health and human services                                       | 1,289,610           | -  | 121,274                                    | 1,410,884                               |
| Culture and recreation  | 783,614             | -  | 142,230                                    | 925,844                                 |
| Employee benefits   | 11,794,864          | -  | -  | 11,794,864                              |
| Debt service  | 1,928,948           | -  | -  | 1,928,948                               |
| Intergovernmental   | 1,907,444           | -  | -  | 1,907,444                               |
|   | <u>51,664,462</u>   | <u>1,821,273</u>                           | <u>7,852,184</u>                           | <u>61,337,919</u>                       |
| Total Expenditures  |                     |  |  |   |
| Excess (deficiency) of revenues<br>over expenditures            | 1,574,298           | (48,621)                                   | (540,189)                                  | 985,488                                 |
| <b>Other Financing Sources (Uses):</b>                          |                     |  |  |   |
| Transfers in  | 249,304             | 331,999                                    | 821,372                                    | 1,402,675                               |
| Transfers out   | (1,153,371)         | -  | (249,304)                                  | (1,402,675)                             |
|   | <u>(904,067)</u>    | <u>331,999</u>                             | <u>572,068</u>                             | <u>-</u>                                |
| Total Other Financing Sources (Uses)                            |                     |  |  |   |
| Change in fund balance  | 670,231             | 283,378                                    | 31,879                                     | 985,488                                 |
| Fund Equity, at Beginning of Year, as restated and reclassified | 6,514,854           | (784,345)                                  | 4,469,817                                  | 10,200,326                              |
| Fund Equity, at End of Year                                     | <u>\$ 7,185,085</u> | <u>\$ (500,967)</u>                        | <u>\$ 4,501,696</u>                        | <u>\$ 11,185,814</u>                    |

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, 2016

|   |                            |           |                               |           |              |             |  |           |                    |           |                              |        |  |       |                          |             |   |           |  |                  |  |
|---|----------------------------|-----------|-------------------------------|-----------|--------------|-------------|--|-----------|--------------------|-----------|------------------------------|--------|--|-------|--------------------------|-------------|---|-----------|--|------------------|--|
| <b>Net Changes in Fund Balances - Total Governmental Funds</b>  | \$ 985,488                 |           |                               |           |              |             |  |           |                    |           |                              |        |  |       |                          |             |   |           |  |                  |  |
| <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 border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">4,210,200</td> </tr> <tr> <td>Disposition of capital assets</td> <td style="text-align: right;">(304,273)</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(2,574,753)</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 border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(639,360)</td> </tr> </table> </li> <li>• The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table border="0" style="margin-left: 40px;"> <tr> <td>Repayments of debt</td> <td style="text-align: right;">1,368,661</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 border="0" style="margin-left: 40px;"> <tr> <td>Change in compensated absences liability</td> <td style="text-align: right;">9,957</td> </tr> <tr> <td>Change in OPEB liability</td> <td style="text-align: right;">(4,667,540)</td> </tr> <tr> <td>Change in net pension liability, net of deferrals</td> <td style="text-align: right;">(418,420)</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 border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>1,133,520</u></td> </tr> </table> </li> </ul> | Capital outlay purchases   | 4,210,200 | Disposition of capital assets | (304,273) | Depreciation | (2,574,753) |  | (639,360) | Repayments of debt | 1,368,661 | Amortization of bond premium | 75,705 | Change in compensated absences liability | 9,957 | Change in OPEB liability | (4,667,540) | Change in net pension liability, net of deferrals | (418,420) |  | <u>1,133,520</u> |  |
| Capital outlay purchases  | 4,210,200                  |           |                               |           |              |             |  |           |                    |           |                              |        |  |       |                          |             |   |           |  |                  |  |
| Disposition of capital assets   | (304,273)                  |           |                               |           |              |             |  |           |                    |           |                              |        |  |       |                          |             |   |           |  |                  |  |
| Depreciation  | (2,574,753)                |           |                               |           |              |             |  |           |                    |           |                              |        |  |       |                          |             |   |           |  |                  |  |
|   | (639,360)                  |           |                               |           |              |             |  |           |                    |           |                              |        |  |       |                          |             |   |           |  |                  |  |
| Repayments of debt  | 1,368,661                  |           |                               |           |              |             |  |           |                    |           |                              |        |  |       |                          |             |   |           |  |                  |  |
| Amortization of bond premium  | 75,705                     |           |                               |           |              |             |  |           |                    |           |                              |        |  |       |                          |             |   |           |  |                  |  |
| Change in compensated absences liability  | 9,957                      |           |                               |           |              |             |  |           |                    |           |                              |        |  |       |                          |             |   |           |  |                  |  |
| Change in OPEB liability  | (4,667,540)                |           |                               |           |              |             |  |           |                    |           |                              |        |  |       |                          |             |   |           |  |                  |  |
| Change in net pension liability, net of deferrals   | (418,420)                  |           |                               |           |              |             |  |           |                    |           |                              |        |  |       |                          |             |   |           |  |                  |  |
|   | <u>1,133,520</u>           |           |                               |           |              |             |  |           |                    |           |                              |        |  |       |                          |             |   |           |  |                  |  |
| <b>Changes in Net Position of Governmental Activities</b>   | <b>\$ <u>(820,815)</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, 2016

|  | Budgeted Amounts   |                 | Actual<br>Amounts | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|--------------------|-----------------|-------------------|---|
|  | Original<br>Budget | Final<br>Budget |                   |   |
| <b>Revenues and Other Sources:</b>   |                    |                 |                   |   |
| Taxes  | \$ 23,066,436      | \$ 23,066,436   | \$ 23,066,436     | \$ -  |
| Excise   | 1,800,000          | 1,800,000       | 2,131,086         | 331,086   |
| Penalties, interest and other taxes  | 435,000            | 435,000         | 620,763           | 185,763   |
| Charges for services   | 946,500            | 946,500         | 1,035,528         | 89,028  |
| Intergovernmental  | 24,983,630         | 24,983,630      | 25,268,645        | 285,015   |
| Licenses and permits   | 250,000            | 250,000         | 326,241           | 76,241  |
| Fines and forfeits   | 125,000            | 125,000         | 116,932           | (8,068)   |
| Investment income  | 25,000             | 25,000          | 29,850            | 4,850   |
| Miscellaneous  | 71,000             | 71,000          | 312,059           | 241,059   |
| Transfers in   | 245,343            | 245,343         | 249,304           | 3,961   |
| Other sources  | -                  | 2,139,023       | 2,139,023         | -   |
| Total Revenues and Other Sources   | 51,947,909         | 54,086,932      | 55,295,867        | 1,208,935   |
| <b>Expenditures and Other Uses:</b>  |                    |                 |                   |   |
| General government   | 1,855,209          | 2,610,212       | 2,529,432         | 80,780  |
| Public safety  | 6,446,288          | 6,843,177       | 6,729,084         | 114,093   |
| Education  | 22,390,153         | 22,390,153      | 22,300,507        | 89,646  |
| Public works   | 2,619,977          | 2,900,727       | 2,827,641         | 73,086  |
| Health and human services  | 1,331,704          | 1,331,704       | 1,321,087         | 10,617  |
| Culture and recreation   | 773,948            | 778,333         | 742,440           | 35,893  |
| Debt service   | 1,974,067          | 1,974,067       | 1,928,948         | 45,119  |
| Intergovernmental  | 1,907,444          | 1,907,444       | 1,907,444         | -   |
| Employee benefits  | 12,260,028         | 12,260,028      | 11,794,864        | 465,164   |
| Transfers out  | 331,998            | 1,033,994       | 1,033,994         | -   |
| Other uses   | 57,093             | 57,093          | 57,093            | -   |
| Total Expenditures and Other Uses  | 51,947,909         | 54,086,932      | 53,172,534        | 914,398   |
| Excess (deficiency) of revenues and other sources over expenditures and other uses | \$ -               | \$ -            | \$ 2,123,333      | \$ 2,123,333  |

