

CITY OF GARDNER, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2017

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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, 2017, 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, 2016), which represents 81%, 84%, and 38%, 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, 2017, 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 and the Pension and OPEB schedules appearing on pages 62 to 66 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 26, 2018 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 26, 2018

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, 2017.

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 comprise 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, interest, and intergovernmental. 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 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 fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds.

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs such as depreciation or debt service. The primary focus on these criteria is on fees charged to external users. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. Specifically, enterprise funds are used to account for water, sewer, golf, solid waste and landfill operations, which are considered to be major funds.

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.

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 and deferred inflows exceeded assets and deferred outflows by \$(8,337,021) (i.e., net position), a change of \$2,944,644 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$12,784,333, a change of \$1,598,519 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,776,873, a change of \$(612,744) in comparison with the prior year.
- At the close of the current fiscal year, the Stabilization Fund balance (which is combined with the General Fund) was \$2,491,770, which represents an increase of \$138,577 in comparison with the prior year.

C. FINANCIAL HIGHLIGHTS

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

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 22,625,541	\$ 20,160,576	\$ 13,775,353	\$ 11,139,240	\$ 36,400,894	\$ 31,299,816
Capital assets	<u>54,857,061</u>	<u>45,255,553</u>	<u>20,690,992</u>	<u>18,723,882</u>	<u>75,548,053</u>	<u>63,979,435</u>
Total assets	77,482,602	65,416,129	34,466,345	29,863,122	111,948,947	95,279,251
Deferred outflows	3,854,479	3,403,289	293,192	217,138	4,147,671	3,620,427
Long-term liabilities outstanding	107,298,585	95,946,807	13,989,709	10,089,425	121,288,294	106,036,232
Other liabilities	<u>2,895,565</u>	<u>3,364,814</u>	<u>87,059</u>	<u>572,665</u>	<u>2,982,624</u>	<u>3,937,479</u>
Total liabilities	110,194,150	99,311,621	14,076,768	10,662,090	124,270,918	109,973,711
Deferred inflows	151,219	195,179	11,502	12,453	162,721	207,632
Net position:						
Invested in capital assets, net	38,213,185	33,406,410	10,654,380	12,120,770	48,867,565	45,527,180
Restricted	4,946,070	4,244,714	-	-	4,946,070	4,244,714
Unrestricted	<u>(72,167,543)</u>	<u>(68,338,506)</u>	<u>10,016,887</u>	<u>7,284,947</u>	<u>(62,150,656)</u>	<u>(61,053,559)</u>
Total net position	\$ <u>(29,008,288)</u>	\$ <u>(30,687,382)</u>	\$ <u>20,671,267</u>	\$ <u>19,405,717</u>	\$ <u>(8,337,021)</u>	\$ <u>(11,281,665)</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 \$(8,337,021), a change of \$2,944,644 from the prior year.

The largest portion of net position \$48,867,565 reflects our investment in capital assets (e.g., land, buildings, machinery, 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 \$4,946,070 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position was a deficit of \$(72,167,543) in governmental activities, caused by unfunded pension and OPEB liabilities, as discussed in Notes 18 and 20, and a surplus of \$10,016,887 in business-type activities.

CHANGES IN NET POSITION

	Governmental		Business-Type		Total	
	<u>Activities</u>		<u>Activities</u>			
	<u>2017</u>	2016	<u>2017</u>	2016	<u>2017</u>	2016
Revenues:						
Program revenues:						
Charges for services	\$ 2,256,108	\$ 2,023,998	\$ 8,513,056	\$ 8,703,902	\$ 10,769,164	\$ 10,727,900
Operating grants and contributions	36,204,188	32,309,824	-	-	36,204,188	32,309,824
Capital grants and contributions	2,703,081	2,705,424	411,316	278,016	3,114,397	2,983,440
General revenues:						
Property taxes	24,528,305	23,448,682	-	-	24,528,305	23,448,682
Excises	2,119,100	2,097,043	-	-	2,119,100	2,097,043
Penalties, interest on taxes	597,394	620,763	-	-	597,394	620,763
Grants and contributions not restricted to specific programs	4,335,852	4,146,524	-	-	4,335,852	4,146,524
Investment income	80,304	109,188	-	-	80,304	109,188
Miscellaneous	596,446	851,750	-	-	596,446	851,750
Total revenues	<u>73,420,778</u>	<u>68,313,196</u>	<u>8,924,372</u>	<u>8,981,918</u>	<u>82,345,150</u>	<u>77,295,114</u>
Expenses:						
General government	9,065,073	8,207,402	-	-	9,065,073	8,207,402
Public safety	18,021,959	17,089,192	-	-	18,021,959	17,089,192
Education	33,652,989	33,439,963	-	-	33,652,989	33,439,963
Public works	4,191,327	3,614,527	-	-	4,191,327	3,614,527
Health and human services	2,292,310	2,307,099	-	-	2,292,310	2,307,099
Culture and recreation	1,954,178	2,083,802	-	-	1,954,178	2,083,802
Interest	422,171	484,582	-	-	422,171	484,582
Intergovernmental	2,141,677	1,907,444	-	-	2,141,677	1,907,444
Water operations	-	-	2,880,864	2,932,419	2,880,864	2,932,419
Sewer operations	-	-	2,494,795	2,361,679	2,494,795	2,361,679
Golf operations	-	-	953,189	922,193	953,189	922,193
Solid waste operations	-	-	1,312,486	1,373,875	1,312,486	1,373,875
Landfill operations	-	-	17,488	43,936	17,488	43,936
Total expenses	<u>71,741,684</u>	<u>69,134,011</u>	<u>7,658,822</u>	<u>7,634,102</u>	<u>79,400,506</u>	<u>76,768,113</u>
Change in net position	1,679,094	(820,815)	1,265,550	1,347,816	2,944,644	527,001
Net assets - beginning of year	<u>(30,687,382)</u>	<u>(29,866,567)</u>	<u>19,405,717</u>	<u>18,057,901</u>	<u>(11,281,665)</u>	<u>(11,808,666)</u>
Net assets - end of year	<u>\$ (29,008,288)</u>	<u>\$ (30,687,382)</u>	<u>\$ 20,671,267</u>	<u>\$ 19,405,717</u>	<u>\$ (8,337,021)</u>	<u>\$ (11,281,665)</u>

Governmental activities. Governmental activities for the year resulted in a change in net position of \$1,679,094. Key elements of this change are as follows:

Consolidated general fund operations	\$ (619,821)
Other funds revenues in excess of expenditures	2,218,340
Depreciation expense in excess of principal debt service	(1,351,406)
Internal service fund operations	1,758,442
Reverse lease proceeds from revenue	(6,741,940)
Capital assets purchases	12,134,086
Capital asset dispositions	(18,663)
Current year amortization of state (MSBA) reimbursements of school building projects, accrued in a prior year	(807,991)
Current year accrual of other post-employment benefit liability	(4,874,984)
Current year accrual of net pension liability (net of deferrals)	(465,563)
Other	448,594
Total	<u>\$ 1,679,094</u>

Business-Type Activities. Business-type activities for the year resulted in a change in net position of \$1,265,550. Key elements of this change are as follows:

Water enterprise	\$ 623,515
Sewer enterprise	717,949
Golf enterprise	(222,188)
Solid Waste enterprise	153,565
Landfill enterprise	(7,291)
Total	<u>\$ 1,265,550</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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$12,784,333, a change of \$1,598,519 in comparison with the (restated and reclassified) prior year. Key elements of this change are as follows:

Consolidated general fund operations	\$ (619,821)
Other funds revenues in excess of expenditures	<u>2,218,340</u>
Total	<u>\$ 1,598,519</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,776,873, while total fund balance was \$6,565,264. 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>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>	<u>% of Total 2017 General Fund Expenditures</u>
Unassigned - General fund	\$ 2,285,103	\$ 3,036,424	\$ (751,321)	3.8%
Unassigned - Stabilization fund	<u>2,491,770</u>	<u>2,353,193</u>	<u>138,577</u>	<u>4.1%</u>
Total Unassigned fund balance	\$ <u>4,776,873</u>	\$ <u>5,389,617</u>	\$ <u>(612,744)</u>	<u>7.9%</u>
Total fund balance	\$ 6,565,264	\$ 7,185,085	\$ (619,821)	10.9%

