



CITY OF GARDNER, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2019

CITY OF GARDNER, MASSACHUSETTS

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities in the Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	18
Proprietary Funds:	
Statement of Net Position	19
Statement of Revenues, Expenses, and Changes in Fund Net Position	20
Statement of Cash Flows	21
Fiduciary Funds:	
Statement of Fiduciary Net Position	23
Statement of Changes in Fiduciary Net Position	24
Notes to Financial Statements	25

REQUIRED SUPPLEMENTARY INFORMATION:

Pension:

Schedule of Proportionate Share of the Net Pension Liability (GASB 68)	69
Schedule of Pension Contributions (GASB 68)	70

OPEB:

Schedule of Changes in Net OPEB Liability (GASB 74 and 75)	71
Schedules of Net OPEB Liability, Contributions, and Investment Returns (GASB 74 and 75)	72

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, 2019, 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, 2019, 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

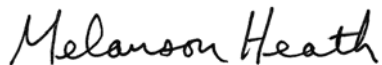
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and certain Pension and OPEB schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of

management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2020, 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 30, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Gardner (The City), we offer readers this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2019.

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 \$(56,557,645) (i.e., net position), a change of \$(2,689,165) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$5,806,837, a change of \$(2,081,012) in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,817,207, a change of \$642,892 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 \$2,414,142, which represents a decrease of \$(275,727) 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>					
	Governmental		Business-Type		Total	
	<u>Activities</u>		<u>Activities</u>			
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 23,498,258	\$ 21,967,556	\$ 17,735,279	\$ 12,242,334	\$ 41,233,537	\$ 34,209,890
Capital assets	<u>66,632,095</u>	<u>62,580,068</u>	<u>23,481,490</u>	<u>21,880,904</u>	<u>90,113,585</u>	<u>84,460,972</u>
Total Assets	90,130,353	84,547,624	41,216,769	34,123,238	131,347,122	118,670,862
Deferred outflows of resources	15,428,747	2,026,604	706,561	145,220	16,135,308	2,171,824
Long-term liabilities outstanding	168,894,834	146,969,959	12,842,556	13,820,019	181,737,390	160,789,978
Other liabilities	<u>9,931,498</u>	<u>7,335,949</u>	<u>7,864,867</u>	<u>192,165</u>	<u>17,796,365</u>	<u>7,528,114</u>
Total Liabilities	178,826,332	154,305,908	20,707,423	14,012,184	199,533,755	168,318,092
Deferred inflows of resources	4,369,141	6,122,336	137,179	270,738	4,506,320	6,393,074
Invested in capital assets, net	43,871,481	42,155,908	16,651,156	13,642,306	60,522,637	55,798,214
Restricted	5,331,701	4,961,520	-	-	5,331,701	4,961,520
Unrestricted	<u>(126,839,555)</u>	<u>(120,971,444)</u>	<u>4,427,572</u>	<u>6,343,230</u>	<u>(122,411,983)</u>	<u>(114,628,214)</u>
Total Net Position	<u>\$ (77,636,373)</u>	<u>\$ (73,854,016)</u>	<u>\$ 21,078,728</u>	<u>\$ 19,985,536</u>	<u>\$ (56,557,645)</u>	<u>\$ (53,868,480)</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 \$(56,557,645), a change of \$(2,689,165) in comparison to the prior year.

The largest portion of net position \$60,522,637 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 \$5,331,701 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 \$(126,839,555) in governmental activities, caused by unfunded pension and OPEB liabilities, as discussed in the accompanying Notes, and a surplus of \$4,427,572 in business-type activities.

