

**CITY OF GARDNER, MASSACHUSETTS**

Annual Financial Statements

For the Year Ended June 30, 2018

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**REQUIRED SUPPLEMENTARY INFORMATION:**

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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, 2018, 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 the Levi Heywood Library Association, which represents all of the assets, net position, and revenues of the aggregate discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Levi Heywood Library Association is based solely on the report of the other auditor. 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 report of the other auditor, 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, 2018, 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**

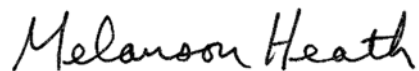
### *Required Supplementary Information*

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 64 to 67 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 15, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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 15, 2019

## **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, 2018.

### **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 \$(53,868,480) (i.e., net position), a change of \$84,211 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$7,887,849, a change of \$(4,896,484) in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,174,315, a change of \$397,442 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 \$2,689,869, which represents an increase of \$198,099 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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 21,967,556	\$ 22,625,541	\$ 12,242,334	\$ 13,775,353	\$ 34,209,890	\$ 36,400,894
Capital assets	<u>62,580,068</u>	<u>54,857,061</u>	<u>21,880,904</u>	<u>20,690,992</u>	<u>84,460,972</u>	<u>75,548,053</u>
Total assets	84,547,624	77,482,602	34,123,238	34,466,345	118,670,862	111,948,947
Deferred outflows of resources	2,026,604	3,854,479	145,220	293,192	2,171,824	4,147,671
Long-term liabilities outstanding	146,969,959	107,298,585	13,820,019	13,989,709	160,789,978	121,288,294
Other liabilities	<u>7,335,949</u>	<u>2,895,565</u>	<u>192,165</u>	<u>87,059</u>	<u>7,528,114</u>	<u>2,982,624</u>
Total liabilities	154,305,908	110,194,150	14,012,184	14,076,768	168,318,092	124,270,918
Deferred inflows of resources	6,122,336	151,219	270,738	11,502	6,393,074	162,721
Net position:						
Invested in capital assets, net	42,155,908	38,213,185	13,642,306	10,654,380	55,798,214	48,867,565
Restricted	4,961,520	4,946,070	-	-	4,961,520	4,946,070
Unrestricted	<u>(120,971,444)</u>	<u>(72,167,543)</u>	<u>6,343,230</u>	<u>10,016,887</u>	<u>(114,628,214)</u>	<u>(62,150,656)</u>
Total net position	\$ <u>(73,854,016)</u>	\$ <u>(29,008,288)</u>	\$ <u>19,985,536</u>	\$ <u>20,671,267</u>	\$ <u>(53,868,480)</u>	\$ <u>(8,337,021)</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 \$(53,868,480), a change of \$84,211 in comparison with the prior year.

The largest portion of net position \$55,798,214 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 \$4,961,520 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 \$(120,971,444) in governmental activities, caused by unfunded pension and OPEB liabilities, as discussed in the accompanying Notes, and a surplus of \$6,343,230 in business-type activities.

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,890,244	\$ 2,256,108	\$ 8,945,759	\$ 8,513,056	\$ 11,836,003	\$ 10,769,164
Operating grants and contributions	36,065,417	36,204,188	-	-	36,065,417	36,204,188
Capital grants and contributions	1,760,369	2,703,081	320,957	411,316	2,081,326	3,114,397
General revenues:						
Property taxes	25,056,664	24,528,305	-	-	25,056,664	24,528,305
Excises	2,161,511	2,119,100	-	-	2,161,511	2,119,100
Penalties, interest on taxes	668,151	597,394	-	-	668,151	597,394
Grants and contributions not restricted to specific programs	4,635,208	4,335,852	-	-	4,635,208	4,335,852
Investment income	(16,658)	80,304	49,633	-	32,975	80,304
Miscellaneous	679,651	596,446	-	-	679,651	596,446
Total revenues	<u>73,900,557</u>	<u>73,420,778</u>	<u>9,316,349</u>	<u>8,924,372</u>	<u>83,216,906</u>	<u>82,345,150</u>
Expenses:						
General government	10,773,087	9,065,073	-	-	10,773,087	9,065,073
Public safety	18,167,467	18,021,959	-	-	18,167,467	18,021,959
Education	33,016,459	33,652,989	-	-	33,016,459	33,652,989
Public works	4,839,029	4,191,327	-	-	4,839,029	4,191,327
Health and human services	2,469,957	2,292,310	-	-	2,469,957	2,292,310
Culture and recreation	2,392,403	1,954,178	-	-	2,392,403	1,954,178
Interest on long-term debt	570,909	422,171	-	-	570,909	422,171
Intergovernmental	2,381,591	2,141,677	-	-	2,381,591	2,141,677
Water operations	-	-	3,238,644	2,880,864	3,238,644	2,880,864
Sewer operations	-	-	3,088,725	2,494,795	3,088,725	2,494,795
Golf operations	-	-	784,671	953,189	784,671	953,189
Solid waste operations	-	-	1,375,304	1,312,486	1,375,304	1,312,486
Landfill operations	-	-	34,449	17,488	34,449	17,488
Total expenses	<u>74,610,902</u>	<u>71,741,684</u>	<u>8,521,793</u>	<u>7,658,822</u>	<u>83,132,695</u>	<u>79,400,506</u>
Change in net position	(710,345)	1,679,094	794,556	1,265,550	84,211	2,944,644
Net assets - beginning of year, as restated	<u>(73,143,671)</u>	<u>(30,687,382)</u>	<u>19,190,980</u>	<u>19,405,717</u>	<u>(53,952,691)</u>	<u>(11,281,665)</u>
Net assets - end of year	<u>\$ (73,854,016)</u>	<u>\$ (29,008,288)</u>	<u>\$ 19,985,536</u>	<u>\$ 20,671,267</u>	<u>\$ (53,868,480)</u>	<u>\$ (8,337,021)</u>

Fiscal year 2017 amounts reported above were not restated as the City applied GASB 75 prospectively.

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$(710,345). Key elements of this change are as follows:

Consolidated general fund operations	\$ (477,737)
Major fund - City Capital Project fund expenditures in excess of transfers in	(3,465,633)
Nonmajor funds expenditures in excess of revenues	(953,114)
Depreciation expense in excess of principal debt service	(2,009,345)
Internal service fund operations	593,418
Capital assets purchases	10,931,156
Capital asset dispositions	(17,803)
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 (net of deferrals)	(4,792,745)
Current year accrual of net pension liability (net of deferrals)	(132,713)
Other	<u>422,162</u>
Total	<u>\$ (710,345)</u>

**Business-Type Activities.** Business-type activities for the year resulted in a change in net position of \$794,556. Key elements of this change are as follows:

Water enterprise	\$ 424,028
Sewer enterprise	323,190
Golf enterprise	(3,416)
Solid Waste enterprise	75,279
Landfill enterprise	<u>(24,525)</u>
Total	<u>\$ 794,556</u>

#### **D. FINANCIAL ANALYSIS OF 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 \$7,887,849, a change of \$(4,896,484) in comparison with the prior year. Key elements of this change are as follows:

Consolidated general fund operations	\$ (477,737)
Major fund - City Capital Project fund expenditures in excess of transfers in	(3,465,633)
Nonmajor funds expenditures in excess of revenues	<u>(953,114)</u>
Total	<u>\$ (4,896,484)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,174,315, while total fund balance was \$6,087,527. 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>6/30/18</u>	<u>6/30/17</u>	<u>Change</u>	<u>% of Total 2018 General Fund Expenditures</u>
Unassigned - General fund	\$ 2,484,446	\$ 2,285,103	\$ 199,343	4.2%
Unassigned - Stabilization fund	<u>2,689,869</u>	<u>2,491,770</u>	<u>198,099</u>	<u>4.5%</u>
Total Unassigned fund balance	<u>\$ 5,174,315</u>	<u>\$ 4,776,873</u>	<u>\$ 397,442</u>	<u>8.7%</u>
Total fund balance	\$ 6,087,527	\$ 6,565,264	\$ (477,737)	10.3%

The total fund balance of the general fund changed by \$(477,737) during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:

(Shortfall) of tax collections compared to budget	\$ (61,002)
Excess of state and local revenues over budget	1,341,533
Budgetary appropriations unspent by departments	1,192,832
Use of free cash (fund balance) as a funding source	(2,274,020)

Timing Differences:

Difference between prior year encumbrances spent in the current year and current year encumbrances to be spent in subsequent period	(875,179)
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Other:

Stabilization Fund interest and transfers in	<u>198,099</u>
Total	<u>\$ (477,737)</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 \$6,343,230, a change of \$(3,673,657) in comparison with the (restated) prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