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

CITY OF GARDNER, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2016

| <u>ASSETS</u>  | Business-Type Activities<br>Enterprise Funds |                       |                      |                             |                          | <u>Total</u>  | Governmental<br>Activities            |
|--|--|-----------------------|----------------------|-----------------------------|--------------------------|---------------|---------------------------------------|
|  | <u>Water<br/>Fund</u>                        | <u>Sewer<br/>Fund</u> | <u>Golf<br/>Fund</u> | <u>Solid Waste<br/>Fund</u> | <u>Landfill<br/>Fund</u> |               | <u>Internal<br/>Service<br/>Funds</u> |
| Current:   |  |                       |                      |                             |                          |               |                                       |
| Cash and short-term investments                            | \$ 1,853,131                                 | \$ 5,845,010          | \$ 82,515            | \$ 371,474                  | \$ 155,785               | \$ 8,307,915  | \$ 690,113                            |
| Investments  | -  | -                     | -                    | -                           | -                        | -             | 621,644                               |
| User fees  | 1,239,561                                    | 1,081,594             | -                    | 510,170                     | -                        | 2,831,325     | -                                     |
| Prepaid expenses   | -  | -                     | -                    | -                           | -                        | -             | 308,631                               |
| Total current assets                                       | 3,092,692                                    | 6,926,604             | 82,515               | 881,644                     | 155,785                  | 11,139,240    | 1,620,388                             |
| Noncurrent:  |  |                       |                      |                             |                          |               |                                       |
| Land and construction in progress                          | 591,769                                      | 1,565,650             | 419,653              | -                           | -                        | 2,577,072     | -                                     |
| Capital assets, net of accumulated depreciation            | 12,690,427                                   | 3,253,919             | 154,774              | 47,690                      | -                        | 16,146,810    | -                                     |
| Total noncurrent assets                                    | 13,282,196                                   | 4,819,569             | 574,427              | 47,690                      | -                        | 18,723,882    | -                                     |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                      | 48,065                                       | 33,990                | 96,862               | 24,463                      | 13,758                   | 217,138       | -                                     |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>     | 16,422,953                                   | 11,780,163            | 753,804              | 953,797                     | 169,543                  | 30,080,260    | 1,620,388                             |
|  |  |                       |                      |                             |                          |               |                                       |
|  |  |                       |                      |                             |                          |               |                                       |
| <u>LIABILITIES</u>   |  |                       |                      |                             |                          |               |                                       |
| Current:   |  |                       |                      |                             |                          |               |                                       |
| Warrants payable   | 29,225                                       | 62,619                | 6,431                | 94,908                      | 3,122                    | 196,305       | -                                     |
| Accounts payable   | 19,592                                       | 282,504               | -                    | 74,264                      | -                        | 376,360       | -                                     |
| Accrued claims payable                                     | -  | -                     | -                    | -                           | -                        | -             | 504,202                               |
| Current portion of long-term liabilities:                  |  |                       |                      |                             |                          |               |                                       |
| Bonds payable  | 1,070,187                                    | 68,957                | -                    | -                           | -                        | 1,139,144     | -                                     |
| Other liabilities  | -  | -                     | -                    | -                           | 12,294                   | 12,294        | -                                     |
| Total current liabilities                                  | 1,119,004                                    | 414,080               | 6,431                | 169,172                     | 15,416                   | 1,724,103     | 504,202                               |
| Noncurrent:  |  |                       |                      |                             |                          |               |                                       |
| Bonds payable, net of current portion                      | 4,827,619                                    | 481,972               | -                    | -                           | -                        | 5,309,591     | -                                     |
| Other liabilities, net of current portion                  | 132,430                                      | 266,577               | 564,724              | 131,871                     | 233,576                  | 1,329,178     | -                                     |
| Net pension liability                                      | 508,953                                      | 359,910               | 1,025,648            | 259,032                     | 145,677                  | 2,299,220     | -                                     |
| Total noncurrent liabilities                               | 5,469,002                                    | 1,108,459             | 1,590,372            | 390,903                     | 379,253                  | 8,937,989     | -                                     |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                       | 2,757  | 1,949                 | 5,555                | 1,403                       | 789                      | 12,453        | -                                     |
| <b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b> | 6,590,763                                    | 1,524,488             | 1,602,358            | 561,478                     | 395,458                  | 10,674,545    | 504,202                               |
|  |  |                       |                      |                             |                          |               |                                       |
| <u>NET POSITION</u>  |  |                       |                      |                             |                          |               |                                       |
| Invested in capital assets, net of related debt            | 7,485,584                                    | 4,008,266             | 579,228              | 47,690                      | -                        | 12,120,768    | -                                     |
| Unrestricted   | 2,346,606                                    | 6,247,409             | (1,427,782)          | 344,629                     | (225,915)                | 7,284,947     | 1,116,186                             |
| <b>TOTAL NET POSITION</b>                                  | \$ 9,832,190                                 | \$ 10,255,675         | \$ (848,554)         | \$ 392,319                  | \$ (225,915)             | \$ 19,405,715 | \$ 1,116,186                          |

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, 2016

|  | Business-Type Activities<br>Enterprise Funds |                      |                     |                     |                     | Total                | Governmental<br>Activities  |
|--|--|----------------------|---------------------|---------------------|---------------------|----------------------|-----------------------------|
|  | Water<br>Fund                                | Sewer<br>Fund        | Golf<br>Fund        | Solid Waste<br>Fund | Landfill<br>Fund    |                      | Internal<br>Service<br>Fund |
| <b>Operating Revenues:</b>                     |  |                      |                     |                     |                     |                      |                             |
| Charges for services                           | \$ 3,469,893                                 | \$ 3,068,700         | \$ 741,625          | \$ 1,423,684        | \$ -                | \$ 8,703,902         | \$ -                        |
| Employee contributions                         | -  | -                    | -                   | -                   | -                   | -                    | 2,358,735                   |
| Employer contributions                         | -  | -                    | -                   | -                   | -                   | -                    | 7,167,693                   |
| Total Operating Revenues                       | <u>3,469,893</u>                             | <u>3,068,700</u>     | <u>741,625</u>      | <u>1,423,684</u>    | <u>-</u>            | <u>8,703,902</u>     | <u>9,526,428</u>            |
| <b>Operating Expenses:</b>                     |  |                      |                     |                     |                     |                      |                             |
| Salary and wages                               | 126,457                                      | 133,174              | 551,520             | 124,067             | 19,397              | 954,615              | -                           |
| Operating expenses                             | 1,769,234                                    | 1,617,308            | 228,789             | 1,121,324           | 22,539              | 4,759,194            | -                           |
| Depreciation                                   | 628,222                                      | 443,804              | 14,817              | 72,744              | -                   | 1,159,587            | -                           |
| Administrative assessments                     | 170,000                                      | 150,000              | 127,000             | 55,000              | 2,000               | 504,000              | -                           |
| Employee benefits                              | -  | -                    | -                   | -                   | -                   | -                    | 9,048,363                   |
| Total Operating Expenses                       | <u>2,693,913</u>                             | <u>2,344,286</u>     | <u>922,126</u>      | <u>1,373,135</u>    | <u>43,936</u>       | <u>7,377,396</u>     | <u>9,048,363</u>            |
| Operating Income (Loss)                        | 775,980                                      | 724,414              | (180,501)           | 50,549              | (43,936)            | 1,326,506            | 478,065                     |
| <b>Nonoperating Revenues (Expenses):</b>       |  |                      |                     |                     |                     |                      |                             |
| Intergovernmental revenue                      | 267,050                                      | 10,966               | -                   | -                   | -                   | 278,016              | -                           |
| Insurance reimbursement                        | -  | -                    | -                   | -                   | -                   | -                    | 640,783                     |
| Investment income                              | -  | -                    | -                   | -                   | -                   | -                    | 14,672                      |
| Interest expense                               | <u>(238,506)</u>                             | <u>(17,393)</u>      | <u>(67)</u>         | <u>(740)</u>        | <u>-</u>            | <u>(256,706)</u>     | <u>-</u>                    |
| Total Nonoperating Revenues<br>(Expenses), Net | <u>28,544</u>                                | <u>(6,427)</u>       | <u>(67)</u>         | <u>(740)</u>        | <u>-</u>            | <u>21,310</u>        | <u>655,455</u>              |
| Change in Net Position                         | 804,524                                      | 717,987              | (180,568)           | 49,809              | (43,936)            | 1,347,816            | 1,133,520                   |
| Net Position at Beginning of Year, as restated | <u>9,027,666</u>                             | <u>9,537,688</u>     | <u>(667,986)</u>    | <u>342,510</u>      | <u>(181,979)</u>    | <u>18,057,899</u>    | <u>(17,334)</u>             |
| Net Position at End of Year                    | <u>\$ 9,832,190</u>                          | <u>\$ 10,255,675</u> | <u>\$ (848,554)</u> | <u>\$ 392,319</u>   | <u>\$ (225,915)</u> | <u>\$ 19,405,715</u> | <u>\$ 1,116,186</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, 2016