	CHANGES IN NET POSITION					
	Governmental		Business-Type		Total	
	Activities		Activities			
	2019	2018 *	2019	2018	2019	2018
Revenues						
Program revenues:						
Charges for services	\$ 3,946,059	\$ 2,890,244	\$ 8,732,060	\$ 8,945,759	\$ 12,678,119	\$ 11,836,003
Operating grants and contributions	34,704,901	36,065,417	-	-	34,704,901	36,065,417
Capital grants and contributions	1,279,559	1,760,369	238,480	320,957	1,518,039	2,081,326
General revenues:						
Property taxes	26,601,148	25,056,664	-	-	26,601,148	25,056,664
Excises	2,173,688	2,161,511	-	-	2,173,688	2,161,511
Penalties, interest on taxes	656,904	668,151	-	-	656,904	668,151
Grants and contributions not restricted to specific programs	4,743,766	4,635,208	-	-	4,743,766	4,635,208
Investment income	333,255	(16,658)	61,051	49,633	394,306	32,975
Miscellaneous	1,328,272	679,651	-	-	1,328,272	679,651
Total Revenues	75,767,552	73,900,557	9,031,591	9,316,349	84,799,143	83,216,906
Expenses						
General government	4,390,310	4,787,087	-	-	4,390,310	4,787,087
Public safety	13,936,829	12,278,919	-	-	13,936,829	12,278,919
Education	49,247,153	46,464,221	-	-	49,247,153	46,464,221
Public works	5,407,528	5,154,416	-	-	5,407,528	5,154,416
Health and human services	1,654,810	1,622,952	-	-	1,654,810	1,622,952
Culture and recreation	1,454,289	1,350,807	-	-	1,454,289	1,350,807
Interest on long-term debt	997,915	570,909	-	-	997,915	570,909
Intergovernmental	2,386,075	2,381,591	-	-	2,386,075	2,381,591
Water operations	-	-	2,989,061	3,238,644	2,989,061	3,238,644
Sewer operations	-	-	2,812,051	3,088,725	2,812,051	3,088,725
Golf operations	-	-	390,411	784,671	390,411	784,671
Solid waste operations	-	-	1,514,026	1,375,304	1,514,026	1,375,304
Landfill operations	-	-	307,850	34,449	307,850	34,449
Total Expenses	79,474,909	74,610,902	8,013,399	8,521,793	87,488,308	83,132,695
Change in net position before transfers	(3,707,357)	(710,345)	1,018,192	794,556	(2,689,165)	84,211
Transfers, net	(75,000)	-	75,000	-	-	-
Change in Net Position	(3,782,357)	(710,345)	1,093,192	794,556	(2,689,165)	84,211
Net assets - beginning of year	(73,854,016)	(73,143,671)	19,985,536	19,190,980	(53,868,480)	(53,952,691)
Net Assets - End of Year	\$ (77,636,373)	\$ (73,854,016)	\$ 21,078,728	\$ 19,985,536	\$ (56,557,645)	\$ (53,868,480)

* Reflects certain expense classification differences from 2018 audit report

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(3,782,357). Key elements of this change are as follows:

Consolidated general fund operations	\$ 655,255
Major fund - City Capital Project fund expenditures in excess of transfers in	(2,940,795)
Nonmajor funds - operating results	204,528
Depreciation expense in excess of principal debt service	(2,847,535)
Internal service fund operations	752,138
Capital assets purchases	7,368,321
Capital asset dispositions	(3,759)
Current year accrual of other post-employment benefit liability (net of deferrals)	(7,060,797)
Current year accrual of net pension liability (net of deferrals)	(916,078)
Other	<u>1,006,365</u>
Total	<u>\$ (3,782,357)</u>

Business-Type Activities. Business-type activities for the year resulted in a change in net position of \$1,093,192. Key elements of this change are as follows:

Water enterprise	\$ 548,833
Sewer enterprise	532,648
Golf enterprise	282,514
Solid Waste enterprise	(39,617)
Landfill enterprise	<u>(231,186)</u>
Total	<u>\$ 1,093,192</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 \$5,806,837, a change of \$(2,081,012) in comparison with the prior year. Key elements of this change are as follows:

Consolidated general fund operations	\$ 655,255
Major fund - City Capital Project fund expenditures in excess of transfers in	(2,940,795)
Nonmajor funds - operating results	<u>204,528</u>
Total	<u>\$ (2,081,012)</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 \$5,817,207, while total fund balance was \$6,742,782. 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>6/30/19</u>	<u>6/30/18</u>	<u>Change</u>	<u>% of Total 2019 General Fund Expenditures</u>
Unassigned - General fund	\$ 3,403,065	\$ 2,484,446	\$ 918,619	5.6%
Unassigned - Stabilization fund	<u>2,414,142</u>	<u>2,689,869</u>	<u>(275,727)</u>	<u>4.0%</u>
Total Unassigned Fund Balance	\$ <u>5,817,207</u>	\$ <u>5,174,315</u>	\$ <u>642,892</u>	<u>9.6%</u>
Total Fund Balance	\$ 6,742,782	\$ 6,087,527	\$ 655,255	11.2%