#### **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$2,274,020. Major reasons for these amendments include:

- \$ 17,500 increase for general government appropriations.
- \$ 331,000 increase for public safety appropriations
- \$ 93,000 increase in education appropriations.
- \$ 814,000 increase for other public works appropriations.
- \$ 22,741 transfer to other post-employment benefits trust fund.
- \$ 213,707 transfer to stabilization fund.
- \$ 766,375 transfer to capital project funds.
- \$ 5,697 transfer to other 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 \$84,460,972 (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	\$ (3,190,345)
Depreciation expense - business-type activities	(1,059,777)
Department of public works new building (in progress)	3,430,076
Wastewater treatment facility improvements (in process)	1,602,479
Road improvements	1,589,442
City-wide energy efficiency upgrades	1,306,277
Rear Main Street road improvements	952,015
City Hall heating project	847,075
Parker Street project	701,337
Purchase of six DPW vehicles	549,942
Purchase of public safety communication equipment and software	315,063
Omealia property project	267,233
Purchase of ambulance	254,998
Purchase of water storage tank	239,800
Purchase of four shared vehicles for DPW/Enterprise fund operations	189,721
Purchase of four police cruisers	157,211
Jackson playground skate park	144,252
Watkins Field improvements	125,780
Purchase of parking meters	125,000
Purchase of bucket truck	103,530
Purchase of new windows for annex building	90,067
Various other purchases, net of disposals	64,635
Purchase of water tank land cap	40,000
Land acquired through tax foreclosure	39,020
Street lighting	28,088
	<u>\$ 8,912,919</u>

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding, including unamortized bond premium, was \$19,147,176, 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, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Levi Heywood Library Association
<b>ASSETS</b>				
Current:				
Cash and short-term investments	\$ 9,066,474	\$ 9,336,706	\$ 18,403,180	\$ 229,955
Investments	6,813,767	-	6,813,767	749,117
Receivables, net of allowance for uncollectibles:				
Property taxes	1,027,714	-	1,027,714	-
Excises	351,192	-	351,192	-
User fees	-	2,513,319	2,513,319	252,164
Intergovernmental and other	3,078,392	392,309	3,470,701	-
Other assets	595,300	-	595,300	4,480
Noncurrent:				
Receivables, net of allowance for uncollectibles:				
Property taxes	1,034,717	-	1,034,717	-
Land and construction in progress	15,034,629	6,498,446	21,533,075	-
Capital assets, net of accumulated depreciation	47,545,439	15,382,458	62,927,897	5,352,829
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Related to pensions	2,025,295	145,180	2,170,475	-
Related to OPEB	1,309	40	1,349	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>86,574,228</b>	<b>34,268,458</b>	<b>120,842,686</b>	<b>6,588,545</b>
<b>LIABILITIES</b>				
Current:				
Warrants payable	1,902,856	191,178	2,094,034	-
Accounts payable	-	987	987	9,753
Accrued payroll and withholdings	343,250	-	343,250	252,165
Accrued claims payable	494,010	-	494,010	-
Notes payable	4,360,000	-	4,360,000	-
Other current liabilities	235,833	-	235,833	-
Current portion of long-term liabilities:				
Bonds payable	491,326	1,302,933	1,794,259	-
Other liabilities	278,668	12,294	290,962	-
Noncurrent:				
Bonds payable, net of current portion	10,234,897	7,118,020	17,352,917	-
Net pension liability	33,456,135	2,398,244	35,854,379	-
Net OPEB liability	94,206,214	2,741,185	96,947,399	-
Other liabilities, net of current portion	8,302,719	247,343	8,550,062	-
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Related to pensions	2,132,189	152,841	2,285,030	-
Related to OPEB	3,990,147	117,897	4,108,044	-
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>160,428,244</b>	<b>14,282,922</b>	<b>174,711,166</b>	<b>261,918</b>
<b>NET POSITION</b>				
Invested in capital assets	42,155,908	13,642,306	55,798,214	5,254,779
Restricted for:				
Grants and other statutory restrictions	4,465,239	-	4,465,239	-
Permanent funds:				
Nonexpendable	449,837	-	449,837	244,522
Expendable	46,444	-	46,444	140,136
Unrestricted	(120,971,444)	6,343,230	(114,628,214)	687,190
<b>TOTAL NET POSITION</b>	<b>\$ (73,854,016)</b>	<b>\$ 19,985,536</b>	<b>\$ (53,868,480)</b>	<b>\$ 6,326,627</b>

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

CITY OF GARDNER, MASSACHUSETTS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Unit
<b>Governmental Activities:</b>								
General government	\$ 10,773,087	\$ 1,370,663	\$ 3,568,931	\$ -	\$ (5,833,493)	\$ -	\$ (5,833,493)	\$ -
Public safety	18,167,467	959,084	1,324,095	-	(15,884,288)	-	(15,884,288)	-
Education	33,016,459	443,497	30,040,821	-	(2,532,141)	-	(2,532,141)	-
Public works	4,839,029	97,169	161,211	1,760,369	(2,820,280)	-	(2,820,280)	-
Health and human services	2,469,957	-	807,523	-	(1,662,434)	-	(1,662,434)	-
Culture and recreation	2,392,403	19,831	162,836	-	(2,209,736)	-	(2,209,736)	-
Interest	570,909	-	-	-	(570,909)	-	(570,909)	-
Intergovernmental	2,381,591	-	-	-	(2,381,591)	-	(2,381,591)	-
Total Governmental Activities	74,610,902	2,890,244	36,065,417	1,760,369	(33,894,872)	-	(33,894,872)	-
<b>Business-Type Activities:</b>								
Water operations	3,238,644	3,365,022	-	287,312	-	413,690	413,690	-
Sewer operations	3,088,725	3,342,686	-	33,645	-	287,606	287,606	-
Golf operations	784,671	780,709	-	-	-	(3,962)	(3,962)	-
Solid waste operations	1,375,304	1,447,940	-	-	-	72,636	72,636	-
Landfill operations	34,449	9,402	-	-	-	(25,047)	(25,047)	-
Total Business-type Activities	8,521,793	8,945,759	-	320,957	-	744,923	744,923	-
Total Primary Government	\$ 83,132,695	\$ 11,836,003	\$ 36,065,417	\$ 2,081,326	(33,894,872)	744,923	(33,149,949)	-
<b>Component Unit:</b>								
Levi Heywood Library Association	\$ 1,241,497	\$ 19,283	\$ -	\$ -	-	-	-	(1,222,214)
<b>General Revenues:</b>								
Property taxes					25,056,664	-	25,056,664	-
Excises					2,161,511	-	2,161,511	-
Penalties, interest and other taxes					668,151	-	668,151	-
Grants and contributions not restricted to specific programs					4,635,208	-	4,635,208	962,699
Investment income					(16,658)	49,633	32,975	41,861
Miscellaneous					679,651	-	679,651	-
Total general revenues					33,184,527	49,633	33,234,160	1,004,560
Change in Net Position					(710,345)	794,556	84,211	(217,654)
<b>Net Position:</b>								
Beginning of year, as restated					(73,143,671)	19,190,980	(53,952,691)	6,544,281
End of year					\$ (73,854,016)	\$ 19,985,536	\$ (53,868,480)	\$ 6,326,627

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

## CITY OF GARDNER, MASSACHUSETTS

## GOVERNMENTAL FUNDS

## BALANCE SHEET

JUNE 30, 2018

	<u>General</u>	City Capital Project <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>ASSETS</b>				
Cash and short-term investments	\$ 4,440,277	\$ 1,303,763	\$ 3,322,434	\$ 9,066,474
Investments	2,772,561	-	493,594	3,266,155
Receivables:				
Property taxes	1,098,013	-	-	1,098,013
Tax title	1,293,396	-	-	1,293,396
Excises	570,307	-	-	570,307
Intergovernmental and other	1,083,961	-	1,994,431	3,078,392
<b>TOTAL ASSETS</b>	<b>\$ 11,258,515</b>	<b>\$ 1,303,763</b>	<b>\$ 5,810,459</b>	<b>\$ 18,372,737</b>
<b>LIABILITIES</b>				
Warrants payable	\$ 786,523	\$ 288,991	\$ 646,486	\$ 1,722,000
Accrued payroll and withholdings	343,250	-	-	343,250
Notes payable	-	4,360,000	-	4,360,000
Other liabilities	217,410	10,618	7,805	235,833
<b>TOTAL LIABILITIES</b>	<b>1,347,183</b>	<b>4,659,609</b>	<b>654,291</b>	<b>6,661,083</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenues	3,823,805	-	-	3,823,805
<b>FUND BALANCES</b>				
Nonspendable	-	-	449,837	449,837
Restricted	-	50,171	4,889,179	4,939,350
Committed	509,769	-	-	509,769
Assigned	403,443	-	-	403,443
Unassigned	5,174,315	(3,406,017)	(182,848)	1,585,450
<b>TOTAL FUND BALANCES</b>	<b>6,087,527</b>	<b>(3,355,846)</b>	<b>5,156,168</b>	<b>7,887,849</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 11,258,515</b>	<b>\$ 1,303,763</b>	<b>\$ 5,810,459</b>	<b>\$ 18,372,737</b>