|  | Business-Type Activities<br>Enterprise Funds |               |              |                     |                  | Total        | Governmental<br>Activities<br>Internal<br>Service<br>Fund |
|--|--|---------------|--------------|---------------------|------------------|--------------|---|
|  | Water<br>Fund                                | Sewer<br>Fund | Golf<br>Fund | Solid Waste<br>Fund | Landfill<br>Fund |              |   |
| <b><u>Cash Flows From Operating Activities:</u></b>  |  |               |              |                     |                  |              |   |
| Receipts from customers and users  | \$ 3,378,345                                 | \$ 2,973,137  | \$ 741,625   | \$ 1,430,643        | \$ -             | \$ 8,523,750 | \$ -  |
| Payments to vendors and employees  | (2,207,541)                                  | (1,744,239)   | (695,408)    | (1,210,651)         | (63,260)         | (5,921,099)  | -   |
| Receipts from employees and employer   | -  | -             | -            | -                   | -                | -            | 9,526,428   |
| Payments of employee benefits and expenses   | -  | -             | -            | -                   | -                | -            | (9,641,039)   |
| Net Cash Provided By / (Used for) Operating Activities   | 1,170,804                                    | 1,228,898     | 46,217       | 219,992             | (63,260)         | 2,602,651    | (114,611)   |
| <b><u>Cash Flows From Non-Capital<br/>Financing Activities:</u></b>  |  |               |              |                     |                  |              |   |
| Insurance reimbursements   | -  | -             | -            | -                   | -                | -            | 640,783   |
| Net Cash Provided By Non-Capital<br>Financing Activities   | -  | -             | -            | -                   | -                | -            | 640,783   |
| <b><u>Cash Flows From Capital and<br/>Related Financing Activities:</u></b>  |  |               |              |                     |                  |              |   |
| Receipts from governments  | 267,050                                      | 10,966        | -            | -                   | -                | 278,016      | -   |
| Acquisition and construction of capital assets   | (74,593)                                     | (1,146,926)   | (23,441)     | (28,245)            | -                | (1,273,205)  | -   |
| Principal payments on bonds and notes  | (1,151,644)                                  | (154,192)     | (9,000)      | (100,000)           | -                | (1,414,836)  | -   |
| Interest expense paid  | (238,506)                                    | (17,393)      | (67)         | (740)               | -                | (256,706)    | -   |
| Net Cash (Used For) Capital and Related<br>Financing Activities  | (1,197,693)                                  | (1,307,545)   | (32,508)     | (128,985)           | -                | (2,666,731)  | -   |
| <b><u>Cash Flows From Investing Activities:</u></b>  |  |               |              |                     |                  |              |   |
| Sale of investments  | -  | -             | -            | -                   | -                | -            | 163,941   |
| Net Cash Provided by Investing Activities  | -  | -             | -            | -                   | -                | -            | 163,941   |
| Net Change in Cash and Short-Term Investments  | (26,889)                                     | (78,647)      | 13,709       | 91,007              | (63,260)         | (64,080)     | 690,113   |
| Cash and Short Term Investments, Beginning of Year   | 1,880,020                                    | 5,923,657     | 68,806       | 280,467             | 219,045          | 8,371,995    | -   |
| Cash and Short Term Investments, End of Year   | \$ 1,853,131                                 | \$ 5,845,010  | \$ 82,515    | \$ 371,474          | \$ 155,785       | \$ 8,307,915 | \$ 690,113  |
| <b><u>Reconciliation of Operating Income (Loss) to Net<br/>Cash Provided by / (Used For) Operating Activities:</u></b> |  |               |              |                     |                  |              |   |
| Operating income (loss)  | \$ 775,980                                   | \$ 724,414    | \$ (180,501) | \$ 50,549           | \$ (43,936)      | \$ 1,326,506 | \$ 478,065  |
| Adjustments to reconcile operating income (loss)<br>to net cash provided by / (used for) operating activities:         |  |               |              |                     |                  |              |   |
| Depreciation   | 628,222                                      | 443,804       | 14,817       | 72,744              | -                | 1,159,587    | -   |
| Changes in assets and liabilities:   |  |               |              |                     |                  |              |   |
| User fee receivables   | (91,548)                                     | (95,563)      | -            | 6,959               | -                | (180,152)    | -   |
| Prepaid expenses   | -  | -             | -            | -                   | -                | -            | 359,469   |
| Warrants and other payables  | (117,690)                                    | 158,976       | (7,599)      | 49,719              | (9,502)          | 73,904       | (88,872)  |
| Accrued / other liabilities  | -  | -             | -            | -                   | (12,294)         | (12,294)     | (863,273)   |
| Compensated absences   | -  | -             | 3,479        | -                   | -                | 3,479        | -   |
| Net OPEB obligations   | (6,258)                                      | 26,209        | 34,799       | 35,121              | -                | 89,871       | -   |
| Net pension liability, net of deferrals  | (17,902)                                     | (28,942)      | 181,222      | 4,900               | 2,472            | 141,750      | -   |
| Net Cash Provided By / (used for) Operating Activities   | \$ 1,170,804                                 | \$ 1,228,898  | \$ 46,217    | \$ 219,992          | \$ (63,260)      | \$ 2,602,651 | \$ (114,611)  |

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

CITY OF GARDNER, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

|   | Private<br>Purpose<br><u>Trust Funds</u> | Agency<br><u>Funds</u> | Pension Trust<br>Fund (As of<br><u>December 31, 2015</u> ) |
|---|--|------------------------|--|
| <b><u>ASSETS</u></b>  |  |                        |  |
| Cash and short-term investments   | \$ 205,881                               | \$ 823,110             | \$ 71,807  |
| Investments   | 3,016,856                                | -                      | 46,185,916   |
| Accounts receivable   | -  | 18,833                 | 333,955  |
|   | <u>3,222,737</u>                         | <u>841,943</u>         | <u>46,591,678</u>  |
| <b><u>LIABILITIES AND NET POSITION</u></b>                                  |  |                        |  |
| Warrants payable  | -  | 17,363                 | -  |
| Accounts payable  | -  | -                      | 238,303  |
| Deposits held in custody  | -  | 711,248                | -  |
| Other liabilities   | -  | 113,332                | -  |
|   | <u>-</u>                                 | <u>841,943</u>         | <u>238,303</u>   |
| <b><u>NET POSITION</u></b>  |  |                        |  |
| Total net position held in trust for pension<br>benefits and other purposes | \$ <u>3,222,737</u>                      | \$ <u>-</u>            | \$ <u>46,353,375</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, 2016

|   | <u>Private<br/>Purpose<br/>Trust Funds</u> | <u>Pension Trust Fund<br/>(For Year Ended<br/>December 31, 2015)</u> |
|---|--|--|
| <b>Additions:</b>   |  |  |
| Contributions:  |  |  |
| Employers   | \$ -                                       | \$ 3,435,751   |
| Other systems and Commonwealth of Massachusetts                 | -  | 84,421   |
| Plan members  | -  | 1,132,644  |
| Contributions   | <u>2,974</u>                               | <u>-</u>   |
| Total contributions   | 2,974                                      | 4,652,816  |
| Investment Income:  |  |  |
| Interest and dividends  | 122,159                                    | 1,223,917  |
| Gain on sale of investments                                     | -  | 1,684,474  |
| Decrease in fair value of investments                           | -  | (2,391,550)  |
| Less: Management fees   | <u>-</u>                                   | <u>(240,702)</u>   |
| Net investment income   | <u>122,159</u>                             | <u>276,139</u>   |
| Total additions   | 125,133                                    | 4,928,955  |
| <b>Deductions:</b>  |  |  |
| Benefit payments to plan members and beneficiaries              | -  | 5,441,126  |
| Refunds to plan members and other systems                       | -  | 88,353   |
| Administrative expenses   | -  | 131,890  |
| Education expenses  | <u>20,035</u>                              | <u>-</u>   |
| Total deductions  | <u>20,035</u>                              | <u>5,661,369</u>   |
| Net increase (decrease)   | 105,098                                    | (732,414)  |
| <b>Net position restricted for pensions and other purposes:</b> |  |  |
| Beginning of year, as restated                                  | <u>3,117,639</u>                           | <u>47,085,789</u>  |
| End of year   | <u>\$ 3,222,737</u>                        | <u>\$ 46,353,375</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 2016, it was determined that the following entities met the required GASB 14 (as amended) 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 *School Capital Project Fund* is used to account for long-term capital projects on School property, usually funded by bonds and grants.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with 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 2016 tax levy reflected an excess capacity of \$212,682.