The total fund balance of the general fund changed by \$655,255 during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results

(Shortfall) of tax collections compared to budget	\$ (259,434)
Excess of state and local revenues over budget	1,577,634
Budgetary appropriations unspent by departments	1,056,749
Use of free cash (fund balance) as a funding source	(1,482,201)

Timing Differences

Difference between prior year encumbrances spent in the current year and current year encumbrances to be spent in subsequent period	12,363
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Other

Stabilization Fund interest and transfers in	(275,727)
Reverse effect of GAAP accruals	<u>25,871</u>
Total	\$ <u>655,255</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 \$4,427,572, a change of \$(1,915,658) in comparison with the prior year.

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

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$1,482,201. Major reasons for these amendments include:

- \$ 69,000 increase for general government appropriations.
- \$ 95,000 increase for public safety appropriations
- \$ 73,876 increase in education appropriations.
- \$621,000 increase for other public works appropriations.
- \$ 14,896 transfer to other post-employment benefits trust fund.
- \$223,429 transfer to stabilization fund.
- \$385,000 transfer to capital project funds.

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

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$90,113,585 (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	\$ (3,312,535)
Depreciation expense - business-type activities	(997,854)
Department of public works new building	135,744
Wastewater treatment facility improvements (in process)	2,268,008
New airport hanger (in process)	113,730
Purchase of school computers/equipment	88,199
Road improvements	1,296,105
GHS & GMS paving improvements (in process)	393,327
Rear Main/Derby Street road improvements	303,854
New Waterford Street school project (in progress)	498,573
Building department projects	100,000
New 2018 CAT 938M Wheel loader	180,900
New 2018 Cat 440 Backhoe	119,700
20 Rock street building demo	43,365
Bike path bridge over Rte 14 (in process)	24,960
Cowee land lot acquisition	14,479
Electric charging stations	52,738
Garden travel façade project (in process)	72,500
Purchase of shared vehicles for DPW/Enterprise fund operations	53,984
Purchase of four police cruisers	133,200
Pulaski dog park project (in process)	253,465
Watkins Field improvements (in process)	3,015,940
Theater park project (in process)	429,499
Various other purchases, net of disposals	35,555
Land acquired through tax foreclosure	88,388
Street lighting	246,789
	<u>\$ 5,652,613</u>

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding, including unamortized bond premium, was \$17,352,915, 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. 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, 2019

	Primary Government			Component
	Governmental	Business-Type	Total	Unit
	Activities	Activities		Levi Heywood
				Library Association
Assets				
Current:				
Cash and short-term investments	\$ 8,039,607	\$ 9,455,529	\$ 17,495,136	\$ 84,675
Investments	8,168,015	-	8,168,015	921,813
Receivables, net of allowance for uncollectibles:				
Property taxes	1,061,394	-	1,061,394	-
Excises	355,542	-	355,542	-
User fees	-	2,520,698	2,520,698	261,082
Intergovernmental and other	4,193,389	5,681,799	9,875,188	-
Other assets	644,161	77,253	721,414	5,436
Noncurrent:				
Receivables, net of allowance for uncollectibles:				
Property taxes	1,036,150	-	1,036,150	-
Land and construction in progress	13,587,028	8,766,454	22,353,482	-
Capital assets, net of accumulated depreciation	53,045,067	14,715,036	67,760,103	5,132,978
Deferred Outflows of Resources				
Related to pensions	5,599,434	420,552	6,019,986	-
Related to OPEB	9,829,313	286,009	10,115,322	-
Total Assets and Deferred				
Outflows of Resources	105,559,100	41,923,330	147,482,430	6,405,984
Liabilities				
Current:				
Warrants payable	1,773,779	424,689	2,198,468	-
Accounts payable	-	-	-	1,423
Accrued payroll and withholdings	179,356	-	179,356	261,082
Accrued claims payable	505,939	-	505,939	-
Notes payable	7,198,680	7,440,178	14,638,858	-
Other current liabilities	273,744	-	273,744	-
Current portion of long-term liabilities:				
Bonds payable	511,326	1,314,213	1,825,539	-
Other liabilities	248,426	27,963	276,389	-
Noncurrent:				
Bonds payable, net of current portion	9,723,571	5,803,805	15,527,376	-
Net pension liability	39,860,214	2,993,749	42,853,963	-
Net OPEB liability	110,934,347	2,235,745	113,170,092	-
Other liabilities, net of current portion	7,616,950	467,081	8,084,031	-
Deferred Inflows of Resources				
Related to pensions	218,326	16,398	234,724	-
Related to OPEB	4,150,815	120,781	4,271,596	-
Total Liabilities and Deferred				
Inflows of Resources	183,195,473	20,844,602	204,040,075	262,505
Net Position				
Invested in capital assets	43,871,481	16,651,156	60,522,637	-
Restricted for:				
Grants and other statutory restrictions	4,823,784	-	4,823,784	5,132,978
Permanent funds:				
Nonexpendable	460,726	-	460,726	263,146
Expendable	47,191	-	47,191	132,353
Unrestricted	(126,839,555)	4,427,572	(122,411,983)	615,002
Total Net Position	\$ (77,636,373)	\$ 21,078,728	\$ (56,557,645)	\$ 6,143,479