The total fund balance of the general fund changed by \$(619,821) during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:

Excess of tax collections compared to budget	\$ 92,427
Excess of state and local revenues over budget	1,234,974
Budgetary appropriations unspent by departments	309,089
Use of free cash (fund balance) as a funding source	(2,413,342)

Timing Differences:

Difference between prior year encumbrances spent in the current year and current year encumbrances to be spent in subsequent period	(7,077)
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Other:

Stabilization Fund interest and transfers in	138,577
Reverse effect of GAAP accruals	<u>25,531</u>
Total	\$ <u>(619,821)</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 \$10,016,887, an increase of \$2,731,940 in comparison with the 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 \$2,413,342. Major reasons for these amendments include:

- \$ 164,272 increase for general government appropriations.
- \$ 95,000 increase for public safety appropriations
- \$ 430,762 increase in education appropriations.
- \$ 1,390,000 increase for other public works appropriations.
- \$ 87,000 increase in various other departmental appropriations.
- \$ 24,365 transfer to other post-employment benefits trust fund.
- \$ 121,825 transfer to stabilization fund.
- \$ 100,118 transfer to capital project funds.

All 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 \$75,548,053 (net of accumulated depreciation). 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	\$ (2,513,915)
Depreciation expense - business-type activities	(1,046,504)
Police station building (in progress)	41,766
ESS School building (in progress)	1,629,335
Department of public works new building (in progress)	2,996,528
Purchase of property related to Alisaukas project	407,937
Purchase of new windows for annex building	79,610
Purchase of four police cruisers	147,860
Purchase of three fire vehicles	171,980
Purchase of snow removal truck	164,134
Purchase of 911 RECCD equipment and IT software	732,632
Purchase of DPW vehicle	65,399
Purchase of snow removal equipment	93,329
Streetscape improvements and street construction	1,350,412
Land acquired through tax foreclosure	80,638
Department of public works - Honeywell lease	5,438,043
Rear Main Street road improvements	1,494,733
Purchase of computers for Elm Street school	97,600
Various other purchases, net of disposals	137,101
	<u>\$ 11,568,618</u>

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding, including unamortized bond premium, was \$21,725,759, 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 Notes 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, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Levi Heywood Library Association
ASSETS				
Current:				
Cash and short-term investments	\$ 9,148,171	\$ 9,819,749	\$ 18,967,920	\$ 203,489
Investments	4,579,665	-	4,579,665	995,768
Receivables, net of allowance for uncollectibles:				
Property taxes	1,050,694	-	1,050,694	-
Excises	337,775	-	337,775	-
User fees	-	2,431,563	2,431,563	212,954
Intergovernmental	4,036,362	1,524,041	5,560,403	-
Other assets	1,721,369	-	1,721,369	7,665
Noncurrent:				
Receivables, net of allowance for uncollectibles:				
Property taxes	943,514	-	943,514	-
Intergovernmental	807,991	-	807,991	-
Land and construction in progress	30,274,990	5,490,212	35,765,202	-
Capital assets, net of accumulated depreciation	24,582,071	15,200,780	39,782,851	5,334,123
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	3,854,479	293,192	4,147,671	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	81,337,081	34,759,537	116,096,618	6,753,999
LIABILITIES				
Current:				
Warrants payable	2,010,479	87,059	2,097,538	-
Accounts payable	-	-	-	1,943
Accrued payroll and withholdings	171,959	-	171,959	207,775
Accrued claims payable	452,484	-	452,484	-
Other current liabilities	260,643	-	260,643	-
Current portion of long-term liabilities:				
Bonds payable	1,256,703	1,321,879	2,578,582	-
Other liabilities	205,201	12,294	217,495	-
Noncurrent:				
Bonds payable, net of current portion	10,726,223	8,420,954	19,147,177	-
Net pension liability	36,997,434	2,814,223	39,811,657	-
Net OPEB obligation	49,403,065	1,143,313	50,546,378	-
Other liabilities, net of current portion	8,709,959	277,046	8,987,005	-
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	151,219	11,502	162,721	-
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	110,345,369	14,088,270	124,433,639	209,718
NET POSITION				
Invested in capital assets	38,213,185	10,654,380	48,867,565	5,236,073
Restricted for:				
Grants and other statutory restrictions	4,436,464	-	4,436,464	-
Permanent funds:				
Nonexpendable	457,941	-	457,941	235,997
Expendable	51,665	-	51,665	144,499
Unrestricted	(72,167,543)	10,016,887	(62,150,656)	927,712
TOTAL NET POSITION	\$ (29,008,288)	\$ 20,671,267	\$ (8,337,021)	\$ 6,544,281

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

CITY OF GARDNER, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	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
Governmental Activities:								
General government	\$ 9,065,073	\$ 1,221,142	\$ 2,180,276	\$ 8,515	\$ (5,655,140)	\$ -	\$ (5,655,140)	\$ -
Public safety	18,021,959	555,748	2,054,916	-	(15,411,295)	-	(15,411,295)	-
Education	33,652,989	369,264	30,666,328	828,295	(1,789,102)	-	(1,789,102)	-
Public works	4,191,327	78,885	233,380	1,866,271	(2,012,791)	-	(2,012,791)	-
Health and human services	2,292,310	-	939,850	-	(1,352,460)	-	(1,352,460)	-
Culture and recreation	1,954,178	31,069	129,438	-	(1,793,671)	-	(1,793,671)	-
Interest	422,171	-	-	-	(422,171)	-	(422,171)	-
Intergovernmental	2,141,677	-	-	-	(2,141,677)	-	(2,141,677)	-
Total Governmental Activities	71,741,684	2,256,108	36,204,188	2,703,081	(30,578,307)	-	(30,578,307)	-
Business-Type Activities:								
Water operations	2,880,864	3,250,363	-	254,016	-	623,515	623,515	-
Sewer operations	2,494,795	3,055,444	-	157,300	-	717,949	717,949	-
Golf operations	953,189	731,001	-	-	-	(222,188)	(222,188)	-
Solid waste operations	1,312,486	1,466,051	-	-	-	153,565	153,565	-
Landfill operations	17,488	10,197	-	-	-	(7,291)	(7,291)	-
Total Business-type Activities	7,658,822	8,513,056	-	411,316	-	1,265,550	1,265,550	-
Total Primary Government	\$ 79,400,506	\$ 10,769,164	\$ 36,204,188	\$ 3,114,397	(30,578,307)	1,265,550	(29,312,757)	-
Component Unit:								
Levi Heywood Library Association	\$ 1,181,386	\$ 29,762	\$ -	\$ -	-	-	-	(1,151,624)
General Revenues:								
Property taxes					24,528,305	-	24,528,305	-
Excises					2,119,100	-	2,119,100	-
Penalties, interest and other taxes					597,394	-	597,394	-
Grants and contributions not restricted to specific programs					4,335,852	-	4,335,852	921,529
Investment income					80,304	-	80,304	89,186
Miscellaneous					596,446	-	596,446	-
Total general revenues					32,257,401	-	32,257,401	1,010,715
Change in Net Position					1,679,094	1,265,550	2,944,644	(140,909)
Net Position:								
Beginning of year					(30,687,382)	19,405,717	(11,281,665)	6,685,190
End of year					\$ (29,008,288)	\$ 20,671,267	\$ (8,337,021)	\$ 6,544,281