*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<br/>and Other<br/>Financing Sources</u> | <u>Expenditures<br/>and Other<br/>Financing Uses</u> |
|---|---|--|
| Revenues/Expenditures (GAAP basis)  | \$ 53,238,760                                       | \$ 51,664,462  |
| Other financing sources/uses (GAAP basis)                                       | 249,304   | 1,153,371  |
| Reverse the effect of including Stabilization<br>Fund and General Fund activity | (75,765)  | 106,454  |
| Adjust tax revenue to accrual basis   | (255,455)   | -  |
| Reverse beginning of year appropriation carry-<br>forwards from expenditures    | -   | (1,563,651)  |
| Add end of year appropriation carryforwards<br>to expenditures                  | -   | 1,795,468  |
| Reverse effect of GAAP accruals   | -   | (40,663)   |
| Recognize fund balance as funding source / use                                  | <u>2,139,023</u>                                    | <u>57,093</u>  |
| Budgetary basis   | <u>\$ 55,295,867</u>                                | <u>\$ 53,172,534</u>                                 |

#### D. Deficit Fund Equity

The School capital project fund had a deficit of \$(500,967) as of June 30, 2016. This deficit will be eliminated through future departmental revenues and bond issuances.

The Golf and Landfill enterprise funds reported deficit net positions of \$(848,554) and \$(225,915), respectively, which are the result of recording long term liabilities such as net pension and landfill monitoring. These deficits should be eliminated through future operating surpluses.

### **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, 2016, \$5,567,401 of the City's bank balance of \$21,473,572 was exposed to custodial credit risk as uninsured, or uncollateralized.

As of December 31, 2015, 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, 2016 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>A2</u>         | <u>BAA1</u>       | <u>BBB2</u>      |
| Certificates of deposit  | \$ 1,485,647        | \$ 1,485,647                  | \$ -                         | \$ -              | \$ -              | \$ -              | \$ -             |
| Corporate bonds          | 1,217,381           | -                             | -                            | 151,497           | 481,582           | 485,288           | 99,014           |
| Equities                 | 682,159             | 682,159                       | -                            | -                 | -                 | -                 | -                |
| Mutual funds             | 378,496             | 378,496                       | -                            | -                 | -                 | -                 | -                |
| Exchange-traded products | 635,061             | 635,061                       | -                            | -                 | -                 | -                 | -                |
| US Treasury notes        | 1,945,134           | -                             | 1,945,134                    | -                 | -                 | -                 | -                |
| <b>Total investments</b> | <b>\$ 6,343,878</b> | <b>\$ 3,181,363</b>           | <b>\$ 1,945,134</b>          | <b>\$ 151,497</b> | <b>\$ 481,582</b> | <b>\$ 485,288</b> | <b>\$ 99,014</b> |

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, 2015 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.

The System does not maintain a policy for custodial credit risk, interest rate risk, foreign currency risk or concentration of credit risk. The System Board members rely solely upon the PRIT investment advisors to manage all risk factors, under the direction of the PRIM Board. Additional investment disclosures can be found in the System’s separately issued, audited financial statements.

**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’s investment policy manages custodial credit risk by the diversification and prudent selection of investment instruments and choice of depository.

Of the total City investments of \$6,343,878, the City has a custodial credit risk exposure of \$4,173,923 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.

**C. Concentration of Credit Risk**

The City places no limit on the amount the City may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

| <u>Investment Issuer</u>     | <u>Amount</u>     | <u>% of Total Investments</u> |
|------------------------------|-------------------|-------------------------------|
| Verizon Communications, Inc. | \$ 349,920        | 6%                            |
| Federated GOVT Inc Trust     | <u>378,496</u>    | 6%                            |
| Total                        | <u>\$ 728,416</u> |                               |

**D. Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City’s investment policy manages interest rate risk by the diversification and prudent selection of investment instruments and choice of depository.

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>Fair Value</u>   | <u>N/A</u>          | <u>Investment Maturities (in Years)</u> |                     |                     |
|--------------------------|---------------------|---------------------|---|---------------------|---------------------|
|                          |                     |                     | <u>Less Than 1</u>                      | <u>1-5</u>          | <u>6-10</u>         |
| Certificates of deposit  | \$ 1,485,647        | \$ -                | \$ 295,789                              | \$ 1,189,858        | \$ -                |
| Corporate bonds          | 1,217,381           | -                   | 286,866                                 | 930,515             | -                   |
| Equities                 | 682,159             | 682,159             | -                                       | -                   | -                   |
| Mutual funds             | 378,496             | 378,496             | -                                       | -                   | -                   |
| Exchange-traded products | 635,061             | 635,061             | -                                       | -                   | -                   |
| US Treasury notes        | 1,945,134           | -                   | -                                       | 864,725             | 1,080,409           |
| Total investments        | <u>\$ 6,343,878</u> | <u>\$ 1,695,716</u> | <u>\$ 582,655</u>                       | <u>\$ 2,985,098</u> | <u>\$ 1,080,409</u> |

#### 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's investment policy does not permit investments in foreign currency; which is prohibited under Massachusetts General Laws.

#### F. Fair Value

The City categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application (GASB 72)*. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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

| <u>Description</u>               | <u>Fair Value Measurements Using:</u>                                 |  |  |             |
|----------------------------------|---|--|--|-------------|
|                                  | <u>Quoted prices in active markets for identical assets (Level 1)</u> | <u>Significant observable inputs (Level 2)</u> | <u>Significant unobservable inputs (Level 3)</u> |             |
| Investments by fair value level: |   |  |  |             |
| Debt securities:                 |   |  |  |             |
| U.S. Treasury securities         | \$ 1,945,134  | \$ -   | \$ 1,945,134                                     | \$ -        |
| Corporate bonds                  | 1,217,381   | -  | 1,217,381  | -           |
| Exchange-Traded products         | 635,061   | -  | 635,061  | -           |
| Equity investments               | 682,159   | 682,159  | -  | -           |
| Mutual funds                     | 378,496   | 378,496  | -  | -           |
| Total                            | <u>\$ 4,858,231</u>   | <u>\$ 1,060,655</u>                            | <u>\$ 3,797,576</u>                              | <u>\$ -</u> |

The System has the following fair value measurements as of December 31, 2015:

| <u>Description</u>                                 |                      |
|--|----------------------|
| Investments measured at the net asset value (NAV): |                      |
| External investment pool                           | 46,185,916           |
| Total  | \$ <u>46,185,916</u> |

| <u>Description</u>       | <u>Value</u>  | <u>Unfunded Commitments</u> | <u>Redemption Frequency (If currently eligible)</u> | <u>Redemption Notice Period</u> |
|--------------------------|---------------|-----------------------------|---|---------------------------------|
| External investment pool | \$ 46,185,916 | \$ -                        | Quarterly   | 30 days                         |

## 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, 2016 consist of the following:

|                   |               |                         |
|-------------------|---------------|-------------------------|
| Real Estate       |               |                         |
| 2016              | \$ 702,033    |                         |
| 2015              | 239,870       |                         |
| Prior             | <u>54,251</u> | 996,154                 |
| Personal Property |               |                         |
| 2016              | 14,142        |                         |
| 2015              | 10,278        |                         |
| 2014              | 10,683        |                         |
| Prior             | <u>25,604</u> | 60,707                  |
| Deferred Taxes    |               | <u>1,267</u>            |
| Total             | \$            | <u><u>1,058,128</u></u> |

## 6. Allowance for Doubtful Accounts

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

|                |                     |
|----------------|---------------------|
|                | <u>Governmental</u> |
| Property taxes | \$ 65,369           |
| Tax title      | 214,422             |
| Excises        | 377,046             |

## 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 2016 and are expected to be reimbursed in fiscal year 2017.

The balance reported in the governmental activities statement of net position includes an additional amount (\$1,615,982) 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. Prepaid Expense

This balance represents a refund due from the City's health insurance providers for payments made to them that were in excess of claims incurred through June 2016.