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

CITY OF GARDNER, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Unit
Governmental Activities								
General government	\$ 4,390,310	\$ 1,680,749	\$ 1,475,285	\$ 39,010	\$ (1,195,266)	\$ -	\$ (1,195,266)	\$ -
Public safety	13,936,829	1,527,269	1,603,830	-	(10,805,730)	-	(10,805,730)	-
Education	49,247,153	497,106	30,449,022	570,061	(17,730,964)	-	(17,730,964)	-
Public works	5,407,528	214,896	218,513	670,488	(4,303,631)	-	(4,303,631)	-
Health and human services	1,654,810	-	812,282	-	(842,528)	-	(842,528)	-
Culture and recreation	1,454,289	26,039	145,969	-	(1,282,281)	-	(1,282,281)	-
Interest	997,915	-	-	-	(997,915)	-	(997,915)	-
Intergovernmental	2,386,075	-	-	-	(2,386,075)	-	(2,386,075)	-
Total Governmental Activities	79,474,909	3,946,059	34,704,901	1,279,559	(39,544,390)	-	(39,544,390)	-
Business-Type Activities								
Water operations	2,989,061	3,297,273	-	229,466	-	537,678	537,678	-
Sewer operations	2,812,051	3,290,923	-	9,014	-	487,886	487,886	-
Golf operations	390,411	672,478	-	-	-	282,067	282,067	-
Solid waste operations	1,514,026	1,470,286	-	-	-	(43,740)	(43,740)	-
Landfill operations	307,850	1,100	-	-	-	(306,750)	(306,750)	-
Total Business-type Activities	8,013,399	8,732,060	-	238,480	-	957,141	957,141	-
Total Primary Government	\$ 87,488,308	\$ 12,678,119	\$ 34,704,901	\$ 1,518,039	(39,544,390)	957,141	(38,587,249)	-
Component Unit								
Levi Heywood Library Association	\$ 1,211,589	\$ 17,488	\$ -	\$ -	-	-	-	(1,194,101)
General Revenues and Transfers								
Property taxes					26,601,148	-	26,601,148	-
Excises					2,173,688	-	2,173,688	-
Penalties, interest and other taxes					656,904	-	656,904	-
Grants and contributions not restricted to specific programs					4,743,766	-	4,743,766	957,427
Investment income					333,255	61,051	394,306	53,526
Miscellaneous					1,328,272	-	1,328,272	-
Transfers					(75,000)	75,000	-	-
Total General Revenues and Transfers					35,762,033	136,051	35,898,084	1,010,953
Change in Net Position					(3,782,357)	1,093,192	(2,689,165)	(183,148)
Net Position								
Beginning of Year					(73,854,016)	19,985,536	(53,868,480)	6,326,627
End of Year					\$ (77,636,373)	\$ 21,078,728	\$ (56,557,645)	\$ 6,143,479