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

CITY OF GARDNER, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
ASSETS			
Cash and short-term investments	\$ 5,182,990	\$ 2,660,956	\$ 7,843,946
Investments	2,379,396	475,536	2,854,932
Receivables:			
Property taxes	1,118,950	-	1,118,950
Tax title	1,179,393	-	1,179,393
Excises	724,465	-	724,465
Intergovernmental	1,137,647	2,898,715	4,036,362
Other assets	<u>-</u>	<u>1,306,277</u>	<u>1,306,277</u>
TOTAL ASSETS	\$ <u>11,722,841</u>	\$ <u>7,341,484</u>	\$ <u>19,064,325</u>
LIABILITIES			
Warrants payable	\$ 789,543	\$ 1,103,998	\$ 1,893,541
Accrued payroll and withholdings	171,959	-	171,959
Other liabilities	<u>242,226</u>	<u>18,417</u>	<u>260,643</u>
TOTAL LIABILITIES	1,203,728	1,122,415	2,326,143
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues	3,953,849	-	3,953,849
FUND BALANCES			
Nonspendable	-	457,941	457,941
Restricted	-	5,957,690	5,957,690
Committed	1,515,361	-	1,515,361
Assigned	273,030	-	273,030
Unassigned	<u>4,776,873</u>	<u>(196,562)</u>	<u>4,580,311</u>
TOTAL FUND BALANCES	<u>6,565,264</u>	<u>6,219,069</u>	<u>12,784,333</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ <u>11,722,841</u>	\$ <u>7,341,484</u>	\$ <u>19,064,325</u>

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, 2017

Total Governmental Fund Balances	\$ 12,784,333
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	54,857,061
<ul style="list-style-type: none">• Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds.	3,703,260
<ul style="list-style-type: none">• 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.	4,071,015
<ul style="list-style-type: none">• 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.	2,874,628
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, compensated absences, net OPEB liability, and net pension liability, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(107,298,585)</u>
Net Position of Governmental Activities	\$ <u><u>(29,008,288)</u></u>

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

CITY OF GARDNER, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2017

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Property taxes	\$ 24,387,490	\$ -	\$ 24,387,490
Excises	2,079,175	-	2,079,175
Penalties, interest and other taxes	597,394	-	597,394
Charges for services	1,115,925	715,401	1,831,326
Intergovernmental	30,947,585	10,190,060	41,137,645
Licenses and permits	294,404	-	294,404
Fines and forfeitures	130,378	-	130,378
Investment income (loss)	69,254	6,028	75,282
Miscellaneous	271,363	213,275	484,638
	<hr/>	<hr/>	<hr/>
Total Revenues	59,892,968	11,124,764	71,017,732
Expenditures:			
Current:			
General government	2,539,826	3,523,840	6,063,666
Public safety	7,151,187	980,882	8,132,069
Education	28,842,592	5,070,042	33,912,634
Public works	3,185,998	6,189,037	9,375,035
Health and human services	1,259,052	108,496	1,367,548
Culture and recreation	834,311	58,285	892,596
Employee benefits	12,615,543	-	12,615,543
Debt service	1,660,385	-	1,660,385
Intergovernmental	2,141,677	-	2,141,677
	<hr/>	<hr/>	<hr/>
Total Expenditures	60,230,571	15,930,582	76,161,153
Excess (deficiency) of revenues over expenditures	(337,603)	(4,805,818)	(5,143,421)
Other Financing Sources (Uses):			
Issuance of lease	-	6,741,940	6,741,940
Transfers in	417,900	700,118	1,118,018
Transfers out	(700,118)	(417,900)	(1,118,018)
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(282,218)	7,024,158	6,741,940
Change in fund balance	(619,821)	2,218,340	1,598,519
Fund Balance, at Beginning of Year, as reclassified	<hr/> 7,185,085	<hr/> 4,000,729	<hr/> 11,185,814
Fund Balance, at End of Year	\$ <hr/> <u>6,565,264</u>	\$ <hr/> <u>6,219,069</u>	\$ <hr/> <u>12,784,333</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, 2017

Net Changes in Fund Balances - Total Governmental Funds	\$ 1,598,519																				
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table style="margin-left: 40px; width: 100%;"> <tr> <td>Capital purchases</td> <td style="text-align: right;">12,134,086</td> </tr> <tr> <td>Loss on disposal of assets</td> <td style="text-align: right;">(18,663)</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(2,513,915)</td> </tr> </table> • 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 and changes in other long term liabilities consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table style="margin-left: 40px; width: 100%;"> <tr> <td>Issuance of debt (capital lease)</td> <td style="text-align: right;">(6,741,940)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">1,162,509</td> </tr> <tr> <td>Change in net pension liability, net of deferrals</td> <td style="text-align: right;">(465,563)</td> </tr> <tr> <td>Change in net OPEB obligation</td> <td style="text-align: right;">(4,874,984)</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">63,350</td> </tr> </table> • 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. <table style="margin-left: 40px; width: 100%;"> <tr> <td></td> <td style="text-align: right;">(422,747)</td> </tr> </table> • Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. <table style="margin-left: 40px; width: 100%;"> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">1,758,442</td> </tr> </table> 	Capital purchases	12,134,086	Loss on disposal of assets	(18,663)	Depreciation	(2,513,915)	Issuance of debt (capital lease)	(6,741,940)	Repayments of debt	1,162,509	Change in net pension liability, net of deferrals	(465,563)	Change in net OPEB obligation	(4,874,984)	Other	63,350		(422,747)		1,758,442	
Capital purchases	12,134,086																				
Loss on disposal of assets	(18,663)																				
Depreciation	(2,513,915)																				
Issuance of debt (capital lease)	(6,741,940)																				
Repayments of debt	1,162,509																				
Change in net pension liability, net of deferrals	(465,563)																				
Change in net OPEB obligation	(4,874,984)																				
Other	63,350																				
	(422,747)																				
	1,758,442																				
Changes in Net Position of Governmental Activities	\$ 1,679,094																				

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, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original Budget	Final Budget		Positive (Negative)
Revenues and Other Sources:				
Property taxes	\$ 24,295,063	\$ 24,295,063	\$ 24,295,063	\$ -
Excise	1,782,922	1,782,922	2,079,175	296,253
Penalties, interest and other taxes	425,000	425,000	597,394	172,394
Charges for services	1,096,700	1,096,700	1,115,925	19,225
Intergovernmental	25,236,629	25,236,629	25,658,304	421,675
Licenses and permits	250,000	250,000	294,404	44,404
Fines and forfeitures	115,000	115,000	130,378	15,378
Investment income	20,000	20,000	52,502	32,502
Miscellaneous	183,396	183,396	217,542	34,146
Transfers in	247,194	247,194	446,191	198,997
Other sources	-	2,413,342	2,413,342	-
Total Revenues and Other Sources	53,651,904	56,065,246	57,300,220	1,234,974
Expenditures and Other Uses:				
General government	2,457,113	2,621,385	2,422,779	198,606
Public safety	7,015,024	7,110,024	6,952,248	157,776
Education	22,663,522	23,094,284	23,026,998	67,286
Public works	2,788,562	4,178,562	4,058,124	120,438
Health and human services	1,207,372	1,294,372	1,230,518	63,854
Culture and recreation	831,720	831,720	825,941	5,779
Employee benefits	12,234,629	12,234,629	12,591,179	(356,550)
Debt service	2,312,285	2,312,285	2,260,385	51,900
Intergovernmental	2,141,677	2,141,677	2,141,677	-
Transfers out	-	246,308	246,308	-
Total Expenditures and Other Uses	53,651,904	56,065,246	55,756,157	309,089
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,544,063	\$ 1,544,063