## 9. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u>    | <u>Decreases</u>    | <u>Convert<br/>CIP</u>    | <u>Ending<br/>Balance</u> |
|--|------------------------------|---------------------|---------------------|---------------------------|---------------------------|
| <b>Governmental Activities:</b>              |                              |                     |                     |                           |                           |
| Capital assets, being depreciated:           |                              |                     |                     |                           |                           |
| Buildings and improvements                   | \$ 35,403,030                | \$ -                | \$ (545,228)        | \$ 278,081                | \$ 35,135,883             |
| Machinery, equipment, and furnishings        | 10,163,923                   | 367,387             | -                   | -                         | 10,531,310                |
| Infrastructure                               | 22,551,093                   | 900,683             | -                   | -                         | 23,451,776                |
| Total capital assets, being depreciated      | 68,118,046                   | 1,268,070           | (545,228)           | 278,081                   | 69,118,969                |
| Less accumulated depreciation for:           |                              |                     |                     |                           |                           |
| Buildings and improvements                   | (19,628,760)                 | (1,186,027)         | 409,317             | -                         | (20,405,470)              |
| Machinery, equipment, and furnishings        | (8,473,634)                  | (466,761)           | -                   | -                         | (8,940,395)               |
| Infrastructure                               | (13,388,670)                 | (921,965)           | -                   | -                         | (14,310,635)              |
| Total accumulated depreciation               | (41,491,064)                 | (2,574,753)         | 409,317             | -                         | (43,656,500)              |
| Total capital assets, being depreciated, net | 26,626,982                   | (1,306,683)         | (135,911)           | 278,081                   | 25,462,469                |
| Capital assets, not being depreciated:       |                              |                     |                     |                           |                           |
| Land   | 3,978,175                    | 19,215              | (168,362)           | -                         | 3,829,028                 |
| Construction in progress (CIP)               | 13,319,222                   | 2,922,915           | -                   | (278,081)                 | 15,964,056                |
| Total capital assets, not being depreciated  | 17,297,397                   | 2,942,130           | (168,362)           | (278,081)                 | 19,793,084                |
| Governmental activities capital assets, net  | \$ <u>43,924,379</u>         | \$ <u>1,635,447</u> | \$ <u>(304,273)</u> | \$ -                      | \$ <u>45,255,553</u>      |
| <br>   |                              |                     |                     |                           |                           |
|  | <u>Beginning<br/>Balance</u> | <u>Increases</u>    | <u>Decreases</u>    | <u>Ending<br/>Balance</u> |                           |
| <b>Business-Type Activities:</b>             |                              |                     |                     |                           |                           |
| Capital assets, being depreciated:           |                              |                     |                     |                           |                           |
| Buildings and improvements                   | \$ 21,077,118                | \$ -                | \$ -                | \$ 21,077,118             |                           |
| Machinery, equipment, and furnishings        | 2,881,680                    | 433,351             | -                   | 3,315,031                 |                           |
| Infrastructure                               | 17,739,018                   | 74,593              | -                   | 17,813,611                |                           |
| Total capital assets, being depreciated      | 41,697,816                   | 507,944             | -                   | 42,205,760                |                           |
| Less accumulated depreciation for:           |                              |                     |                     |                           |                           |
| Buildings and improvements                   | (9,600,935)                  | (513,484)           | -                   | (10,114,419)              |                           |
| Machinery, equipment, and furnishings        | (2,602,615)                  | (185,176)           | -                   | (2,787,791)               |                           |
| Infrastructure                               | (12,695,813)                 | (460,927)           | -                   | (13,156,740)              |                           |
| Total accumulated depreciation               | (24,899,363)                 | (1,159,587)         | -                   | (26,058,950)              |                           |
| Total capital assets, being depreciated, net | 16,798,453                   | (651,643)           | -                   | 16,146,810                |                           |
| Capital assets, not being depreciated:       |                              |                     |                     |                           |                           |
| Land   | 1,011,422                    | -                   | -                   | 1,011,422                 |                           |
| Construction in progress (CIP)               | 800,389                      | 765,261             | -                   | 1,565,650                 |                           |
| Total capital assets, not being depreciated  | 1,811,811                    | 765,261             | -                   | 2,577,072                 |                           |
| Business-type activities capital assets, net | \$ <u>18,610,264</u>         | \$ <u>113,618</u>   | \$ -                | \$ <u>18,723,882</u>      |                           |

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

|   |                     |
|---|---------------------|
| Governmental Activities:                              |                     |
| General government                                    | \$ 82,671           |
| Public safety   | 272,158             |
| Education   | 1,021,875           |
| Public works  | 1,034,953           |
| Human services  | 78,649              |
| Culture and recreation                                | <u>84,447</u>       |
| Total depreciation expense - governmental activities  | <u>\$ 2,574,753</u> |
| Business-Type Activities:                             |                     |
| Water   | \$ 628,222          |
| Sewer   | 443,804             |
| Golf  | 14,817              |
| Solid Waste   | <u>72,744</u>       |
| Total depreciation expense - business-type activities | <u>\$ 1,159,587</u> |

#### 10. 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, 2016:

|   | Entity-wide Basis                  |                                     |
|---|------------------------------------|-------------------------------------|
|   | <u>Governmental<br/>Activities</u> | <u>Business-type<br/>Activities</u> |
| Pension related:  |                                    |                                     |
| Net difference between projected and actual investment earnings | \$ 2,562,998                       | \$ 163,525                          |
| Changes in assumptions  | <u>840,291</u>                     | <u>53,613</u>                       |
| Total deferred outflows of resources                            | <u>\$ 3,403,289</u>                | <u>\$ 217,138</u>                   |

#### 11. Warrants and Accounts Payable

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

## 12. Anticipation Notes Payable

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

|                   | <u>Interest<br/>Rate(s) %</u> | <u>Date of<br/>Issue</u> | <u>Date of<br/>Maturity</u> | <u>Balance at<br/>June 30, 2016</u> |
|-------------------|-------------------------------|--------------------------|-----------------------------|-------------------------------------|
| Bond anticipation | 1.35                          | 05/01/16                 | 05/01/17                    | \$ <u>600,000</u>                   |

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

|                   | <u>Balance<br/>Beginning<br/>of Year</u> | <u>New<br/>Issues</u> | <u>Maturities</u>   | <u>Balance<br/>End of<br/>Year</u> |
|-------------------|--|-----------------------|---------------------|------------------------------------|
| Bond anticipation | \$ <u>793,400</u>                        | \$ <u>600,000</u>     | \$ <u>(793,400)</u> | \$ <u>600,000</u>                  |