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

CITY OF GARDNER, MASSACHUSETTS

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

JUNE 30, 2018

<b>Total Governmental Fund Balances</b>	\$ 7,887,849
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</li></ul>	62,580,068
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting (net of allowance for uncollectible accounts) and are not deferred until collection. This accrual also includes future years' State reimbursement of school projects costs.</li></ul>	3,275,712
<ul style="list-style-type: none"><li>• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.</li></ul>	3,468,046
<ul style="list-style-type: none"><li>• Long-term liabilities, including bonds payable, net pension liability, and net OPEB liability are not due and payable in the current period and, therefore are not reported in the governmental funds.</li></ul>	<u>(151,065,691)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ (73,854,016)</u></b>

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

CITY OF GARDNER, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2018

	<u>General</u>	City Capital Project <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 24,964,687	\$ -	\$ -	\$ 24,964,687
Excises	2,148,094	-	-	2,148,094
Penalties, interest and other taxes	668,151	-	-	668,151
Charges for services	1,683,637	-	789,557	2,473,194
Intergovernmental	28,937,007	-	8,448,225	37,385,232
Licenses and permits	245,235	-	-	245,235
Fines and forfeitures	143,240	-	-	143,240
Investment income (loss)	23,950	-	(7,698)	16,252
Miscellaneous	402,511	-	114,722	517,233
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	59,216,512	-	9,344,806	68,561,318
<b>Expenditures:</b>				
Current:				
General government	2,544,535	1,413,449	3,125,250	7,083,234
Public safety	7,740,242	4,745	352,456	8,097,443
Education	26,273,176	-	4,687,977	30,961,153
Public works	4,034,554	2,365,159	1,887,149	8,286,862
Health and human services	1,152,441	-	191,358	1,343,799
Culture and recreation	850,887	125,780	62,477	1,039,144
Employee benefits	12,231,763	-	-	12,231,763
Debt service	2,032,813	-	-	2,032,813
Intergovernmental	2,381,591	-	-	2,381,591
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	59,242,002	3,909,133	10,306,667	73,457,802
Excess (deficiency) of revenues over expenditures	(25,490)	(3,909,133)	(961,861)	(4,896,484)
<b>Other Financing Sources (Uses):</b>				
Transfers in	329,825	443,500	463,572	1,236,897
Transfers out	(782,072)	-	(454,825)	(1,236,897)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(452,247)	443,500	8,747	-
Change in fund balance	(477,737)	(3,465,633)	(953,114)	(4,896,484)
Fund Balance at Beginning of Year, as reclassified	6,565,264	109,787	6,109,282	12,784,333
Fund Balance at End of Year	<u>\$ 6,087,527</u>	<u>\$ (3,355,846)</u>	<u>\$ 5,156,168</u>	<u>\$ 7,887,849</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, 2018

<b>Net Changes in Fund Balances - Total Governmental Funds</b>	\$ (4,896,484)																				
<ul style="list-style-type: none"> <li>• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 20px;"> <tr> <td>Capital purchases</td> <td style="text-align: right;">10,931,156</td> </tr> <tr> <td>Loss on disposal of assets</td> <td style="text-align: right;">(17,803)</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(3,190,345)</td> </tr> </table> </li> <li>• The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and changes in other long term liabilities consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table border="0" style="margin-left: 20px;"> <tr> <td>Repayments of debt</td> <td style="text-align: right;">1,181,000</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">280,904</td> </tr> </table> </li> <li>• Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, loans, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table border="0" style="margin-left: 20px;"> <tr> <td></td> <td style="text-align: right;">(795,305)</td> </tr> </table> </li> <li>• Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. <table border="0" style="margin-left: 20px;"> <tr> <td></td> <td style="text-align: right;">593,418</td> </tr> </table> </li> <li>• Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: <table border="0" style="margin-left: 20px;"> <tr> <td>Net pension liability and related deferred outflows and inflows of resources</td> <td style="text-align: right;">(132,713)</td> </tr> <tr> <td>Net OPEB liability and related deferred outflows and inflows of resources</td> <td style="text-align: right;">(4,792,745)</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">128,572</td> </tr> </table> </li> </ul>	Capital purchases	10,931,156	Loss on disposal of assets	(17,803)	Depreciation	(3,190,345)	Repayments of debt	1,181,000	Other	280,904		(795,305)		593,418	Net pension liability and related deferred outflows and inflows of resources	(132,713)	Net OPEB liability and related deferred outflows and inflows of resources	(4,792,745)	Other	128,572	
Capital purchases	10,931,156																				
Loss on disposal of assets	(17,803)																				
Depreciation	(3,190,345)																				
Repayments of debt	1,181,000																				
Other	280,904																				
	(795,305)																				
	593,418																				
Net pension liability and related deferred outflows and inflows of resources	(132,713)																				
Net OPEB liability and related deferred outflows and inflows of resources	(4,792,745)																				
Other	128,572																				
<b>Changes in Net Position of Governmental Activities</b>	<b>\$ <u>(710,345)</u></b>																				

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

CITY OF GARDNER, MASSACHUSETTS  
GENERAL FUND  
STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES  
- BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original Budget</u>	<u>Final Budget</u>		Positive (Negative)
<b>Revenues and Other Sources:</b>				
Property taxes	\$ 25,025,689	\$ 25,025,689	\$ 25,025,689	\$ -
Excise	1,955,260	1,955,260	2,148,094	192,834
Penalties, interest and other taxes	420,000	420,000	668,151	248,151
Charges for services	1,514,040	1,514,040	1,683,637	169,597
Intergovernmental	25,897,097	25,897,097	26,203,094	305,997
Licenses and permits	260,000	260,000	245,235	(14,765)
Fines and forfeitures	111,100	111,100	143,240	32,140
Investment income	20,000	20,000	39,558	19,558
Miscellaneous	88,183	88,183	402,511	314,328
Transfers in	256,132	256,132	329,825	73,693
Other sources	-	2,274,020	2,274,020	-
<b>Total Revenues and Other Sources</b>	<b>55,547,501</b>	<b>57,821,521</b>	<b>59,163,054</b>	<b>1,341,533</b>
<b>Expenditures and Other Uses:</b>				
General government	2,557,870	2,575,370	2,396,224	179,146
Public safety	7,559,608	7,890,608	7,730,109	160,499
Education	23,433,718	23,526,718	23,526,381	337
Public works	2,646,838	3,460,838	3,345,854	114,984
Health and human services	1,232,508	1,232,508	1,160,439	72,069
Culture and recreation	838,344	838,344	827,736	10,608
Employee benefits	12,814,211	12,814,211	12,209,022	605,189
Debt service	2,082,813	2,082,813	2,032,813	50,000
Intergovernmental	2,381,591	2,381,591	2,381,591	-
Transfers out	-	1,018,520	1,018,520	-
<b>Total Expenditures and Other Uses</b>	<b>55,547,501</b>	<b>57,821,521</b>	<b>56,628,689</b>	<b>1,192,832</b>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 2,534,365	\$ 2,534,365