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

CITY OF GARDNER, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2017

ASSETS	Business-Type Activities Enterprise Funds					Total	Governmental Activities
	Water Fund	Sewer Fund	Golf Fund	Solid Waste Fund	Landfill Fund		Internal Service Funds
Current:							
Cash and short-term investments	\$ 2,344,453	\$ 6,770,340	\$ 95,705	\$ 472,307	\$ 136,944	\$ 9,819,749	\$ 1,304,225
Investments	-	-	-	-	-	-	1,724,733
User fees	1,025,699	928,408	-	477,456	-	2,431,563	-
Intergovernmental receivables	-	1,524,041	-	-	-	1,524,041	-
Other assets	-	-	-	-	-	-	415,092
Total current assets	3,370,152	9,222,789	95,705	949,763	136,944	13,775,353	3,444,050
Noncurrent:							
Land and construction in progress	591,769	4,478,790	419,653	-	-	5,490,212	-
Capital assets, net of accumulated depreciation	12,086,093	2,918,448	143,257	52,982	-	15,200,780	-
Total noncurrent assets	12,677,862	7,397,238	562,910	52,982	-	20,690,992	-
DEFERRED OUTFLOWS OF RESOURCES							
Related to pensions	70,303	45,160	128,221	33,747	15,761	293,192	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	16,118,317	16,665,187	786,836	1,036,492	152,705	34,759,537	3,444,050
LIABILITIES							
Current:							
Warrants payable	16,335	61,387	3,144	5,760	433	87,059	116,938
Accrued claims payable	-	-	-	-	-	-	452,484
Current portion of long-term liabilities:							
Bonds payable	1,075,345	246,534	-	-	-	1,321,879	-
Other liabilities	-	-	-	-	12,294	12,294	-
Total current liabilities	1,091,680	307,921	3,144	5,760	12,727	1,421,232	569,422
Noncurrent:							
Bonds payable, net of current portion	3,752,274	4,668,680	-	-	-	8,420,954	-
Net pension liability	674,811	433,469	1,230,734	323,925	151,284	2,814,223	-
Net OPEB obligation	141,088	279,720	562,906	159,599	-	1,143,313	-
Other liabilities, net of current portion	-	-	55,764	-	221,282	277,046	-
Total noncurrent liabilities	4,568,173	5,381,869	1,849,404	483,524	372,566	12,655,536	-
DEFERRED INFLOWS OF RESOURCES							
Related to pensions	2,758	1,772	5,030	1,324	618	11,502	-
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	5,662,611	5,691,562	1,857,578	490,608	385,911	14,088,270	569,422
NET POSITION							
Invested in capital assets, net of related debt	7,951,437	2,082,250	567,711	52,982	-	10,654,380	-
Unrestricted	2,504,269	8,891,375	(1,638,453)	492,902	(233,206)	10,016,887	2,874,628
TOTAL NET POSITION	\$ 10,455,706	\$ 10,973,625	\$ (1,070,742)	\$ 545,884	\$ (233,206)	\$ 20,671,267	\$ 2,874,628

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, 2017

	Business-Type Activities Enterprise Funds						Governmental Activities
	Water Fund	Sewer Fund	Golf Fund	Solid Waste Fund	Landfill Fund	Total	Internal Service Fund
Operating Revenues:							
Charges for services	\$ 3,250,363	\$ 3,055,444	\$ 731,001	\$ 1,466,051	\$ 10,197	\$ 8,513,056	\$ -
Employee contributions	-	-	-	-	-	-	2,563,296
Employer contributions	-	-	-	-	-	-	7,749,999
Total Operating Revenues	<u>3,250,363</u>	<u>3,055,444</u>	<u>731,001</u>	<u>1,466,051</u>	<u>10,197</u>	<u>8,513,056</u>	<u>10,313,295</u>
Operating Expenses:							
Salary and benefits	306,861	219,446	581,703	190,788	-	1,298,798	-
Other operating expenses	1,608,014	1,709,176	229,969	1,052,763	15,488	4,615,410	-
Depreciation	616,282	404,770	11,517	13,935	-	1,046,504	-
Administrative assessments	160,000	150,000	130,000	55,000	2,000	497,000	-
Employee benefits	-	-	-	-	-	-	8,690,346
Total Operating Expenses	<u>2,691,157</u>	<u>2,483,392</u>	<u>953,189</u>	<u>1,312,486</u>	<u>17,488</u>	<u>7,457,712</u>	<u>8,690,346</u>
Operating Income (Loss)	559,206	572,052	(222,188)	153,565	(7,291)	1,055,344	1,622,949
Nonoperating Revenues (Expenses):							
Intergovernmental revenue	254,016	157,300	-	-	-	411,316	-
Insurance reimbursement	-	-	-	-	-	-	130,471
Investment income	-	-	-	-	-	-	5,022
Interest expense	(189,707)	(11,403)	-	-	-	(201,110)	-
Total Nonoperating Revenues (Expenses), Net	<u>64,309</u>	<u>145,897</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>210,206</u>	<u>135,493</u>
Change in Net Position	623,515	717,949	(222,188)	153,565	(7,291)	1,265,550	1,758,442
Net Position at Beginning of Year	<u>9,832,191</u>	<u>10,255,676</u>	<u>(848,554)</u>	<u>392,319</u>	<u>(225,915)</u>	<u>19,405,717</u>	<u>1,116,186</u>
Net Position at End of Year	<u>\$ 10,455,706</u>	<u>\$ 10,973,625</u>	<u>\$ (1,070,742)</u>	<u>\$ 545,884</u>	<u>\$ (233,206)</u>	<u>\$ 20,671,267</u>	<u>\$ 2,874,628</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, 2017

	Business-Type Activities Enterprise Funds					Total	Governmental Activities
	Water Fund	Sewer Fund	Golf Fund	Solid Waste Fund	Landfill Fund		Internal Service Fund
<u>Cash Flows From Operating Activities:</u>							
Receipts from customers and users	\$ 3,464,225	\$ 1,684,589	\$ 731,001	\$ 1,498,765	\$ 10,197	\$ 7,388,777	\$ -
Payments to vendors and employees	(1,955,077)	(2,287,003)	(717,811)	(1,378,705)	(29,038)	(6,367,634)	-
Receipts from employees and employer	-	-	-	-	-	-	10,313,295
Payments of employee benefits and expenses	-	-	-	-	-	-	(8,731,587)
Net Cash Provided By (Used for) Operating Activities	1,509,148	(602,414)	13,190	120,060	(18,841)	1,021,143	1,581,708
<u>Cash Flows From Non-Capital Financing Activities:</u>							
Insurance reimbursements	-	-	-	-	-	-	130,471
Net Cash Provided By (Used For) Non-Capital Activities	-	-	-	-	-	-	130,471
<u>Cash Flows From Capital and Related Financing Activities:</u>							
Receipts from governments	254,016	157,300	-	-	-	411,316	-
Acquisition and construction of capital assets	(11,948)	(2,982,439)	-	(19,227)	-	(3,013,614)	-
Principal payments on bonds	(1,070,187)	(68,957)	-	-	-	(1,139,144)	-
Proceeds from notes	-	4,433,242	-	-	-	4,433,242	-
Interest expense paid	(189,707)	(11,402)	-	-	-	(201,109)	-
Net Cash Provided By (Used For) Capital and Related Financing Activities	(1,017,826)	1,527,744	-	(19,227)	-	490,691	-
<u>Cash Flows From Investing Activities:</u>							
Sale of investments	-	-	-	-	-	-	(1,098,067)
Net Cash (Used For) Investing Activities	-	-	-	-	-	-	(1,098,067)
Net Change in Cash and Short-Term Investments	491,322	925,330	13,190	100,833	(18,841)	1,511,834	614,112
Cash and Short Term Investments, Beginning of Year	1,853,131	5,845,010	82,515	371,474	155,785	8,307,915	690,113
Cash and Short Term Investments, End of Year	<u>\$ 2,344,453</u>	<u>\$ 6,770,340</u>	<u>\$ 95,705</u>	<u>\$ 472,307</u>	<u>\$ 136,944</u>	<u>\$ 9,819,749</u>	<u>\$ 1,304,225</u>

(continued)

CITY OF GARDNER, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2017
 (continued)

	Business-Type Activities Enterprise Funds						Governmental Activities
	Water Fund	Sewer Fund	Golf Fund	Solid Waste Fund	Landfill Fund	Total	Internal Service Fund
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</u>							
Operating income (loss)	\$ 559,206	\$ 572,052	\$ (222,188)	\$ 153,565	\$ (7,291)	\$ 1,055,344	\$ 1,622,949
Adjustments to reconcile operating income (loss)							
Depreciation	616,282	404,770	11,517	13,935	-	1,046,504	-
Changes in assets, liabilities, and deferred outflows/inflows:							
User fee receivables	213,864	153,186	-	32,714	-	399,764	-
Prepaid expenses	-	-	-	-	-	-	(106,461)
Other receivables	-	(1,524,041)	-	-	-	(1,524,041)	-
Deferred outflows - related to pensions	(22,238)	(11,170)	(31,359)	(9,284)	(2,003)	(76,054)	-
Warrants and other payables	(32,482)	(283,736)	(3,287)	(163,412)	(2,689)	(485,606)	116,938
Accrued/other liabilities	-	-	-	-	-	-	(51,718)
Compensated absences	-	-	1,185	-	-	1,185	-
Other liabilities	-	-	-	-	(12,294)	(12,294)	-
Net OPEB obligation	8,658	13,143	52,761	27,728	-	102,290	-
Net pension liability	165,858	73,559	205,086	64,893	5,607	515,003	-
Deferred inflows - related to pensions	-	(177)	(525)	(79)	(171)	(952)	-
Net Cash Provided By (Used For) Operating Activities	<u>\$ 1,509,148</u>	<u>\$ (602,414)</u>	<u>\$ 13,190</u>	<u>\$ 120,060</u>	<u>\$ (18,841)</u>	<u>\$ 1,021,143</u>	<u>\$ 1,581,708</u>