## 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, 2016 follows:

|   | <u>Serial<br/>Maturities<br/>Through</u> | <u>Interest<br/>Rate(s) %</u> | <u>Loan Balance<br/>Outstanding<br/>June 30, 2016</u> | <u>Bond<br/>Premium<br/>Amortization</u> | <u>Total Balance<br/>Outstanding<br/>June 30, 2016</u> |
|---|--|-------------------------------|---|--|--|
| <u>Governmental Activities:</u>         |  |                               |   |  |  |
| Middle School Roof                      | 11/01/17                                 | 3.0-5.0                       | \$ 1,458,509  | \$ 98,756                                | \$ 1,557,265   |
| Police Station                          | 03/01/34                                 | 3.0-5.0                       | <u>11,190,000</u>                                     | <u>473,875</u>                           | <u>11,663,875</u>                                      |
| Total Governmental Activities           |  |                               | <u>\$ 12,648,509</u>                                  | <u>\$ 572,631</u>                        | <u>\$ 13,221,140</u>                                   |
| <u>Business-Type Activities:</u>        |  |                               |   |  |  |
| <u>Water Fund:</u>                      |  |                               |   |  |  |
| General obligation 2005 - water portion | 11/01/17                                 | 3.0-5.0                       | \$ 35,681   | \$ 16,076                                | \$ 51,757  |
| Water treatment (MWPAT 99-16)           | 08/01/19                                 | 2.0                           | 2,249,513   | -  | 2,249,513  |
| Water treatment (MWPAT 00-16A)          | 08/01/19                                 | 2.0                           | 146   | -  | 146  |
| General obligation 2012 - water portion | 04/01/22                                 | 2.0                           | 1,810,000   | 14,120                                   | 1,824,120  |
| Water treatment (MWPAT 03-10)           | 08/01/24                                 | 2.0                           | <u>1,671,993</u>                                      | <u>100,277</u>                           | <u>1,772,270</u>                                       |
| Total Water Fund                        |  |                               | 5,767,333   | 130,473                                  | 5,897,806  |
| <u>Sewer Fund:</u>                      |  |                               |   |  |  |
| General obligation 2005 - sewer portion | 11/01/17                                 | 3.0-5.0                       | 20,810  | 14,805                                   | 35,615   |
| Sewer treatment (MWPAT 03-10)           | 08/01/24                                 | 2.0                           | <u>486,400</u>  | <u>28,914</u>                            | <u>515,314</u>   |
| Total Sewer Fund                        |  |                               | <u>507,210</u>  | <u>43,719</u>                            | <u>550,929</u>   |
| Total Business-Type Activities          |  |                               | <u>\$ 6,274,543</u>                                   | <u>\$ 174,192</u>                        | <u>\$ 6,448,735</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, 2016 are as follows:

| <u>Governmental</u> | <u>Principal</u>     | <u>Interest</u>     | <u>Total</u>         |
|---------------------|----------------------|---------------------|----------------------|
| 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                | 536,326              | 354,163             | 890,489              |
| 2022 - 2026         | 3,076,630            | 1,374,713           | 4,451,343            |
| 2027 - 2031         | 3,626,630            | 815,456             | 4,442,086            |
| 2032 and thereafter | 2,483,985            | 181,469             | 2,665,454            |
| Total               | <u>\$ 13,221,140</u> | <u>\$ 4,416,815</u> | <u>\$ 17,637,955</u> |

| <u>Business-Type</u> | <u>Principal</u>    | <u>Interest</u>   | <u>Total</u>        |
|----------------------|---------------------|-------------------|---------------------|
| 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                 | 541,420             | 61,227            | 602,647             |
| 2022 - 2025          | 1,378,907           | 80,363            | 1,459,270           |
| Total                | <u>\$ 6,448,735</u> | <u>\$ 792,192</u> | <u>\$ 7,240,927</u> |

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

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

|                                | <u>Total<br/>Balance<br/>July 1, 2015</u> | <u>Additions</u>    | <u>Reductions</u>     | <u>Total<br/>Balance<br/>June 30, 2016</u> | <u>Less<br/>Current<br/>Portion</u> | <u>Long-Term<br/>Portion<br/>June 30, 2016</u> |
|--------------------------------|---|---------------------|-----------------------|--|-------------------------------------|--|
| <u>Governmental Activities</u> |   |                     |                       |  |                                     |  |
| Bonds payable                  | \$ 14,017,170                             | \$ -                | \$ (1,368,661)        | \$ 12,648,509                              | \$ (1,162,509)                      | \$ 11,486,000                                  |
| Unamortized bond premium       | 648,336                                   | -                   | (75,705)              | 572,631                                    | (75,705)                            | 496,926  |
| Total bonds payable            | 14,665,506                                | -                   | (1,444,366)           | 13,221,140                                 | (1,238,214)                         | 11,982,926                                     |
| Other:                         |   |                     |                       |  |                                     |  |
| Accrued employee benefits      | 2,170,822                                 | -                   | (9,957)               | 2,160,865                                  | -                                   | 2,160,865                                      |
| Other post-employment benefits | 39,860,541                                | 4,667,540           | -                     | 44,528,081                                 | -                                   | 44,528,081                                     |
| Total other liabilities        | 42,031,363                                | 4,667,540           | (9,957)               | 46,688,946                                 | -                                   | 46,688,946                                     |
| Net pension liability          | 32,582,973                                | 3,453,748           | -                     | 36,036,721                                 | -                                   | 36,036,721                                     |
| Totals                         | <u>\$ 89,279,842</u>                      | <u>\$ 8,121,288</u> | <u>\$ (1,454,323)</u> | <u>\$ 95,946,807</u>                       | <u>\$ (1,238,214)</u>               | <u>\$ 94,708,593</u>                           |

|  | Balance<br>July 1, 2015<br>(restated) | Additions         | Reductions            | Total<br>Balance<br>June 30, 2016 | Less<br>Current<br>Portion | Long-Term<br>Portion<br>June 30, 2016 |
|--|---------------------------------------|-------------------|-----------------------|-----------------------------------|----------------------------|---------------------------------------|
| <b><u>Business-Type Activities</u></b> |                                       |                   |                       |                                   |                            |                                       |
| Bonds payable                          | \$ 7,548,232                          | \$ -              | \$ (1,273,689)        | \$ 6,274,543                      | \$ (1,106,997)             | \$ 5,167,546                          |
| Unamortized bond premium               | 206,339                               | -                 | (32,147)              | 174,192                           | (32,147)                   | 142,045                               |
| Total bonds payable                    | <u>7,754,571</u>                      | <u>-</u>          | <u>(1,305,836)</u>    | <u>6,448,735</u>                  | <u>(1,139,144)</u>         | <u>5,309,591</u>                      |
| Other:                                 |                                       |                   |                       |                                   |                            |                                       |
| Landfill postclosure, as restated      | 258,164                               | -                 | (12,294)              | 245,870                           | (12,294)                   | 233,576                               |
| Accrued employee benefits              | 51,100                                | 3,479             | -                     | 54,579                            | -                          | 54,579                                |
| Other post-employment benefits         | 951,152                               | 89,871            | -                     | 1,041,023                         | -                          | 1,041,023                             |
| Total other liabilities                | <u>1,260,416</u>                      | <u>93,350</u>     | <u>(12,294)</u>       | <u>1,341,472</u>                  | <u>(12,294)</u>            | <u>1,329,178</u>                      |
| Net pension liability                  | <u>1,963,195</u>                      | <u>336,025</u>    | <u>-</u>              | <u>2,299,220</u>                  | <u>-</u>                   | <u>2,299,220</u>                      |
| Totals                                 | <u>\$ 10,978,182</u>                  | <u>\$ 429,375</u> | <u>\$ (1,318,130)</u> | <u>\$ 10,089,427</u>              | <u>\$ (1,151,438)</u>      | <u>\$ 8,937,989</u>                   |

#### **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 \$245,870 reported as landfill post-closure care liability at June 30, 2016 represents post-closure care costs estimated to be \$12,294 per year for the next 20 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. 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, 2016 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, 2016 receivable balances, less property tax collected within 60 days of year-end.