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

CITY OF GARDNER, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2018

	Business-Type Activities Enterprise Funds					Total	Governmental Activities
	Water Fund	Sewer Fund	Golf Fund	Solid Waste Fund	Landfill Fund		Internal Service Funds
<b>ASSETS</b>							
Current:							
Cash and short-term investments	\$ 1,942,092	\$ 6,491,436	\$ 153,535	\$ 645,250	\$ 104,393	\$ 9,336,706	\$ -
Investments	-	-	-	-	-	-	3,547,612
User fees	1,051,081	985,003	-	477,235	-	2,513,319	-
Intergovernmental receivables	-	392,309	-	-	-	392,309	-
Other assets	-	-	-	-	-	-	595,300
<b>Total current assets</b>	<b>2,993,173</b>	<b>7,868,748</b>	<b>153,535</b>	<b>1,122,485</b>	<b>104,393</b>	<b>12,242,334</b>	<b>4,142,912</b>
Noncurrent:							
Land and construction in progress	591,769	5,487,024	419,653	-	-	6,498,446	-
Capital assets, net of accumulated depreciation	11,842,711	3,329,536	131,276	78,935	-	15,382,458	-
<b>Total noncurrent assets</b>	<b>12,434,480</b>	<b>8,816,560</b>	<b>550,929</b>	<b>78,935</b>	<b>-</b>	<b>21,880,904</b>	<b>-</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
Related to pensions	36,790	23,632	67,098	17,660	-	145,180	-
Related to OPEB	12	6	18	4	-	40	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>15,464,455</b>	<b>16,708,946</b>	<b>771,580</b>	<b>1,219,084</b>	<b>104,393</b>	<b>34,268,458</b>	<b>4,142,912</b>
<b>LIABILITIES</b>							
Current:							
Warrants payable	28,481	35,424	19,997	102,575	4,701	191,178	180,856
Accrued payroll	-	-	987	-	-	987	-
Accrued claims payable	-	-	-	-	-	-	494,010
Current portion of long-term liabilities:							
Bonds payable	1,066,788	236,145	-	-	-	1,302,933	-
Other liabilities	-	-	-	-	12,294	12,294	-
<b>Total current liabilities</b>	<b>1,095,269</b>	<b>271,569</b>	<b>20,984</b>	<b>102,575</b>	<b>16,995</b>	<b>1,507,392</b>	<b>674,866</b>
Noncurrent:							
Bonds payable, net of current portion	2,685,484	4,432,536	-	-	-	7,118,020	-
Net pension liability	607,735	390,383	1,108,399	291,727	-	2,398,244	-
Net OPEB liability	771,179	392,907	1,262,195	314,904	-	2,741,185	-
Other liabilities, net of current portion	-	-	38,355	-	208,988	247,343	-
<b>Total noncurrent liabilities</b>	<b>4,064,398</b>	<b>5,215,826</b>	<b>2,408,949</b>	<b>606,631</b>	<b>208,988</b>	<b>12,504,792</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Related to pensions	38,731	24,879	70,639	18,592	-	152,841	-
Related to OPEB	33,683	16,952	54,344	12,918	-	117,897	-
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>5,232,081</b>	<b>5,529,226</b>	<b>2,554,916</b>	<b>740,716</b>	<b>225,983</b>	<b>14,282,922</b>	<b>674,866</b>
<b>NET POSITION</b>							
Invested in capital assets, net of related debt	8,783,402	4,224,239	555,730	78,935	-	13,642,306	-
Unrestricted	1,448,972	6,955,481	(2,339,066)	399,433	(121,590)	6,343,230	3,468,046
<b>TOTAL NET POSITION</b>	<b>\$ 10,232,374</b>	<b>\$ 11,179,720</b>	<b>\$ (1,783,336)</b>	<b>\$ 478,368</b>	<b>\$ (121,590)</b>	<b>\$ 19,985,536</b>	<b>\$ 3,468,046</b>

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, 2018

	Business-Type Activities Enterprise Funds						Governmental Activities
	Water Fund	Sewer Fund	Golf Fund	Solid Waste Fund	Landfill Fund	Total	Internal Service Fund
<b>Operating Revenues:</b>							
Charges for services	\$ 3,365,022	\$ 3,342,686	\$ 780,709	\$ 1,447,940	\$ 9,402	\$ 8,945,759	\$ -
Employee contributions	-	-	-	-	-	-	2,305,441
Employer contributions	-	-	-	-	-	-	7,010,468
Total Operating Revenues	<u>3,365,022</u>	<u>3,342,686</u>	<u>780,709</u>	<u>1,447,940</u>	<u>9,402</u>	<u>8,945,759</u>	<u>9,315,909</u>
<b>Operating Expenses:</b>							
Salary and benefits	198,800	172,094	381,666	149,202	-	901,762	-
Other operating expenses	2,119,181	2,217,391	241,024	1,115,599	32,449	5,725,644	-
Depreciation	577,949	449,345	11,981	20,503	-	1,059,778	-
Administrative assessments	200,000	150,000	150,000	90,000	2,000	592,000	-
Employee benefits	-	-	-	-	-	-	8,851,998
Total Operating Expenses	<u>3,095,930</u>	<u>2,988,830</u>	<u>784,671</u>	<u>1,375,304</u>	<u>34,449</u>	<u>8,279,184</u>	<u>8,851,998</u>
Operating Income (Loss)	269,092	353,856	(3,962)	72,636	(25,047)	666,575	463,911
<b>Nonoperating Revenues (Expenses):</b>							
Intergovernmental revenue	287,312	33,645	-	-	-	320,957	-
Insurance reimbursement	-	-	-	-	-	-	162,417
Investment income	10,338	35,584	546	2,643	522	49,633	(32,910)
Interest expense	(142,714)	(99,895)	-	-	-	(242,609)	-
Total Nonoperating Revenues (Expenses), Net	<u>154,936</u>	<u>(30,666)</u>	<u>546</u>	<u>2,643</u>	<u>522</u>	<u>127,981</u>	<u>129,507</u>
Change in Net Position	424,028	323,190	(3,416)	75,279	(24,525)	794,556	593,418
Net Position at Beginning of Year, as restated	<u>9,808,346</u>	<u>10,856,530</u>	<u>(1,779,920)</u>	<u>403,089</u>	<u>(97,065)</u>	<u>19,190,980</u>	<u>2,874,628</u>
Net Position at End of Year	<u>\$ 10,232,374</u>	<u>\$ 11,179,720</u>	<u>\$ (1,783,336)</u>	<u>\$ 478,368</u>	<u>\$ (121,590)</u>	<u>\$ 19,985,536</u>	<u>\$ 3,468,046</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, 2018

	Business-Type Activities Enterprise Funds					Total	Governmental Activities
	Water Fund	Sewer Fund	Golf Fund	Solid Waste Fund	Landfill Fund		Internal Service Fund
<b><u>Cash Flows From Operating Activities:</u></b>							
Receipts from customers and users	\$ 3,339,640	\$ 4,417,823	\$ 780,709	\$ 1,448,160	\$ 9,402	\$ 9,995,734	\$ -
Payments to vendors and employees	(2,487,023)	(2,550,861)	(723,425)	(1,231,405)	(42,475)	(7,035,189)	-
Receipts from employees and employer	-	-	-	-	-	-	9,315,909
Payments of employee benefits and expenses	-	-	-	-	-	-	(8,926,762)
Net Cash Provided By / (Used for) Operating Activities	852,617	1,866,962	57,284	216,755	(33,073)	2,960,545	389,147
<b><u>Cash Flows From Non-Capital Financing Activities:</u></b>							
Insurance reimbursements	-	-	-	-	-	-	162,417
Net Cash Provided By Non-Capital Activities							162,417
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>							
Receipts from governments	287,312	33,645	-	-	-	320,957	-
Acquisition and construction of capital assets	(334,567)	(1,868,667)	-	(46,455)	-	(2,249,689)	-
Principal payments on bonds	(1,075,347)	(246,531)	-	-	-	(1,321,878)	-
Interest expense paid	(142,714)	(99,897)	-	-	-	(242,611)	-
Net Cash (Used For) Capital and Related Financing Activities	(1,265,316)	(2,181,450)	-	(46,455)	-	(3,493,221)	-
<b><u>Cash Flows From Investing Activities:</u></b>							
(Purchase) / sale of investments	10,338	35,584	546	2,643	522	49,633	(1,855,789)
Net Cash Provided by / (Used For) Investing Activities	10,338	35,584	546	2,643	522	49,633	(1,855,789)
Net Change in Cash and Short-Term Investments	(402,361)	(278,904)	57,830	172,943	(32,551)	(483,043)	(1,304,225)
Cash and Short Term Investments, Beginning of Year	2,344,453	6,770,340	95,705	472,307	136,944	9,819,749	1,304,225
Cash and Short Term Investments, End of Year	\$ 1,942,092	\$ 6,491,436	\$ 153,535	\$ 645,250	\$ 104,393	\$ 9,336,706	\$ -

(continued)

CITY OF GARDNER, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2018  
 (continued)

	Business-Type Activities Enterprise Funds						Governmental Activities
	Water Fund	Sewer Fund	Golf Fund	Solid Waste Fund	Landfill Fund	Total	Internal Service Fund
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</u></b>							
Operating income (loss)	\$ 269,092	\$ 353,856	\$ (3,962)	\$ 72,636	\$ (25,047)	\$ 666,575	\$ 463,911
Adjustments to reconcile operating income (loss)							
Depreciation	577,949	449,345	11,981	20,503	-	1,059,778	-
Changes in assets, liabilities, and deferred outflows/inflows:							
User fee receivables	(25,382)	(56,595)	-	220	-	(81,757)	-
Prepaid expenses	-	-	-	-	-	-	(180,208)
Other receivables	-	1,131,732	-	-	-	1,131,732	-
Deferred outflows - related to pensions	33,513	21,528	61,123	16,087	-	132,251	-
Deferred outflows - related to OPEB	(12)	(6)	(18)	(4)	-	(40)	-
Warrants and other payables	12,146	(25,963)	16,853	96,815	4,268	104,119	63,918
Accrued/other liabilities	-	-	987	-	(12,294)	(11,307)	41,526
Compensated absences	-	-	(17,409)	-	-	(17,409)	-
Net OPEB liability	(17,269)	(3,908)	(9,889)	12,510	-	(18,556)	-
Net pension liability	(67,076)	(43,086)	(122,335)	(32,198)	-	(264,695)	-
Deferred inflows - related to pensions	35,973	23,107	65,609	17,268	-	141,957	-
Deferred inflows - related to OPEB	33,683	16,952	54,344	12,918	-	117,897	-
Net Cash Provided By / (Used For) Operating Activities	<u>\$ 852,617</u>	<u>\$ 1,866,962</u>	<u>\$ 57,284</u>	<u>\$ 216,755</u>	<u>\$ (33,073)</u>	<u>\$ 2,960,545</u>	<u>\$ 389,147</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, 2018