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

CITY OF GARDNER, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	Private Purpose <u>Trust Funds</u>	Other Post-Employment Benefits Trust <u>Fund</u>	Agency <u>Funds</u>	Pension Trust Fund (As of <u>December 31, 2016</u>)
ASSETS				
Cash and short-term investments	\$ 227,781	\$ 280	\$ 464,796	\$ 25,225
Investments	3,146,719	24,559	-	48,634,840
Accounts receivable	<u>-</u>	<u>-</u>	<u>27,470</u>	<u>317,272</u>
Total Assets	3,374,500	24,839	492,266	48,977,337
LIABILITIES AND NET POSITION				
Warrants payable	-	-	6,020	-
Accounts payable	2,336	-	-	260,336
Deposits held in custody	-	-	367,025	-
Other liabilities	<u>-</u>	<u>-</u>	<u>119,221</u>	<u>-</u>
Total Liabilities	<u>2,336</u>	<u>-</u>	<u>492,266</u>	<u>260,336</u>
NET POSITION				
Total net position held in trust for pensions and other purposes	<u>\$ 3,372,164</u>	<u>\$ 24,839</u>	<u>\$ -</u>	<u>\$ 48,717,001</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, 2017

	Private Purpose Trust Funds	Other Post-Employment Benefits Trust Fund	Pension Trust Fund (For Year Ended December 31, 2016)
Additions:			
Contributions:			
Employers	\$ -	\$ 2,623,310	\$ 3,648,790
Other systems and Commonwealth of Massachusetts	-	-	33,679
Plan members	-	-	1,391,258
Contributions	<u>-</u>	<u>-</u>	<u>54,369</u>
Total contributions	-	2,623,310	5,128,096
Investment Income:			
Interest and dividends	206,597	474	1,350,510
Gain on sale of investments	-	-	1,304,794
Decrease in fair value of investments	-	-	960,878
Less: Management fees	<u>-</u>	<u>-</u>	<u>(252,377)</u>
Net investment income	<u>206,597</u>	<u>474</u>	<u>3,363,805</u>
Total additions	206,597	2,623,784	8,491,901
Deductions:			
Benefit payments to plan members and beneficiaries	-	2,598,945	5,511,676
Refunds to plan members and other systems	-	-	472,308
Administrative expenses	-	-	144,291
Education expenses	<u>57,170</u>	<u>-</u>	<u>-</u>
Total deductions	<u>57,170</u>	<u>2,598,945</u>	<u>6,128,275</u>
Net increase	149,427	24,839	2,363,626
Net position restricted for pensions and other purposes:			
Beginning of year	<u>3,222,737</u>	<u>-</u>	<u>46,353,375</u>
End of year	<u>\$ 3,372,164</u>	<u>\$ 24,839</u>	<u>\$ 48,717,001</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 City is a municipal corporation governed by an elected City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2017, 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 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*. 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 fund:

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with 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 City 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 fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

The City reports the following fiduciary funds:

- 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 *other post-employment benefits trust fund* is used to accumulate resources for health and life insurance benefits for retired employees.
- 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.
- The *pension trust fund* accounts for the activities of the Gardner Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

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 fair value.

F. Property Tax Limitations

Legislation known as “Proposition 2½” 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 2017 tax levy reflected an excess capacity of \$262,041.

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 acquisition value at the date of donation.

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

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

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

<u>Assets</u>	<u>Years</u>
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.

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.

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>	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 59,892,968	\$ 60,230,571
Other financing sources/uses (GAAP basis)	417,900	700,118
Reverse the effect of including Stabilization Fund and General Fund activity	(16,751)	121,826
Adjust tax revenue to accrual basis	(92,427)	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(1,795,468)
Add end of year appropriation carryforwards to expenditures	-	1,788,391
To reverse the effect of non-budgeted State contributions for teachers retirement	(5,289,281)	(5,289,281)
To record use of free cash	2,413,342	-
Other	(25,531)	-
Budgetary basis	<u>\$ 57,300,220</u>	<u>\$ 55,756,157</u>

D. Excess of Expenditures Over Appropriations

Expenditures exceeding appropriations during the current fiscal year were as follows:

Employee benefits (health insurance)	\$356,550
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E. Deficit Fund Equity

Certain individual funds reflected deficit balances as of June 30, 2017:

School capital project	\$196,562
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It is anticipated that the deficit in this fund will be eliminated through future departmental revenues, bond proceeds, and/or transfers from other funds.

3. Cash and Short-Term Investments

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

As of June 30, 2017, \$2,621,155 of the City's bank balance of \$22,113,129 was exposed to custodial credit risk as uninsured and/or uncollateralized.

As of December 31, 2016, 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, 2017 for each investment of the City:

Investment Type	Amount	Exempt From Disclosure	Rating as of Year End			
			AAA	A1	A2	BAA2
Certificates of deposit	\$ 1,406,173	\$ 1,406,173	\$ -	\$ -	\$ -	\$ -
Corporate bonds	866,248	-	-	286,338	479,485	100,425
Equities	628,214	628,214	-	-	-	-
Mutual funds	376,780	376,780	-	-	-	-
Exchange-traded products	2,061,721	2,061,721	-	-	-	-
US Treasury notes	2,411,807	-	2,411,807	-	-	-
Total investments	\$ 7,750,943	\$ 4,472,888	\$ 2,411,807	\$ 286,338	\$ 479,485	\$ 100,425

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 the System's investments as of December 31, 2016 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.

The total City investments of \$7,750,943 is subject to custodial credit risk exposure 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. The City does not have an investment in one issuer greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City'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>Amount</u>	<u>N/A</u>	<u>Investment Maturities (in Years)</u>	
			<u>Less Than 1</u>	<u>1-5</u>
Certificates of deposit	\$ 1,406,173	\$ -	\$ 490,054	\$ 916,119
Corporate bonds	866,248	-	479,485	386,763
Equities	628,214	628,214	-	-
Mutual funds	376,780	376,780	-	-
Exchange-traded products	2,061,721	2,061,721	-	-
US Treasury notes	2,411,807	-	-	2,411,807
Total investments	<u>\$ 7,750,943</u>	<u>\$ 3,066,715</u>	<u>\$ 969,539</u>	<u>\$ 3,714,689</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, 2017:

<u>Description</u>	<u>Fair Value Measurements Using:</u>			
	Quoted prices in active markets for identical (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Investments by fair value level:				
Debt securities:				
U.S. Treasury securities	\$ 2,411,807	\$ -	\$ 2,411,807	\$ -
Corporate bonds	866,248	-	866,248	-
Exchange-traded products	2,061,721	-	2,061,721	-
Equity investments	628,214	628,214	-	-
Mutual funds	376,780	376,780	-	-
Total	\$ 6,344,770	\$ 1,004,994	\$ 5,339,776	\$ -

The System has the following fair value measurements as of December 31, 2016:

<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
Investments measured at the net asset value (NAV):				
External investment pool	\$ 48,634,840			
Total	\$ 48,634,840			
External investment pool	\$ 48,634,840	\$ -	Quarterly	30 days

5. Taxes and Excises 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.

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

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

Boat excise taxes are assessed annually for all water vessels, including documented boats and ships, used or capable of being used for transportation on water. A boat excise is assessed by the community where the vessel is moored. July 1 is the assessing date for all vessels, and the boat excise due is calculated using a fixed rate of \$10 per \$1,000 of value.