The following is a summary of deferred inflow of resources balances reported on the government-wide statement of net position as of June 30, 2016:

|  | <u>Governmental<br/>Activities</u> | <u>Business-type<br/>Activities</u> |
|--|------------------------------------|-------------------------------------|
| Pension related:   |                                    |                                     |
| Differences between expected and actual experience   | \$ 95,334                          | \$ 6,082                            |
| Changes in proportion and differences between contributions and proportionate share of contributions | <u>99,845</u>                      | <u>6,371</u>                        |
| Total deferred inflows of resources  | <u>\$ 195,179</u>                  | <u>\$ 12,453</u>                    |

#### **16. Interfund Fund Accounts**

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2016 balances in interfund receivable and payable accounts:

|                                 | <u>Due From<br/>Other Funds</u> | <u>Due To<br/>Other Funds</u> |
|---------------------------------|---------------------------------|-------------------------------|
| General fund                    | \$ 5,281                        | \$ -                          |
| Non-major capital project funds | <u>-</u>                        | <u>5,281</u>                  |
| Total                           | <u>\$ 5,281</u>                 | <u>\$ 5,281</u>               |

The City reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. 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 2016:

| <u>Fund</u>                  | <u>Transfers In</u> | <u>Transfers Out</u> |
|------------------------------|---------------------|----------------------|
| General fund                 | \$ 249,304          | \$ 1,153,371         |
| School Capital Project fund  | 331,999             | -                    |
| Nonmajor Governmental Funds: |                     |                      |
| Special revenue funds        | 40,663              | 245,343              |
| Capital project funds        | 780,709             | 3,961                |
| Total                        | <u>\$ 1,402,675</u> | <u>\$ 1,402,675</u>  |

## 17. **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.

## 18. **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, 2016:

**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, 2016:

|                               | General<br>Fund | School Capital<br>Projects | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|-------------------------------|-----------------|----------------------------|-----------------------------------|--------------------------------|
| <b>Nonspendable</b>           |                 |                            |                                   |                                |
| Nonexpendable permanent funds | \$ -            | \$ -                       | \$ 455,968                        | \$ 455,968                     |
| Total Nonexpendable           | -               | -                          | 455,968                           | 455,968                        |
| <b>Restricted</b>             |                 |                            |                                   |                                |
| Bonded projects               | -               | -                          | 256,982                           | 256,982                        |
| Special revenue funds         | -               | -                          | 3,731,709                         | 3,731,709                      |
| Expendable permanent funds    | -               | -                          | 57,037                            | 57,037                         |
| Total Restricted              | -               | -                          | 4,045,728                         | 4,045,728                      |
| <b>Committed</b>              |                 |                            |                                   |                                |
| Special articles              | 718,705         | -                          | -                                 | 718,705                        |
| Total Committed               | 718,705         | -                          | -                                 | 718,705                        |
| <b>Assigned</b>               |                 |                            |                                   |                                |
| Encumbrances                  | 1,076,763       | -                          | -                                 | 1,076,763                      |
| Total Assigned                | 1,076,763       | -                          | -                                 | 1,076,763                      |
| <b>Unassigned</b>             |                 |                            |                                   |                                |
| General fund                  | 3,036,424       | -                          | -                                 | 3,036,424                      |
| Stabilization fund*           | 2,353,193       | -                          | -                                 | 2,353,193                      |
| Deficit fund balances         | -               | (500,967)                  | -                                 | (500,967)                      |
| Total Unassigned              | 5,389,617       | (500,967)                  | -                                 | 4,888,650                      |
| Total Fund Balance            | \$ 7,185,085    | \$ (500,967)               | \$ 4,501,696                      | \$ 11,185,814                  |

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

## 19. Subsequent Events

Subsequent to June 30, 2016, the City has incurred the following additional debt:

|  | <u>Amount</u>       | <u>Interest<br/>Rate</u> | <u>Issue<br/>Date</u> |
|--|---------------------|--------------------------|-----------------------|
| MCWT Interim Loan CWP-15-21<br>(for Sewer Plant project) | \$ <u>4,580,286</u> | 0.00%                    | 08/01/16              |

This loan is expected to be converted to a permanent loan through the Massachusetts Clean Water Trust no later than December 31, 2018.

## 20. 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.

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

## 21. 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 2016 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over 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, 2016, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of January 1, 2014.

|   | Governmental<br>Funds | Water<br>Fund     | Sewer<br>Fund     | Golf<br>Fund      | Solid Waste<br>Fund | Total                |
|---|-----------------------|-------------------|-------------------|-------------------|---------------------|----------------------|
| Annual Required Contribution (ARC)      | \$ 6,961,834          | \$ 9,333          | \$ 32,151         | \$ 63,993         | \$ 34,770           | \$ 7,102,081         |
| Interest on net OPEB obligation         | 1,594,422             | 5,547             | 9,615             | 19,014            | 3,870               | 1,632,468            |
| Adjustment to ARC                       | <u>(1,430,774)</u>    | <u>(4,978)</u>    | <u>(8,628)</u>    | <u>(17,062)</u>   | <u>(3,473)</u>      | <u>(1,464,915)</u>   |
| Annual OPEB cost                        | 7,125,482             | 9,902             | 33,138            | 65,945            | 35,167              | 7,269,634            |
| Contributions made                      | <u>(2,457,942)</u>    | <u>(16,160)</u>   | <u>(6,929)</u>    | <u>(31,146)</u>   | <u>(46)</u>         | <u>(2,512,223)</u>   |
| Change in net OPEB obligation           | 4,667,540             | (6,258)           | 26,209            | 34,799            | 35,121              | 4,757,411            |
| Net OPEB obligation - beginning 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>    |
| Net OPEB obligation - end of year       | <u>\$ 44,528,081</u>  | <u>\$ 132,430</u> | <u>\$ 266,577</u> | <u>\$ 510,145</u> | <u>\$ 131,871</u>   | <u>\$ 45,569,104</u> |

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

| Fiscal Year<br>Ended | Annual OPEB<br>Costs | Percentage of<br>OPEB Cost<br>Contributed | Net<br>OPEB<br>Obligation |
|----------------------|----------------------|---|---------------------------|
| 2016                 | \$ 7,269,634         | 35%                                       | \$ 45,569,104             |
| 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, 2016 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                    | -                |
| 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 advanced 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).

## **22. 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) scheduled to work a minimum of 20 hours per week, 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          |

### Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 10 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

A retirement allowance may be received at any age, upon attaining 20 years of service if the participant was a member prior to February 1, 2012. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town/City employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

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

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they

generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

### Participant Refunds

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

### Participants Contributions

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

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

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

### Employer Contributions

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

The City's contribution to the System for the year ended June 30, 2016 was \$3,278,737, which was essentially equal to its annual required contribution.

## B. Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2015 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, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 0.47%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### Net Pension Liability

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

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

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

The components of the net pension liability of the participating employers at December 31, 2015 were as follows (in thousands):

## Actuarial Assumptions

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

|   |   |
|---|---|
| Valuation Date                            | January 1, 2015 rolled forward to December 31, 2015 |
| Actuarial cost method                     | Entry Age Normal                                    |
| Actuarial assumptions:                    |   |
| Investment rate of return                 | 7.875%  |
| Projected salary increases                | 4.25 - 17.0%  |
| Inflation rate                            | Not explicitly stated                               |
| Post-retirement cost-of-living adjustment | 3% of first \$13,000                                |

Actuarial valuation of the ongoing System 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, 2015 valuation were based on the results of the most recent actuarial experience study, which was for the period December 31, 2014.

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<br/>Asset<br/>Allocation</u> | <u>Long-term<br/>Expected<br/>Real Rate<br/>of Return</u> |
|--------------------------|--|---|
| Large Cap Equities       | 14.50%                                 | 4.37%   |
| Small/Mid Cap Equities   | 3.50%                                  | 4.61%   |
| International Equities   | 16.00%                                 | 4.85%   |
| Emerging Market Equities | 6.00%                                  | 6.31%   |
| Core Bonds               | 5.00%                                  | .76%  |
| 20+ yr Treasuries        | 5.00%                                  | .49%  |
| TIPS                     | 3.00%                                  | .97%  |
| High-Yield Bonds         | 1.50%                                  | 2.67%   |
| Bank Loans               | 1.50%                                  | 2.91%   |
| EMD (external)           | 1.00%                                  | 2.91%   |
| EMD (local currency)     | 2.00%                                  | 3.40%   |
| Orivate Debt             | 4.00%                                  | 4.85%   |
| Private Equity           | 10.00%                                 | 6.31%   |
| Real Estate              | 10.00%                                 | 3.40%   |
| Timber                   | 4.00%                                  | 3.95%   |
| Hedge Funds              | 9.00%                                  | 3.40%   |
| Portfolio Completion     | 4.00%                                  | 3.09%   |
| Total                    | <u>100.00%</u>                         |   |

Discount Rate: The discount rate used to measure the total pension liability was 7.875%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate: The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.875 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.875%) or 1 percentage-point higher (8.875%) than the current rate (in thousands):

| <u>Fiscal Year Ended</u> | <u>1%<br/>Decrease<br/>(6.875%)</u> | <u>Current<br/>Discount<br/>Rate<br/>(7.875%)</u> | <u>1% Increase<br/>(8.875%)</u> |
|--------------------------|-------------------------------------|---|---------------------------------|
| June 30, 2016            | \$47,103                            | \$38,336  | \$31,564                        |

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

At June 30, 2016, the City reported a liability of \$38.3 million for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the City's proportion was 95.43 percent.