	Private Purpose <u>Trust Funds</u>	Pension and OPEB <u>Trust Funds</u>	Agency <u>Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 39,513	\$ 948	\$ 431,286
Investments	3,371,163	55,625,410	-
Accounts receivable	-	319,026	36,453
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Assets	3,410,676	55,945,384	467,739
<b>LIABILITIES AND NET POSITION</b>			
Warrants payable	-	-	3,362
Accounts payable	21,157	243,734	-
Deposits held in custody	-	-	346,991
Other liabilities	-	-	117,386
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Liabilities	21,157	243,734	467,739
<b>NET POSITION</b>			
Restricted for pensions	-	55,654,205	-
Restricted for OPEB purposes	-	47,445	-
Restricted for other purposes	3,389,519	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>
	<u>\$ 3,389,519</u>	<u>\$ 55,701,650</u>	<u>\$ -</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, 2018

	<u>Private Purpose Trust Funds</u>	<u>Pension and OPEB Trust Funds</u>
<b>Additions:</b>		
Contributions:		
Employers	\$ -	\$ 6,567,027
Other systems and Commonwealth of Massachusetts	-	132,976
Plan members	-	1,334,136
Other	7,137	30,633
Total contributions	<u>7,137</u>	<u>8,064,772</u>
Investment Income:		
Interest and dividends	193,463	-
Appreciation in fair value of investments	-	8,450,519
Less: Management fees	-	(271,931)
Net investment income	<u>193,463</u>	<u>8,178,588</u>
Total additions	200,600	16,243,360
<b>Deductions:</b>		
Benefit payments to plan members and beneficiaries	-	8,840,420
Refunds to plan members and other systems	-	74,871
Transfers to other systems	-	223,902
Administrative expenses	-	144,356
Education expenses	183,243	-
Total deductions	<u>183,243</u>	<u>9,283,549</u>
Net increase	17,357	6,959,811
<b>Net position restricted for pensions and other purposes:</b>		
Beginning of year	<u>3,372,162</u>	<u>48,741,839</u>
End of year	<u>\$ 3,389,519</u>	<u>55,701,650</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 2018, 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.

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, certain expenditures such as debt service, claims and judgments, compensated absences, OPEB, and pension are recorded only when payment is due.

The City reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *City Capital Project Fund* is used to account for long-term capital projects related to various City-owned (non-school) property. The projects are mostly funded by borrowing and free cash.

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 *pension and OPEB trust funds* are used to accumulate resources for retiree post-employment benefits.
- The *agency funds* account for fiduciary assets held by the City in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

#### D. Cash and Short-term Investments

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

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

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

*E. Investments*

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

Investments of City funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at 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 2018 tax levy reflected an excess capacity of \$634,217.

*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>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 59,216,512	\$ 59,242,002
Other financing sources/uses (GAAP basis)	329,825	782,072
Reverse the effect of including Stabilization Fund and General Fund activity	15,608	213,707
Adjust tax revenue to accrual basis	61,002	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(1,788,391)
Add end of year appropriation carryforwards to expenditures	-	913,212
To reverse the effect of non-budgeted State contributions for teachers retirement	(2,733,913)	(2,733,913)
To record use of free cash	<u>2,274,020</u>	<u>-</u>
Budgetary basis	<u>\$ 59,163,054</u>	<u>\$ 56,628,689</u>

*D. Deficit Fund Equity*

Certain individual governmental funds reflected deficit balances as of June 30, 2018:

City Capital Project fund	\$ <u>(3,406,017)</u>
Non Major Funds:	
Emergency Impact Aid	\$ (89,348)
MSBA - ESS Project	<u>(93,500)</u>
Total Non Major Funds	\$ <u>(182,848)</u>

It is anticipated that the deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and/or transfers from other funds.

In addition, the proprietary funds reported deficits in the following funds:

Golf fund	\$(1,783,336)
Landfill fund	\$(121,590)

These deficits were caused primarily by recording the unfunded liabilities for net pension and OPEB and future landfill monitoring and are expected to be eliminated over time through the results of operations.

### **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, 2018, \$4,583,300 of the City's bank balance of \$20,868,418 was exposed to custodial credit risk as uninsured and/or uncollateralized. \$3,134,640 of the City's uninsured and/or uncollateralized amount is on deposit with the Massachusetts Municipal Depository Trust, which is the state investment pool as authorized by Massachusetts General Law, Chapter 29, Section 38A.

As of December 31, 2017, 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, 2018 for each investment of the City:

Investment Type	Amount	Exempt From Disclosure	Rating as of Year End					BAA1 /
			AAA	A1	A2	A3	BAA2	
Certificates of deposit	\$ 1,508,277	\$ 1,508,277	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	2,234,308	-	-	280,946	344,774	653,028	-	955,560
Equities	805,920	805,920	-	-	-	-	-	-
Exchange-traded products	2,135,880	2,135,880	-	-	-	-	-	-
US Treasury notes	3,547,990	-	3,547,990	-	-	-	-	-
<b>Total investments</b>	<b>\$ 10,232,375</b>	<b>\$ 4,450,077</b>	<b>\$ 3,547,990</b>	<b>\$ 280,946</b>	<b>\$ 344,774</b>	<b>\$ 653,028</b>	<b>\$ -</b>	<b>\$ 955,560</b>

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

All the System's investments as of December 31, 2017 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.

All of the total City investments of \$10,232,375 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	\$ 1,508,277	\$ -	\$ 811,234	\$ 697,043
Corporate bonds	2,234,308	56,513	100,209	2,077,586
Equities	805,920	805,920	-	-
Exchange-traded products	2,135,880	2,135,880	-	-
US Treasury notes	3,547,990	-	934,046	2,613,944
Total investments	<u>\$ 10,232,375</u>	<u>\$ 2,998,313</u>	<u>\$ 1,845,489</u>	<u>\$ 5,388,573</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, 2018:

<u>Description</u>	<u>Fair Value Measurements Using:</u>			
	<u>Quoted prices in active markets for identical (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>	
Investments by fair value level:				
Debt securities:				
U.S. Treasury securities	\$ 3,547,990	\$ -	\$ 3,547,990	\$ -
Corporate bonds	2,234,308	-	2,234,308	-
Equity investments	805,920	805,920	-	-
Exchange-traded products	<u>2,135,880</u>	<u>-</u>	<u>2,135,880</u>	<u>-</u>
Total	<u>\$ 8,724,098</u>	<u>\$ 805,920</u>	<u>\$ 7,918,178</u>	<u>\$ -</u>

The System has the following fair value measurements as of December 31, 2017:

<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	<u>\$ 55,577,965</u>			
Total	<u>\$ 55,577,965</u>			
External investment pool	\$ 55,577,965	\$ -	Quarterly	30 days

**5. Property 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.

Property taxes and excise receivables at June 30, 2018 consist of the following:

	Gross Amount (fund basis)	Allowance for Doubtful Accounts	Net Amount (accrual basis)
Real estate taxes (current)	\$ 977,234	\$ (28,700)	\$ 948,534
Personal property taxes	120,779	(41,599)	79,180
Tax liens	<u>1,293,396</u>	<u>(258,679)</u>	<u>1,034,717</u>
Total property taxes	<u>\$ 2,391,409</u>	<u>\$ (328,978)</u>	2,062,431
Less current portion:			<u>(1,027,714)</u>
Noncurrent taxes receivable			<u>\$ 1,034,717</u>
Motor vehicle excise	<u>570,307</u>	<u>(219,115)</u>	<u>351,192</u>
Total excises	<u>\$ 2,961,716</u>	<u>\$ (548,093)</u>	<u>\$ 351,192</u>

## 6. Intergovernmental and Other Receivables

The balance reported in the accompanying governmental funds balance sheet represents departmental receivables and reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2018 and are expected to be reimbursed in fiscal year 2019.

## 7. Other Assets

The balance reported in the internal service fund represents the City's prepayment of one month's insurance premium.