Taxes and excise receivables at June 30, 2017 consist of the following:

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Real estate taxes	\$ 1,053,811	\$ (35,740)	\$ 1,018,071
Personal property taxes	65,139	(32,516)	32,623
Total current property taxes	1,118,950	(68,256)	1,050,694
Tax liens	1,179,393	(235,879)	943,514
Total property taxes	2,298,343	(304,135)	1,994,208
Motor vehicle excise	722,657	(386,690)	335,967
Boat excise	1,808	-	1,808
Total excises	724,465	(386,690)	337,775
Grand total	<u>\$ 3,022,808</u>	<u>\$ (690,825)</u>	<u>\$ 2,331,983</u>

6. 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 2017 and are expected to be reimbursed in fiscal year 2018.

The balance reported in the governmental activities statement of net position also includes an additional amount of \$807,991 that represents future school building project cost reimbursements, all of which will be paid to the City by the Massachusetts School Building Authority in fiscal year 2018.

7. Other Assets

The balance reported in nonmajor governmental funds represents the unspent proceeds of a capital lease issued in fiscal year 2017 (see Note 14). These funds are being held in escrow on behalf of the City and will be disbursed as the project progresses.

The balance reported in the internal service fund 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 2017.

8. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Convert CIP	Ending Balance
Governmental Activities:					
Capital assets, being depreciated:					
Buildings and improvements	\$ 35,135,883	\$ -	\$ -	\$ -	\$ 35,135,883
Machinery, equipment, and furnishings	10,531,310	631,458	-	-	11,162,768
Infrastructure	23,451,776	723,890	-	278,169	24,453,835
Total capital assets, being depreciated	69,118,969	1,355,348	-	278,169	70,752,486
Less accumulated depreciation for:					
Buildings and improvements	(20,405,470)	(1,069,283)	-	-	(21,474,753)
Machinery, equipment, and furnishings	(8,940,395)	(491,277)	-	-	(9,431,672)
Infrastructure	(14,310,635)	(953,355)	-	-	(15,263,990)
Total accumulated depreciation	(43,656,500)	(2,513,915)	-	-	(46,170,415)
Total capital assets, being depreciated, net	25,462,469	(1,158,567)	-	278,169	24,582,071
Capital assets, not being depreciated:					
Land	3,829,028	80,638	(18,663)	-	3,891,003
Construction in progress (CIP)	15,964,056	10,698,100	-	(278,169)	26,383,987
Total capital assets, not being depreciated	19,793,084	10,778,738	(18,663)	(278,169)	30,274,990
Governmental activities capital assets, net	\$ 45,255,553	\$ 9,620,171	\$ (18,663)	\$ -	\$ 54,857,061

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 21,077,118	\$ -	\$ -	\$ 21,077,118
Machinery, equipment, and furnishings	3,315,031	100,474	-	3,415,505
Infrastructure	17,813,611	-	-	17,813,611
	<u>42,205,760</u>	<u>100,474</u>	<u>-</u>	<u>42,306,234</u>
Total capital assets, being depreciated				
Less accumulated depreciation for:				
Buildings and improvements	(10,114,419)	(513,484)	-	(10,627,903)
Machinery, equipment, and furnishings	(2,787,791)	(165,218)	-	(2,953,009)
Infrastructure	(13,156,740)	(367,802)	-	(13,524,542)
	<u>(26,058,950)</u>	<u>(1,046,504)</u>	<u>-</u>	<u>(27,105,454)</u>
Total accumulated depreciation				
Total capital assets, being depreciated, net	16,146,810	(946,030)	-	15,200,780
Capital assets, not being depreciated:				
Land	1,011,422	-	-	1,011,422
Construction in progress (CIP)	1,565,650	2,913,140	-	4,478,790
	<u>2,577,072</u>	<u>2,913,140</u>	<u>-</u>	<u>5,490,212</u>
Total capital assets, not being depreciated				
Business-type activities capital assets, net	<u>\$ 18,723,882</u>	<u>\$ 1,967,110</u>	<u>\$ -</u>	<u>\$ 20,690,992</u>

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

Governmental Activities:	
General government	\$ 76,995
Public safety	249,966
Education	917,506
Public works	1,128,929
Human services	78,649
Culture and recreation	61,870
	<u>2,513,915</u>
Total depreciation expense - governmental activities	<u>\$ 2,513,915</u>
Business-Type Activities:	
Water	\$ 616,282
Sewer	404,770
Golf	11,517
Solid Waste	13,935
	<u>1,046,504</u>
Total depreciation expense - business-type activities	<u>\$ 1,046,504</u>

9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the City that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions, in accordance with GASB Statement No. 68,

Accounting and Financial Reporting for Pensions, are more fully discussed in Note 18.

10. Warrants and Accounts Payable

Warrants payable represent 2017 expenditures paid by July 15, 2017 as permitted by law. Accounts payable represent additional 2017 expenditures paid after July 15, 2017.

11. Anticipation Notes Payable

The following summarizes activity in notes payable during fiscal year 2017:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ 600,000	\$ -	\$ (600,000)	\$ -

12. 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, 2017 follows:

	Serial Maturities Through	Interest Rate(s) %	Loan Balance Outstanding June 30, 2017	Bond Premium Amortization	Total Balance Outstanding June 30, 2017
<u>Governmental Activities:</u>					
Middle School Roof	11/01/17	3.0-5.0	\$ 726,000	\$ 49,377	\$ 775,377
Police Station	03/01/34	3.0-5.0	10,760,000	447,549	11,207,549
Total Governmental Activities			\$ 11,486,000	\$ 496,926	\$ 11,982,926
<u>Business-Type Activities:</u>					
<u>Water Fund:</u>					
General obligation 2005 - water portion	11/01/17	3.0-5.0	\$ 15,000	\$ 8,039	\$ 23,039
Water treatment (MWPAT 99-16)	08/01/19	2.0	1,716,851	-	1,716,851
Water treatment (MWPAT 00-16A)	08/01/19	2.0	112	-	112
General obligation 2012 - water portion	04/01/22	2.0	1,475,000	11,767	1,486,767
Water treatment (MWPAT 03-10)	08/01/24	2.0	1,511,715	89,135	1,600,850
Total Water Fund			4,718,678	108,941	4,827,619
<u>Sewer Fund:</u>					
General obligation 2005 - sewer portion	11/01/17	3.0-5.0	9,000	7,403	16,403
Sewer treatment (MWPAT 03-10)	08/01/24	2.0	439,867	25,702	465,569
Sewer treatment (MCWT 15-21)	01/15/37	2.0	4,433,242	-	4,433,242
Total Sewer Fund			4,882,109	33,105	4,915,214
Total Business-Type Activities			\$ 9,600,787	\$ 142,046	\$ 9,742,833

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding (including bond premium amortization) as of June 30, 2017 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	561,326	328,663	889,989
2023 - 2027	3,196,630	1,252,663	4,449,293
2028 - 2032	3,746,630	698,063	4,444,693
Thereafter	1,682,659	92,250	1,774,909
Total	\$ 11,982,926	\$ 3,930,041	\$ 15,912,967

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,321,879	\$ 250,374	\$ 1,572,253
2019	1,302,933	224,337	1,527,270
2020	1,314,214	176,115	1,490,329
2021	732,697	138,897	871,594
2022	731,258	117,489	848,747
2023 - 2025	1,885,847	345,582	2,231,429
2028 - 2032	1,161,112	199,956	1,361,068
Thereafter	1,292,893	78,682	1,371,575
Total	\$ 9,742,833	\$ 1,531,432	\$ 11,274,265

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:

	<u>Total Balance July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance June 30, 2017</u>	<u>Less Current Portion</u>	<u>Long-Term Portion June 30, 2017</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 12,648,509	\$ -	\$ (1,162,509)	\$ 11,486,000	\$ (1,181,000)	\$ 10,305,000
Unamortized bond premium	572,631	-	(75,705)	496,926	(75,703)	421,223
Subtotal	13,221,140	-	(1,238,214)	11,982,926	(1,256,703)	10,726,223
Net pension liability	36,036,721	960,713	-	36,997,434	-	36,997,434
Net OPEB obligation	44,528,081	4,874,984	-	49,403,065	-	49,403,065
Other:						
Capital lease	-	6,741,940	-	6,741,940	(205,201)	6,536,739
Compensated absences	2,160,865	12,355	-	2,173,220	-	2,173,220
Subtotal - other	2,160,865	6,754,295	-	8,915,160	(205,201)	8,709,959
Totals	\$ 95,946,807	\$ 12,589,992	\$ (1,238,214)	\$ 107,298,585	\$ (1,461,904)	\$ 105,836,681

	Total Balance July 1, 2016	Additions	Reductions	Total Balance June 30, 2017	Less Current Portion	Long-Term Portion June 30, 2017
<u>Business-Type Activities</u>						
Bonds payable	\$ 6,274,543	\$ 4,433,242	\$ (1,106,997)	\$ 9,600,788	\$ (1,289,729)	\$ 8,311,059
Unamortized bond premium	174,192	-	(32,147)	142,045	(32,150)	109,895
Subtotal	6,448,735	4,433,242	(1,139,144)	9,742,833	(1,321,879)	8,420,954
Net pension liability	2,299,220	515,003	-	2,814,223	-	2,814,223
Net OPEB obligation	1,041,023	102,290	-	1,143,313	-	1,143,313
Other:						
Landfill liability	245,870	-	(12,294)	233,576	(12,294)	221,282
Compensated absences	54,579	1,185	-	55,764	-	55,764
Total other liabilities	300,449	1,185	(12,294)	289,340	(12,294)	277,046
Totals	\$ 10,089,427	\$ 5,051,720	\$ (1,151,438)	\$ 13,989,709	\$ (1,334,173)	\$ 12,655,536

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.

13. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the City to perform certain maintenance and monitoring functions at the landfill site for thirty years after closure.

The \$233,576 reported as landfill post-closure care liability at June 30, 2017 represents the remaining estimated post-closure costs. 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.

14. Capital Lease

In August 2016 the City signed a lease-purchase agreement with a total cost of \$6.7 million to upgrade and/or replace numerous items throughout the City with more energy efficient alternatives. The project began in fiscal year 2017 and will be completed in fiscal year 2018. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2017:

<u>Fiscal Year</u>	
2018	\$ 420,000
2019	416,000
2020	380,000
2021	380,000
2022	380,000
2023 - 2027	1,970,000
2028 - 2032	2,380,000
Thereafter	<u>2,100,000</u>
Total payments	8,426,000
Less amounts representing interest	<u>(1,684,060)</u>
Present value of minimum lease payments	<u>\$ 6,741,940</u>

15. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the City that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. The City reports two items as deferred inflows of resources: one which is attributable to changes in the net pension liability, and the other which arises from the current financial resources measurement focus and the modified accrual basis of accounting in governmental funds. Deferred inflows of resources related to pension will be recognized in pension expense in future years and is more fully described in Note 18. Unavailable revenues are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

16. Interfund Fund Accounts

Transfers

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 following is an analysis of major interfund transfers.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 417,900	\$ 700,118
Nonmajor Governmental Funds:		
Special revenue funds	-	417,900
Capital project funds	<u>700,118</u>	<u>-</u>
Total	<u>\$ 1,118,018</u>	<u>\$ 1,118,018</u>

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

17. **Governmental Funds – Balances**

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

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

The following types of fund balances are reported at June 30, 2017:

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, 2017:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Nonexpendable permanent funds	\$ -	\$ 457,941	\$ 457,941
Total Nonexpendable	-	457,941	457,941
Restricted			
Bonded projects	-	1,469,561	1,469,561
Special revenue funds	-	4,436,464	4,436,464
Expendable permanent funds	-	51,665	51,665
Total Restricted	-	5,957,690	5,957,690
Committed			
Special articles			
General government	90,088	-	90,088
Public safety	10,675	-	10,675
Education	327	-	327
Public works	1,329,860	-	1,329,860
Health and human services	4,500	-	4,500
Culture and recreation	35,753	-	35,753
Other	44,158	-	44,158
Total Committed	1,515,361	-	1,515,361
Assigned			
Encumbrances			
General government	92,574	-	92,574
Public safety	15,485	-	15,485
Education	133,305	-	133,305
Public works	15,835	-	15,835
Culture and recreation	15,831	-	15,831
Total Assigned	273,030	-	273,030
Unassigned			
General fund	2,285,103	-	2,285,103
Stabilization fund*	2,491,770	-	2,491,770
Deficit fund balances	-	(196,562)	(196,562)
Total Unassigned	4,776,873	(196,562)	4,580,311
Total Fund Balance	\$ 6,565,264	\$ 6,219,069	\$ 12,784,333

*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.

18. 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, 2017:

Retirees and beneficiaries receiving benefits	235
Terminated plan members entitled to but not yet receiving benefits	52
Active plan members	<u>276</u>
Total	<u>563</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.

If a participant was a member prior to February 1, 2012, 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 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, 2017 was \$3,517,104, which was slightly more than 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, 2016 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

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

Investments

Investment Policy

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

Rate of Return

For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 7.33%. 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, 2017.

The components of the net pension liability of the participating employers at December 31, 2016 were as follows:

Net Pension Liability of Employers

Total pension liability	\$	90,400,236
Plan fiduciary net position		<u>48,717,001</u>
Employers' net pension liability	\$	<u>41,683,235</u>
Plan fiduciary net position as a percentage of total pension liability		53.9%

Actuarial Assumptions

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

Valuation Date	January 1, 2017
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	7.75%
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.

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.

Target Allocations

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Large Cap Equities	14.50%	4.37%
Small/Mid Cap Equities	3.50%	4.61%
International Equities	16.00%	4.69%
Emerging Market Equities	6.00%	6.42%
Core Bonds	5.00%	0.97%
20+ yr Treasuries	2.00%	0.73%
TIPS	5.00%	0.73%
High-Yield Bonds	1.50%	2.67%
Bank Loans	2.50%	2.91%
EMD (external)	1.00%	2.67%
EMD (local currency)	0.00%	3.40%
Distressed Debt	3.00%	5.88%
Other Credit Opportunities	2.00%	3.73%
Private Equity	11.00%	6.31%
Real Estate	10.00%	3.40%
Timberland	4.00%	2.91%
Hedge Funds/Portfolio Completion	13.00%	3.38%
Total	<u>100.00%</u>	

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

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

	Current	
1%	Discount	1%
Decrease	Rate	Increase
<u>(6.75%)</u>	<u>(7.75%)</u>	<u>(8.75%)</u>
\$48,740	\$39,812	\$32,963

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

At June 30, 2017, the City reported a liability of \$39,811,657 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017. 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, 2017, the City’s proportion was 95.51 percent.

For the year ended June 30, 2017, the City recognized pension expense of \$4,420,726. In addition, the City reported deferred inflows and outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 2,180,277	\$ -
Changes in assumptions	1,606,730	-
Differences between expected and actual experience	336,689	79,436
Changes in proportion and differences between contributions and proportionate share of contributions	<u>23,975</u>	<u>83,285</u>
	<u>\$ 4,147,671</u>	<u>\$ 162,721</u>

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

Year ended June 30:

2018	\$ 1,154,874
2019	1,154,874
2020	1,109,210
2021	400,700
2022	<u>165,292</u>
Total	<u>\$ 3,984,950</u>

19. **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>Membership 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, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. This valuation used the following assumptions:

- (a) 7.50% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.00% to 7.50% depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
- 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, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.0%	6.9%
Core fixed income	13.0%	1.6%
Private equity	10.0%	8.7%
Real estate	10.0%	4.6%
Value added fixed income	10.0%	4.8%
Hedge funds	9.0%	4.0%
Portfolio completion strategies	4.0%	3.6%
Timber/natural resources	4.0%	5.4%
Total	<u>100.0%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.50%. 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>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
\$27,464,000	\$22,357,928	\$18,022,000

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 2017 (the most recent measurement period), the City's proportionate share of the MTRS' collective net pension liability and pension expense was \$51,852,367 and \$5,289,281 respectively, based on a proportionate share of 0.231919%. As required by GASB 68, the City has recorded its portion of the collective pension expense as both a revenue and expense in the general fund.