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

CITY OF GARDNER, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2019

	<u>General</u>	City Capital Project <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Assets				
Cash and short-term investments	\$ 1,811,079	\$ 1,238,619	\$ 4,419,952	\$ 7,469,650
Investments	4,080,464	-	507,917	4,588,381
Receivables:				
Property taxes	1,144,555	-	-	1,144,555
Tax title	1,295,187	-	-	1,295,187
Excises	587,136	-	-	587,136
Intergovernmental and other	3,078,754	-	1,114,635	4,193,389
Other assets	<u>8,953</u>	<u>-</u>	<u>-</u>	<u>8,953</u>
Total Assets	\$ <u>12,006,128</u>	\$ <u>1,238,619</u>	\$ <u>6,042,504</u>	\$ <u>19,287,251</u>
Liabilities				
Warrants payable	\$ 840,111	\$ 207,558	\$ 662,092	\$ 1,709,761
Accrued payroll and withholdings	179,356	-	-	179,356
Notes payable	-	7,198,680	-	7,198,680
Other liabilities	<u>136,911</u>	<u>129,022</u>	<u>13,153</u>	<u>279,086</u>
Total Liabilities	1,156,378	7,535,260	675,245	9,366,883
Deferred Inflows of Resources				
Unavailable revenues	4,106,968	-	6,563	4,113,531
Fund Balances				
Nonspendable	-	-	460,726	460,726
Restricted	-	187,691	5,084,654	5,272,345
Committed	464,179	-	-	464,179
Assigned	461,396	-	-	461,396
Unassigned	<u>5,817,207</u>	<u>(6,484,332)</u>	<u>(184,684)</u>	<u>(851,809)</u>
Total Fund Balances	<u>6,742,782</u>	<u>(6,296,641)</u>	<u>5,360,696</u>	<u>5,806,837</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ <u>12,006,128</u>	\$ <u>1,238,619</u>	\$ <u>6,042,504</u>	\$ <u>19,287,251</u>

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

CITY OF GARDNER, MASSACHUSETTS

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

JUNE 30, 2019

Total Governmental Fund Balances	\$ 5,806,837
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	66,632,095
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.	3,539,739
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.	4,220,184
Long-term liabilities, including bonds payable, net pension liability and net OPEB liability (net of related deferrals) are not due and payable in the current period and, therefore are not reported in the governmental funds.	<u>(157,835,228)</u>
Net Position of Governmental Activities	<u>\$ (77,636,373)</u>

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

CITY OF GARDNER, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019

	<u>General</u>	<u>City Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 26,527,428	\$ -	\$ -	\$ 26,527,428
Excises	2,169,336	-	-	2,169,336
Penalties, interest and other taxes	656,904	-	-	656,904
Charges for services	2,424,249	-	970,080	3,394,329
Intergovernmental	28,424,277	225,000	7,115,847	35,765,124
Licenses and permits	401,007	-	-	401,007
Fines and forfeitures	144,160	-	-	144,160
Investment income (loss)	216,625	-	13,624	230,249
Miscellaneous	<u>218,317</u>	<u>658,700</u>	<u>104,508</u>	<u>981,525</u>
Total Revenues	61,182,303	883,700	8,204,059	70,270,062
Expenditures				
Current:				
General government	2,498,457	985,001	1,394,005	4,877,463
Public safety	8,078,394	-	194,131	8,272,525
Education	27,504,677	-	5,165,035	32,669,712
Public works	3,379,817	134,841	878,954	4,393,612
Health and human services	1,167,412	-	163,802	1,331,214
Culture and recreation	890,370	3,015,940	55,337	3,961,647
Employee benefits	12,615,917	-	-	12,615,917
Debt service	1,767,909	-	-	1,767,909
Intergovernmental	<u>2,386,075</u>	<u>-</u>	<u>-</u>	<u>2,386,075</u>
Total Expenditures	<u>60,289,028</u>	<u>4,135,782</u>	<u>7,851,264</u>	<u>72,276,074</u>
Excess (Deficiency) of Revenues Over Expenditures	893,275	(3,252,082)	352,795	(2,006,012)
Other Financing Sources (Uses)				
Transfers in	263,267	311,287	115,000	689,554
Transfers out	<u>(501,287)</u>	<u>-</u>	<u>(263,267)</u>	<u>(764,554)</u>
Total Other Financing Sources (Uses)	<u>(238,020)</u>	<u>311,287</u>	<u>(148,267)</u>	<u>(75,000)</u>
Change in fund balance	655,255	(2,940,795)	204,528	(2,081,012)
Fund Balance at Beginning of Year	<u>6,087,527</u>	<u>(3,355,846)</u>	<u>5,156,168</u>	<u>7,887,849</u>
Fund Balance at End of Year	<u>\$ 6,742,782</u>	<u>\$ (6,296,641)</u>	<u>\$ 5,360,696</u>	<u>\$ 5,806,837</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, 2019