## 8. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Convert CIP	Ending Balance
<b>Governmental Activities:</b>					
Capital assets, being depreciated:					
Buildings and improvements	\$ 35,135,883	\$ -	\$ -	\$ 22,969,399	\$ 58,105,282
Machinery, equipment, and furnishings	11,162,768	1,026,306	(193,598)	182,585	12,178,061
Infrastructure	24,453,835	1,589,441	-	389,259	26,432,535
Total capital assets, being depreciated	70,752,486	2,615,747	(193,598)	23,541,243	96,715,878
Less accumulated depreciation for:					
Buildings and improvements	(21,474,753)	(1,728,753)	-	-	(23,203,506)
Machinery, equipment, and furnishings	(9,431,672)	(472,007)	190,321	-	(9,713,358)
Infrastructure	(15,263,990)	(989,585)	-	-	(16,253,575)
Total accumulated depreciation	(46,170,415)	(3,190,345)	190,321	-	(49,170,439)
Total capital assets, being depreciated, net	24,582,071	(574,598)	(3,277)	23,541,243	47,545,439
Capital assets, not being depreciated:					
Land	3,891,003	79,020	(14,526)	-	3,955,497
Construction in progress (CIP)	26,383,987	8,236,388	-	(23,541,243)	11,079,132
Total capital assets, not being depreciated	30,274,990	8,315,408	(14,526)	(23,541,243)	15,034,629
Governmental activities capital assets, net	\$ 54,857,061	\$ 7,740,810	\$ (17,803)	\$ -	\$ 62,580,068
<b>Business-Type Activities:</b>					
Capital assets, being depreciated:					
Buildings and improvements	\$ 21,077,118	\$ 239,800	\$ -	\$ -	\$ 21,316,918
Machinery, equipment, and furnishings	3,415,505	407,411	-	-	3,822,916
Infrastructure	17,813,611	-	-	594,245	18,407,856
Total capital assets, being depreciated	42,306,234	647,211	-	594,245	43,547,690
Less accumulated depreciation for:					
Buildings and improvements	(10,627,903)	(519,479)	-	-	(11,147,382)
Machinery, equipment, and furnishings	(2,953,009)	(193,083)	-	-	(3,146,092)
Infrastructure	(13,524,542)	(347,216)	-	-	(13,871,758)
Total accumulated depreciation	(27,105,454)	(1,059,778)	-	-	(28,165,232)
Total capital assets, being depreciated, net	15,200,780	(412,567)	-	594,245	15,382,458
Capital assets, not being depreciated:					
Land	1,011,422	-	-	-	1,011,422
Construction in progress (CIP)	4,478,790	1,602,479	-	(594,245)	5,487,024
Total capital assets, not being depreciated	5,490,212	1,602,479	-	(594,245)	6,498,446
Business-type activities capital assets, net	\$ 20,690,992	\$ 1,189,912	\$ -	\$ -	\$ 21,880,904

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

Governmental Activities:	
General government	\$ 79,738
Public safety	509,860
Education	1,084,992
Public works	1,376,308
Human services	78,649
Culture and recreation	<u>60,798</u>
Total depreciation expense - governmental activities	<u>\$ 3,190,345</u>
Business-Type Activities:	
Water	\$ 577,949
Sewer	449,345
Golf	11,981
Solid Waste	<u>20,503</u>
Total depreciation expense - business-type activities	<u>\$ 1,059,778</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 and OPEB in accordance with GASB Statements No. 68 and 75 are more formally discussed in the corresponding pension and OPEB notes.

**10. Warrants and Accounts Payable**

Warrants payable represent 2018 expenditures paid by July 15, 2018 as permitted by law. Accounts payable represent additional 2018 expenditures paid after July 15, 2018.

**11. Notes Payable**

The City had the following note outstanding at June 30, 2018:

	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2018</u>
Bond anticipation	2.75	06/29/18	06/28/19	<u>\$ 4,360,000</u>

The following summarizes activity in notes payable during fiscal year 2018:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ <u>          -</u>	\$ <u>4,360,000</u>	\$ <u>          -</u>	\$ <u>4,360,000</u>

## 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, 2018 follows:

	Serial Maturities Through	Interest Rate(s) %	Loan Balance Outstanding June 30, 2018	Bond Premium Amortization	Total Balance Outstanding June 30, 2018
<u>Governmental Activities:</u>					
Police Station	03/01/34	3.0-5.0	\$ <u>10,305,000</u>	\$ <u>421,223</u>	\$ <u>10,726,223</u>
Total Governmental Activities			\$ <u>10,305,000</u>	\$ <u>421,223</u>	\$ <u>10,726,223</u>
<u>Business-Type Activities:</u>					
<u>Water Fund:</u>					
Water treatment (MWPAT 99-16)	08/01/19	2.0	\$ 1,161,995	\$ -	\$ 1,161,995
Water treatment (MWPAT 00-16A)	08/01/19	2.0	76	-	76
General obligation 2012 - water portion	04/01/22	2.0	1,155,000	9,414	1,164,414
Water treatment (MWPAT 03-10)	08/01/24	2.0	<u>1,347,794</u>	<u>77,993</u>	<u>1,425,787</u>
Total Water Fund			3,664,865	87,407	3,752,272
<u>Sewer Fund:</u>					
Sewer treatment (MWPAT 03-10)	08/01/24	2.0	392,277	22,490	414,767
Sewer treatment (MCWT 15-21)	01/15/37	2.0	<u>4,253,914</u>	-	<u>4,253,914</u>
Total Sewer Fund			<u>4,646,191</u>	<u>22,490</u>	<u>4,668,681</u>
Total Business-Type Activities			\$ <u>8,311,056</u>	\$ <u>109,897</u>	\$ <u>8,420,953</u>

### B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding (including bond premium amortization) as of June 30, 2018 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	586,326	301,913	888,239
2024 - 2028	3,311,630	1,136,894	4,448,524
2029 - 2033	3,871,630	573,044	4,444,674
Thereafter	856,333	31,125	887,458
Total	<u>\$ 10,726,223</u>	<u>\$ 3,501,228</u>	<u>\$ 14,227,451</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	472,550	95,135	567,685
2024 - 2028	1,635,643	299,527	1,935,170
2029 - 2033	1,186,347	176,734	1,363,081
Thereafter	1,045,311	52,824	1,098,135
Total	<u>\$ 8,420,953</u>	<u>\$ 1,281,058</u>	<u>\$ 9,702,011</u>

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

During the year ended June 30, 2018, the following changes occurred in long-term liabilities:

	Total Balance July 1, 2017 (restated)	Additions	Reductions	Total Balance June 30, 2018	Less Current Portion	Long-Term Portion June 30, 2018
<u>Governmental Activities</u>						
Bonds payable	\$ 11,486,000	\$ -	\$ (1,181,000)	\$ 10,305,000	\$ (465,000)	\$ 9,840,000
Unamortized bond premium	496,926	-	(75,703)	421,223	(26,326)	394,897
Subtotal	11,982,926	-	(1,256,703)	10,726,223	(491,326)	10,234,897
Net pension liability	37,148,718	-	(3,692,583)	33,456,135	-	33,456,135
Net OPEB liability	93,402,307	803,907	-	94,206,214	-	94,206,214
Other:						
Capital lease	6,741,940	-	(205,201)	6,536,739	(278,668)	6,258,071
Compensated absences	2,173,220	-	(128,572)	2,044,648	-	2,044,648
Subtotal - other	8,915,160	-	(333,773)	8,581,387	(278,668)	8,302,719
Totals	<u>\$ 151,449,111</u>	<u>\$ 803,907</u>	<u>\$ (5,283,059)</u>	<u>\$ 146,969,959</u>	<u>\$ (769,994)</u>	<u>\$ 146,199,965</u>

	Balance July 1, 2017 (restated)	Additions	Reductions	Total Balance June 30, 2018	Less Current Portion	Long-Term Portion June 30, 2018
<b>Business-Type Activities</b>						
Bonds payable	\$ 9,600,788	\$ -	\$ (1,289,730)	\$ 8,311,058	\$ (1,286,225)	\$ 7,024,833
Unamortized bond premium	142,045	-	(32,150)	109,895	(16,708)	93,187
Subtotal	9,742,833	-	(1,321,880)	8,420,953	(1,302,933)	7,118,020
Net pension liability	2,662,939	-	(264,695)	2,398,244	-	2,398,244
Net OPEB liability	2,759,741	-	(18,556)	2,741,185	-	2,741,185
Other:						
Landfill liability	233,576	-	(12,294)	221,282	(12,294)	208,988
Compensated absences	55,764	-	(17,409)	38,355	-	38,355
Total other liabilities	289,340	-	(29,703)	259,637	(12,294)	247,343
Totals	\$ 15,454,853	\$ -	\$ (1,634,834)	\$ 13,820,019	\$ (1,315,227)	\$ 12,504,792

#### **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 \$221,282 reported as landfill post-closure care liability at June 30, 2018 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 was completed in fiscal year 2018. Future minimum lease payments under the capital lease consisted of the following as of June 30, 2018:

<u>Fiscal Year</u>	
2019	\$ 416,000
2020	379,999
2021	380,000
2022	380,000
2023	380,000
2024 - 2028	2,030,001
2029 - 2033	2,440,000
Thereafter	<u>1,599,999</u>
Total payments	8,005,999
Less amounts representing interest	<u>(1,469,260)</u>
Present value of minimum lease payments	<u>\$ 6,536,739</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. Deferred inflows of resources related to pension and OPEB will be recognized as expense in future years and is more fully described in the corresponding pension and OPEB notes. *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. 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>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 329,825	\$ 782,072
City Capital Projects	443,500	-
Nonmajor funds:		
Special revenue funds	5,697	381,328
Capital project funds	<u>457,875</u>	<u>73,497</u>
Subtotal Nonmajor Funds	<u>463,572</u>	<u>454,825</u>
Grand Total	<u>\$ 1,236,897</u>	<u>\$ 1,236,897</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, 2018:

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, 2018:

	General <u>Fund</u>	City Capital <u>Projects</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Nonspendable</b>				
Nonexpendable permanent funds	\$ -	\$ -	\$ 449,837	\$ 449,837
Total Nonexpendable	-	-	449,837	449,837
<b>Restricted</b>				
Bonded projects	-	50,171	288,148	338,319
Special revenue funds	-	-	4,554,587	4,554,587
Expendable permanent funds	-	-	46,444	46,444
Total Restricted	-	50,171	4,889,179	4,939,350
<b>Committed</b>				
Special articles				
General government	21,877	-	-	21,877
Public safety	11,338	-	-	11,338
Education	27,698	-	-	27,698
Public works	413,423	-	-	413,423
Health and human services	7,000	-	-	7,000
Culture and recreation	28,433	-	-	28,433
Total Committed	509,769	-	-	509,769
<b>Assigned</b>				
Encumbrances				
General government	56,631	-	-	56,631
Public safety	4,689	-	-	4,689
Education	93,052	-	-	93,052
Public works	243,573	-	-	243,573
Health and human services	5,498	-	-	5,498
Total Assigned	403,443	-	-	403,443
<b>Unassigned</b>				
General fund	2,484,446	-	-	2,484,446
Stabilization fund*	2,689,869	-	-	2,689,869
Deficit fund balances	-	(3,406,017)	(182,848)	(3,588,865)
Total Unassigned	5,174,315	(3,406,017)	(182,848)	1,585,450
Total Fund Balance	\$ 6,087,527	\$ (3,355,846)	\$ 5,156,168	\$ 7,887,849

\*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. Employee Benefit Trust Funds

The Gardner Contributory Retirement System and the other post-employment benefits trust fund are presented in a single column on pages 23 and 24. Details of the financial position and changes in net position are as follows:

	Pension Trust Fund (December 31, 2017)	Other Post-Employment Benefits Trust Fund	Pension and OPEB Trust Funds
<b>ASSETS</b>			
Cash and short-term investments	\$ 948	\$ -	\$ 948
Investments	55,577,965	47,445	55,625,410
Accounts receivable	319,026	-	319,026
Total Assets	55,897,939	47,445	55,945,384
<b>LIABILITIES AND NET POSITION</b>			
Accounts payable	243,734	-	243,734
Total Liabilities	243,734	-	243,734
<b>NET POSITION</b>			
Restricted for pensions	55,654,205	-	55,654,205
Restricted for OPEB purposes	-	47,445	47,445
	<u>\$ 55,654,205</u>	<u>\$ 47,445</u>	<u>\$ 55,701,650</u>
<b>Additions:</b>			
Contributions:			
Employers	\$ 3,849,449	\$ 2,717,578	\$ 6,567,027
Other systems and Commonwealth of Massachusetts	132,976	-	132,976
Plan members	1,334,136	-	1,334,136
Other	30,633	-	30,633
Total contributions	5,347,194	2,717,578	8,064,772
Investment Income:			
Appreciation in fair value of investments	8,450,654	(135)	8,450,519
Less: management fees	(271,931)	-	(271,931)
Net investment income	8,178,723	(135)	8,178,588
Total additions	13,525,917	2,717,443	16,243,360
<b>Deductions:</b>			
Benefit payments to plan members and beneficiaries	6,145,583	2,694,837	8,840,420
Refunds to plan members	74,871	-	74,871
Transfers to other systems	223,902	-	223,902
Administrative expenses	144,356	-	144,356
Total deductions	6,588,712	2,694,837	9,283,549
Net increase	6,937,205	22,606	6,959,811
<b>Net position restricted for pensions and other purposes:</b>			
Beginning of year	48,717,000	24,839	48,741,839
End of year	<u>\$ 55,654,205</u>	<u>\$ 47,445</u>	<u>\$ 55,701,650</u>

## 19. 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, 2018:

Retirees and beneficiaries receiving benefits	241
Terminated plan members entitled to but not yet receiving benefits	63
Active plan members	<u>281</u>
Total	<u>585</u>
Number of participating employers	2

### Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members

of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

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, 2018 was \$3,686,232, which was equal to its annual required contribution.

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

The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2017 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, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 17.04%. 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, rolled forward to December 31, 2017.

The components of the net pension liability of the participating employers at December 31, 2017 were as follows:

#### Net Pension Liability of Employers

Total pension liability	\$ 93,096,120
Plan fiduciary net position	<u>(55,654,205)</u>
Employers' net pension liability	<u>\$ 37,441,915</u>
Plan fiduciary net position as a percentage of total pension liability	59.8%

## 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	3.75%
Inflation rate	3% per year
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 RP-2014 projected from the year 2006 with MP-2016. For members retired under an accidental disability (job related), 40% of deaths are assumed to be from the same cause as the disability. Disabled mortality RP-2014 table projected from the year 2006 with Generational Mortality, Scale BB, 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>
US Equities	17.50%	4.47%
International Equities	15.50%	4.66%
Emerging Equities	6.00%	6.12%
Core Bonds	5.00%	0.73%
20+ Yr. Treasury STRIPS	2.00%	0.49%
TIPS	5.00%	0.73%
Value-Added Fixed Income	10.00%	3.50%
Private Equity	12.00%	6.31%
Real Estate	10.00%	3.59%
Timberland	4.00%	3.16%
Portfolio Completion	13.00%	3.44%
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 or 1 percentage-point higher than the current rate (in thousands):

1% Decrease	Current Discount Rate	1% Increase
<u>(6.75%)</u>	<u>(7.75%)</u>	<u>(8.75%)</u>
\$44,942	\$35,854	\$28,940

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

At June 30, 2018, the City reported a liability of \$35,854,379 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, 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, 2018, the City's proportion was 95.76 percent.

For the year ended June 30, 2018, the City recognized pension expense of \$3,857,792. 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	\$ -	\$ 1,955,444
Changes in assumptions	1,218,342	211,708
Differences between expected and actual experience	857,752	57,521
Changes in proportion and differences between contributions and proportionate share of contributions	<u>94,381</u>	<u>60,357</u>
	<u>\$ 2,170,475</u>	<u>\$ 2,285,030</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	\$ 414,460
2019	368,677
2020	(341,710)
2021	(577,767)
2022	<u>21,785</u>
Total	<u>\$ (114,555)</u>

## 20. **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, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. 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 White Collar Employees table projected generationally with Scale MP-2016 (gender distinct).
  - Post-retirement – reflects RP-2014 White Collar Health Annuitant table projected generationally with Scale MP-2016 (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, 2017 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%	5.0%
Portfolio completion strategies	13.0%	3.6%
Core fixed income	12.0%	1.1%
Private equity	11.0%	6.6%
Real estate	10.0%	3.8%
Value added fixed income	10.0%	3.6%
Timber/natural resources	4.0%	3.2%
Hedge funds	0.0%	3.6%
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>
\$28,424,300	\$22,885,391	\$18,193,400

**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 Commonwealth's proportionate share of the MTRS' collective net pension liability that is associated with the City was approximately \$50 million based on a proportionate share of 0.221%. As required by GASB 68, the City has recognized its portion of the Commonwealth's contribution of approximately \$2.7 million as both a revenue and expenditure in the general fund, and its portion of the collective pension expense of approximately \$5.2 million as both a revenue and expense in the governmental activities

#### **21. Other Post-Employment Benefits (GASB 74 and GASB 75)**

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, replaces the requirements of Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. In fiscal year 2017, the City established an OPEB Trust Fund to provide funding for future employee health care costs.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

All the following OPEB disclosures are based on a measurement date of June 30, 2018.