20. Other Post-Employment Benefits – OPEB (GASB 45)

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, 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 July 1, 2016, the actuarial valuation date, approximately 380 retirees and 497 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 2017 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, 2017, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of July 1, 2016.

	Governmental Funds	Water Fund	Sewer Fund	Golf Fund	Solid Waste Fund	Total
Annual Required Contribution (ARC)	\$ 7,253,132	\$ 38,802	\$ 20,868	\$ 73,347	\$ 27,288	\$ 7,413,437
Interest on net OPEB obligation	1,781,124	5,297	10,663	20,406	5,275	1,822,765
Adjustment to ARC	<u>(1,598,253)</u>	<u>(4,753)</u>	<u>(9,568)</u>	<u>(18,311)</u>	<u>(4,733)</u>	<u>(1,635,618)</u>
Annual OPEB cost	7,436,003	39,346	21,963	75,442	27,830	7,600,584
Contributions made	<u>(2,561,019)</u>	<u>(30,688)</u>	<u>(8,820)</u>	<u>(22,681)</u>	<u>(102)</u>	<u>(2,623,310)</u>
Change in net OPEB obligation	4,874,984	8,658	13,143	52,761	27,728	4,977,274
Net OPEB obligation - beginning 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>
Net OPEB obligation - end of year	<u>\$ 49,403,065</u>	<u>\$ 141,088</u>	<u>\$ 279,720</u>	<u>\$ 562,906</u>	<u>\$ 159,599</u>	<u>\$ 50,546,378</u>

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

Fiscal Year Ended	Annual OPEB Costs	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2017	\$7,600,584	35%	\$50,546,378
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

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2016, the date of the most recent actuarial valuation was as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 84,668
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 84,668</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>26,575</u>
UAAL as a percentage of covered payroll	<u>319%</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 July 1, 2016 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advanced its obligation. The actuarial assumptions included a 3.58% 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).

21. Other Post-Employment Benefits – OPEB (GASB 74)

In fiscal year 2017, the City established an OPEB Trust fund to provide funding for future employee health care costs.

Investments

The OPEB Trust fund does not have a formal investment policy. At June 30, 2017, investments consisted of various types of investments totaling \$24,559. Concentration and rate of return information was not available.

Net OPEB Liability

The components of the net OPEB liability were as follows:

Total OPEB liability	\$ 96,187,071
Plan fiduciary net position	<u>(24,839)</u>
Net OPEB liability	<u>\$ 96,162,232</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.03%

A. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3 percent
Investment rate of return	7.5 percent, net of OPEB plan investment expense, including inflation

Mortality rates were based on RP-2014 Mortality tables, projected with generational mortality improvement using scale MP-2016.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 were not yet determined.

B. Discount Rate

The discount rate used to measure the total OPEB liability was 3.58%. The projection of cash flows used to determine the discount rate assumed that contributions from plan member will be made at the current contribution rate. Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members.

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

The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58 percent) or 1-percentage-point higher (4.58 percent) than the current discount rate:

<u>1% Decrease (2.58%)</u>	<u>Discount Rate (3.58%)</u>	<u>1% Increase (4.58%)</u>
\$114,740,042	\$96,162,232	\$81,675,636

D. Sensitivity of the Net OPEB liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4 percent) or 1-percentage-point higher (6 percent) than the current healthcare cost trend rates:

1% Decrease (4%)	Healthcare Cost Trend Rates (5%)	1% Increase (6%)
\$79,279,612	\$96,162,232	\$119,928,096

22. Self-Insurance

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

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

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

Changes in the aggregate liability for claims for the year ended June 30, 2017 are as follows:

Claims liability, July 1, 2016	\$ 839,662
Claims incurred/recognized in fiscal year 2017	8,690,346
Claims paid in fiscal year 2017	<u>(9,077,524)</u>
Claims liability, June 30, 2017	<u>\$ 452,484</u>

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

23. 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.

24. Beginning Fund Balance Reclassification

The City's major governmental funds for fiscal year 2017, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	School Capital Project Fund	Nonmajor Funds
Fund balance 06/30/16 as previously reported	\$ (500,967)	\$ 4,501,696
Reclassify per GASB Statement 34	<u>500,967</u>	<u>(500,967)</u>
As reclassified	<u>\$ -</u>	<u>\$ 4,000,729</u>

25. 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 a material impact by increasing net OPEB liability, and as a result, decreasing the unrestricted net position on the governmental-wide financial statements.

CITY OF GARDNER, MASSACHUSETTS

SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (GASB 68)

JUNE 30, 2017

(Unaudited)

(Amounts expressed in thousands)

Gardner Contributory Retirement System

Fiscal Year	Measurement Date	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2017	December 31, 2016	95.51%	\$39,812	\$11,762	338.48%	53.90%
June 30, 2016	December 31, 2015	95.43%	\$38,336	\$10,920	351.06%	53.57%
June 30, 2015	December 31, 2014	95.79%	\$34,546	\$10,465	330.11%	56.63%

Massachusetts Teachers' Retirement System

Fiscal Year	Measurement Date	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the City	Total Net Pension Liability Associated with the City	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2017	June 30, 2016	0.23%	\$ -	\$51,852	\$51,852	\$15,255	-	52.73%
June 30, 2016	June 30, 2015	0.24%	\$ -	\$48,175	\$48,175	\$14,904	-	55.38%
June 30, 2015	June 30, 2014	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 (GASB 68)

JUNE 30, 2017

(Unaudited)

(Amounts expressed in thousands)

Gardner Contributory Retirement System

<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	Contributions in Relation to the <u>Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2017	\$3,485	\$3,517	(\$32)	\$11,762	29.90%
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.

See Independent Auditors' Report.

CITY OF GARDNER, MASSACHUSETTS
SCHEDULE OF OPEB FUNDING PROGRESS (GASB 45)

June 30, 2017

(Unaudited)

(Amounts expressed in thousands)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/16	\$ -	\$ 84,668	\$ 84,668	0.0%	\$ 26,575	318.6%
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
OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Schedule of Changes in the Net OPEB Liability (GASB 74)

(Unaudited)

	<u>2017</u>
Total OPEB liability	
Service cost	\$ 5,736,706
Interest on unfunded liability - time value of \$	3,063,959
Changes of assumptions	(13,084,732)
Benefit payments, including refunds of member contributions	<u>(2,598,945)</u>
Net change in total OPEB liability	(6,883,012)
Total OPEB liability - beginning	<u>103,070,083</u>
Total OPEB liability - ending (a)	<u><u>\$ 96,187,071</u></u>
 Plan fiduciary net position	
Contributions - employer	\$ 2,623,310
Net investment income	474
Benefit payments, including refunds of member contributions	<u>(2,598,945)</u>
Net change in plan fiduciary net position	24,839
Plan fiduciary net position - beginning	<u>-</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 24,839</u></u>
 Net OPEB liability (asset) - ending (a-b)	<u><u>\$ 96,162,232</u></u>

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

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

See Independent Auditors' Report.

CITY OF GARDNER, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Schedules of Net OPEB Liability, Contributions, and Investment Returns (GASB 74)

(Unaudited)

Schedule of Net OPEB Liability

	<u>2017</u>
Total OPEB liability	\$ 96,187,071
Plan fiduciary net position	<u>(24,839)</u>
Net OPEB liability (asset)	<u>\$ 96,162,232</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.03%
Covered payroll	\$ 26,575,037
Participating employer net OPEB liability (asset) as a percentage of covered payroll	361.85%

Schedule of Contributions

	<u>2017</u>
Actuarially determined contribution	\$ 7,413,437
Contributions in relation to the actuarially determined contribution	<u>(2,623,310)</u>
Contribution deficiency (excess)	<u>\$ 4,790,127</u>
Covered payroll	\$ 26,575,037
Contributions as a percentage of covered payroll	9.87%

Schedule of Investment Returns

	<u>2017</u>
Annual money weighted rate of return, net of investment expense	5.48%

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

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

See Independent Auditors' Report.