For the year ended June 30, 2016, the City recognized pension expense of \$3,868,041. In addition, the City reported deferred outflows of resources related to pensions from the following sources:

|  | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|--|---|--|
| Net difference between projected and actual earnings on pension plan investments                     | \$ 2,726,524                                  | \$ -   |
| Changes in assumptions   | 893,903                                       | -  |
| Differences between expected and actual experience   | -   | 101,417                                      |
| Changes in proportion and differences between contributions and proportionate share of contributions | -   | 106,215                                      |
|  | <u>\$ 3,620,427</u>                           | <u>\$ 207,632</u>                            |

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

Year ended June 30:

|            |                     |
|------------|---------------------|
| 2017       | \$ 846,474          |
| 2018       | 846,474             |
| 2019       | 846,474             |
| 2020       | 800,848             |
| 2021       | 84,451              |
| Thereafter | <u>(11,926)</u>     |
| Total      | <u>\$ 3,412,795</u> |

## **23. Massachusetts Teachers' Retirement System (MTRS)**

### **A. Plan Description**

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

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

### **B. Benefits Provided**

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

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

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

*C. Contributions*

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

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

*D. Actuarial Assumptions*

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

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

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2015 are summarized in the following table:

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

#### E. Discount Rate

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

#### F. Sensitivity Analysis

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

| <u>Fiscal Year Ended</u> | <u>1%<br/>Decrease<br/>(6.50%)</u> | <u>Current<br/>Discount<br/>Rate (7.50%)</u> | <u>1% Increase<br/>(8.50%)</u> |
|--------------------------|------------------------------------|--|--------------------------------|
| June 30, 2015            | \$ 25,449,000                      | \$ 20,489,643                                | \$ 16,221,000                  |

**G. Special Funding Situation**

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

**H. City Proportions**

In fiscal year 2015 (the most recent measurement period), the City's proportionate share of the MTRS' collective net pension liability and pension expense was \$48,175,318 and \$3,907,447 respectively, based on a proportionate share of 0.235%. 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.

**24. 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, 2016 are as follows:

|   |                     |
|---|---------------------|
| Claims liability, July 1, 2015                    | \$ 1,791,807        |
| Claims incurred/recognized<br>in fiscal year 2016 | 9,048,363           |
| Claims paid in fiscal year 2016                   | <u>(10,335,968)</u> |
| Claims liability, June 30, 2016                   | <u>\$ 504,202</u>   |

The claims liability at year end was comprised entirely of an estimate of claims incurred but not reported by year end.

## 25. Beginning Net Position/Fund Balance Restatement and Reclassification

The City's major governmental funds for the fiscal year 2016, as defined by GASB Statement 34, have changed from the previous fiscal year. In addition, the beginning (July 1, 2015) net position of the City has been restated as follows:

|  | Governmental<br>Activities | Business-Type Activities |                                      | Fund Basis                      |                                   |                     | Fiduciary<br>Funds          |
|--|----------------------------|--------------------------|--------------------------------------|---------------------------------|-----------------------------------|---------------------|-----------------------------|
|  |                            | Landfill<br>Fund         | Total<br>Business-Type<br>Activities | City Capital<br>Project<br>Fund | School Capital<br>Project<br>Fund | Nonmajor<br>Funds   | Private<br>Purpose<br>Trust |
| <u>Government Wide</u>   |                            |                          |                                      |                                 |                                   |                     |                             |
| <u>Financial Statements:</u>   |                            |                          |                                      |                                 |                                   |                     |                             |
| Net position/fund balance 06/30/15<br>as previously reported             | \$ (27,851,739)            | \$ (102,315)             | \$ 18,137,563                        | \$ 16,143                       | \$ -                              | \$ 5,684,157        | \$ 1,198,702                |
| Reclassify William Rockwell Trust fund<br>as a private purpose trust     | (1,918,937)                | -                        | -                                    | -                               | -                                 | (1,918,937)         | 1,918,937                   |
| Correct prior year over-accrual of<br>revenue                            | (95,891)                   | -                        | -                                    | -                               | -                                 | (95,891)            | -                           |
| Adjust for change in landfill<br>monitoring liability estimate           | -                          | (79,664)                 | (79,664)                             | -                               | -                                 | -                   | -                           |
| Reclassify for changes in major funds<br>as defined by GASB Statement 34 | -                          | -                        | -                                    | (16,143)                        | (784,345)                         | 800,488             | -                           |
| As restated and reclassified   | <u>\$ (29,866,567)</u>     | <u>\$ (181,979)</u>      | <u>\$ 18,057,899</u>                 | <u>\$ -</u>                     | <u>\$ (784,345)</u>               | <u>\$ 4,469,817</u> | <u>\$ 3,117,639</u>         |

## 26. 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.

## **27. Implementation of New GASB Standard**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, replacing requirements of Statements No. 45 and 57, effective for the City beginning with its year ending June 30, 2018. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB. Management's current assessment is that this pronouncement will have an impact by increasing net OPEB liability, and as a result, decreasing the unrestricted net position on the government-wide financial statements.

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

June 30, 2016

(Unaudited)

(Amounts expressed in thousands)

Other Post-Employment Benefits

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| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) -<br>Entry Age<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as<br>a Percent-<br>age of<br>Covered<br>Payroll<br>[(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, 2016

(Unaudited)

(Amounts expressed in thousands)

**Gardner Contributory Retirement System**

| <u>Fiscal Year</u> | <u>Proportion of the Net Pension Liability</u> | <u>Proportionate Share of the Net Pension Liability</u> | <u>Covered Payroll</u> | <u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u> | <u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u> |
|--------------------|--|---|------------------------|--|--|
| June 30, 2016      | 95.43%   | \$38,336  | \$10,920               | 351.06%  | 53.57%   |
| June 30, 2015      | 95.79%   | \$34,546  | \$10,465               | 330.11%  | 56.63%   |

**Massachusetts Teachers' Retirement System**

| <u>Fiscal Year</u> | <u>Proportion of the Net Pension Liability</u> | <u>Proportionate Share of the Net Pension Liability</u> | <u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the City</u> | <u>Total Net Pension Liability Associated with the City</u> | <u>Covered Payroll</u> | <u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u> | <u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u> |
|--------------------|--|---|---|---|------------------------|--|--|
| June 30, 2016      | 0.24%  | \$ -  | \$48,175  | \$ 48,175   | \$14,904               | -  | 55.38%   |
| June 30, 2015      | 0.24%  | \$ -  | \$37,761  | \$ 37,761   | \$14,565               | -  | 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 PENSION CONTRIBUTIONS  
 REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016

(Unaudited)

(Amounts expressed in thousands)

**Gardner Contributory Retirement System**

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| <u>Fiscal<br/>Year</u> | <u>Contractually<br/>Required<br/>Contribution</u> | Contributions in<br>Relation to the<br><u>Contractually<br/>Required<br/>Contribution</u> | <u>Contribution<br/>Deficiency<br/>(Excess)</u> | <u>Covered<br/>Payroll</u> | <u>Contributions as<br/>a Percentage of<br/>Covered Payroll</u> |
|------------------------|--|---|---|----------------------------|---|
| June 30, 2016          | \$3,279  | \$3,308   | \$29  | \$10,920                   | 30.29%  |
| June 30, 2015          | \$3,105  | \$3,136   | \$31  | \$10,465                   | 29.97%  |

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

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