##### A. General Information about the OPEB Plan

###### Plan Description

The City provides post-employment healthcare benefits for retired employees through the City's plan. The City provides health insurance coverage through Blue Cross / Blue Shield. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

## Benefits Provided

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

## Plan Membership

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefit payments	552
Active employees	<u>403</u>
Total	955

## *B. Investments*

The OPEB trust fund assets consist of a portion of the City's general investment account, which is comprised of equities, fixed income, real estate, and alternatives.

*Rate of return.* For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was (0.60) percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

## *C. Actuarial Assumptions and Other Inputs*

The net 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%
Investment rate of return	Not available
Municipal bond rate and discount rate	3.87%
Healthcare cost trend rates	8% for 2016, decreasing 1% per year to an ultimate rate of 5%
Retirees' share of benefit-related costs	25%

Mortality rates were based on RP-2014 Employees Mortality Table (for pre-retirement) and RP-2014 Healthy Annuitant Mortality Table (for post-retirement), base year 2006, projected with generational mortality improvement using scale MP-2016.

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study as of July 1, 2016.

The long-term expected rate of return on OPEB plan investments was 4% and 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, 2018 was not available.

*D. Discount Rate*

The discount rate used to measure the net OPEB liability was 3.87%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members 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. As a result, the discount rate was based on the municipal bond rate of 3.87% (based on the Bond Buyer 20-Bond GO Index as of June 28, 2018).

*E. Net OPEB Liability*

The components of the net OPEB liability, measured as of June 30, 2018, were as follows (in thousands):

Total OPEB liability	\$ 96,995
Plan fiduciary net position	<u>(48)</u>
Net OPEB liability	<u>\$ 96,947</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 0.05%

*F. Changes in the Net OPEB Liability*

	Increase (Decrease) (in thousands)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances, beginning of year	\$ 96,187	\$ 25	\$ 96,162
Changes for the year:			
Service cost	4,791	-	4,791
Interest	3,567	-	3,567
Contributions - employer	-	2,718	(2,718)
Changes in assumptions or other inputs	(4,855)	-	(4,855)
Benefit payments	<u>(2,695)</u>	<u>(2,695)</u>	<u>-</u>
Net Changes	<u>808</u>	<u>23</u>	<u>785</u>
Balances, end of year	<u>\$ 96,995</u>	<u>\$ 48</u>	<u>\$ 96,947</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.58% in 2017 to 3.87% in 2018.

*G. 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 one percentage-point lower or one percentage-point higher than the current discount rate (in thousands):

1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
\$115,295	\$96,947	\$82,602

*H. 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 as calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates (in thousands):

	Current Healthcare Cost Trend	
1% Decrease (7% decreasing to 4%)	Rates (8% decreasing to 5%)	1% Increase (9% decreasing to 6%)
\$79,398	\$96,947	\$121,756

I. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City recognized an OPEB expense of \$7,609,624. At June 30, 2018, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ -	\$ 4,108,044
Net difference between projected and actual OPEB investment earnings	1,349	-
Total	\$ <u>1,349</u>	\$ <u>4,108,044</u>

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

<u>Year ended June 30:</u>	
2019	\$ (746,580)
2020	(746,580)
2021	(746,580)
2022	(746,579)
2023	(746,917)
Thereafter	<u>(373,459)</u>
Total	\$ <u>(4,106,695)</u>

**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 \$110,000 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, 2018 are as follows:

Claims liability, July 1, 2017	\$ 904,882
Claims incurred/recognized in fiscal year 2018	8,851,998
Claims paid in fiscal year 2018	<u>(9,262,870)</u>
Claims liability, June 30, 2018	<u>\$ 494,010</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 / Net Position Restatement**

The City’s major governmental funds for fiscal year 2018, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

<u>Fund Basis Financial Statements</u>	<u>City Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>
As previously reported	\$ -	\$ 6,219,069
Change in major fund	<u>109,787</u>	<u>(109,787)</u>
As reclassified	<u>\$ 109,787</u>	<u>\$ 6,109,282</u>

In addition, the beginning (July 1, 2017) net position of the City has been restated as follows:

<u>Government-Wide Financial Statements</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>					<u>Total</u>
		<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Golf Fund</u>	<u>Solid Waste Fund</u>	<u>Landfill Fund</u>	
As previously reported	\$ (29,008,288)	\$ 10,455,706	\$ 10,973,625	\$ (1,070,742)	\$ 545,884	\$ (233,206)	\$ 20,671,267
GASB 75 implementation	(43,999,242)	(647,360)	(117,095)	(709,178)	(142,795)	-	(1,616,428)
Reclassify net pension liability	<u>(136,141)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>136,141</u>	<u>136,141</u>
As restated	<u>\$ (73,143,671)</u>	<u>\$ 9,808,346</u>	<u>\$ 10,856,530</u>	<u>\$ (1,779,920)</u>	<u>\$ 403,089</u>	<u>\$ (97,065)</u>	<u>\$ 19,190,980</u>

CITY OF GARDNER, MASSACHUSETTS  
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (GASB 68)

JUNE 30, 2018

(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, 2018	December 31, 2017	95.76%	\$35,854	\$12,285	291.85%	59.78%
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, 2018	June 30, 2017	0.22%	-	\$50,640	\$50,640	\$14,939	-	54.25%
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, 2018

(Unaudited)

(Amounts expressed in thousands)

**Gardner Contributory Retirement System**

<u>Fiscal Year</u>	<u>Measurement Date</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, 2018	December 31, 2017	\$3,686	\$3,686	-	\$12,285	30.00%
June 30, 2017	December 31, 2016	\$3,485	\$3,517	(\$32)	\$11,762	29.90%
June 30, 2016	December 31, 2015	\$3,279	\$3,308	(\$29)	\$10,920	30.29%
June 30, 2015	December 31, 2014	\$3,105	\$3,136	(\$31)	\$10,465	29.97%

**Massachusetts Teachers' Retirement System**

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution Provided by Commonwealth</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, 2018	June 30, 2017	\$2,734	\$2,734	-	\$14,939	18.30%
June 30, 2017	June 30, 2016	\$2,608	\$2,608	-	\$15,255	17.10%
June 30, 2016	June 30, 2015	\$2,403	\$2,403	-	\$14,904	16.12%
June 30, 2015	June 30, 2014	\$2,227	\$2,227	-	\$14,565	15.29%

*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  
OTHER POST-EMPLOYMENT BENEFITS (OPEB)  
SCHEDULE OF CHANGES IN NET OPEB LIABILITY (GASB 74 AND 75)  
(Unaudited)

	<u>2018</u>	<u>2017</u>
<b>Total OPEB liability</b>		
Service cost	\$ 4,790,887	\$ 5,736,706
Interest on unfunded liability - time value of \$	3,566,773	3,063,959
Changes of assumptions	(4,854,961)	(13,084,732)
Benefit payments, including refunds of member contributions	<u>(2,694,837)</u>	<u>(2,598,945)</u>
Net change in total OPEB liability	807,862	(6,883,012)
Total OPEB liability - beginning	<u>96,187,071</u>	<u>103,070,083</u>
<b>Total OPEB liability - ending (a)</b>	<u>\$ 96,994,933</u>	<u>\$ 96,187,071</u>
<b>Plan fiduciary net position*</b>		
Contributions - employer	\$ 2,717,578	\$ 2,623,310
Net investment income (loss)	(230)	658
Benefit payments, including refunds of member contributions	<u>(2,694,837)</u>	<u>(2,598,945)</u>
Net change in plan fiduciary net position	22,511	25,023
Plan fiduciary net position - beginning	<u>25,023</u>	<u>-</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 47,534</u>	<u>\$ 25,023</u>
<b>Net OPEB liability (asset) - ending (a-b)</b>	<u>\$ 96,947,399</u>	<u>\$ 96,162,048</u>

\* May reflect certain rounding and immaterial classification differences from footnote # 18.

*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 PENSION LIABILITY, CONTRIBUTIONS, AND INVESTMENT RETURNS  
(GASB 74 AND 75)

(Unaudited)

<b>Schedule of Net OPEB Liability</b>	<u>2018</u>	<u>2017</u>
Total OPEB liability	\$ 96,994,933	\$ 96,187,071
Plan fiduciary net position	<u>(47,534)</u>	<u>(25,023)</u>
Net OPEB liability (asset)	<u>\$ 96,947,399</u>	<u>\$ 96,162,048</u>

Plan fiduciary net position as a percentage of the total OPEB liability	0.05%	0.03%
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<b>Schedule of Contributions</b>	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 8,319,483	\$ 7,413,437
Contributions in relation to the actuarially determined contribution	<u>(2,717,578)</u>	<u>(2,623,310)</u>
Contribution deficiency (excess)	<u>\$ 5,601,905</u>	<u>\$ 4,790,127</u>

<b>Schedule of Investment Returns</b>	<u>2017</u>	<u>2015</u>
Annual money weighted rate of return, net of investment expense	-0.60%	5.48%

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

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