Net Changes in Fund Balances - Total Governmental Funds	\$ (2,081,012)
<p>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:</p>	
Capital purchases	7,368,321
Loss on disposal of assets	(3,759)
Depreciation	(3,312,535)
<p>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:</p>	
Repayments of debt	465,000
<p>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.</p>	
	264,028
<p>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.</p>	
	752,138
<p>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:</p>	
Net pension liability and related deferred outflows and inflows of resources	(916,078)
Net OPEB liability and related deferred outflows and inflows of resources	(7,060,797)
Other	<u>742,337</u>
Changes in Net Position of Governmental Activities	\$ <u><u>(3,782,357)</u></u>

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, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
	<u>Budget</u>	<u>Budget</u>	<u>Amounts</u>	Positive (Negative)
Revenues				
Property taxes	\$ 26,786,862	\$ 26,786,862	\$ 26,786,862	\$ -
Excise	1,920,462	1,920,462	2,169,336	248,874
Penalties, interest and other taxes	455,000	455,000	656,904	201,904
Charges for services	1,849,636	1,849,636	2,424,249	574,613
Intergovernmental	25,350,140	25,350,140	25,538,701	188,561
Licenses and permits	265,000	265,000	401,007	136,007
Fines and forfeitures	116,100	116,100	144,160	28,060
Investment income	25,000	25,000	87,963	62,963
Miscellaneous	81,665	81,665	218,317	136,652
	56,849,865	56,849,865	58,427,499	1,577,634
Expenditures				
General government	2,591,878	2,660,878	2,457,567	203,311
Public safety	8,157,139	8,252,139	8,112,441	139,698
Education	24,680,172	24,754,048	24,737,676	16,372
Public works	2,763,218	3,384,218	3,277,575	106,643
Health and human services	1,224,463	1,224,463	1,166,112	58,351
Culture and recreation	930,520	930,520	894,543	35,977
Employee benefits	12,944,897	12,944,897	12,601,021	343,876
Debt service	1,767,911	1,767,911	1,767,909	2
Intergovernmental	2,538,594	2,538,594	2,386,075	152,519
	57,598,792	58,457,668	57,400,919	1,056,749
Excess (deficiency) of revenues over expenditures	(748,927)	(1,607,803)	1,026,580	2,634,383
Other Financing Sources/Uses				
Transfers in	865,214	865,214	865,214	-
Transfers out	(116,287)	(501,287)	(501,287)	-
Use of free cash:				
Operating budget	-	896,201	896,201	-
Capital budget	-	586,000	586,000	-
Transfer to stabilization fund(s)	-	(223,429)	(223,429)	-
OPEB trust fund contribution	-	(14,896)	(14,896)	-
	748,927	1,607,803	1,607,803	-
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	\$ -	\$ -	\$ 2,634,383	\$ 2,634,383

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

CITY OF GARDNER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2019

	Business-Type Activities Enterprise Funds						Governmental Activities
	Water Fund	Sewer Fund	Golf Fund	Solid Waste Fund	Landfill Fund	Total	Internal Service Funds
Assets							
Current:							
Cash and short-term investments	\$ 1,709,094	\$ 7,016,690	\$ 104,166	\$ 522,895	\$ 102,684	\$ 9,455,529	\$ 569,957
Investments	-	-	-	-	-	-	3,579,634
User fees	1,053,075	971,369	-	496,254	-	2,520,698	-
Intergovernmental receivables	-	5,681,799	-	-	-	5,681,799	-
Other assets	45,320	31,933	-	-	-	77,253	640,550
Total Current Assets	2,807,489	13,701,791	104,166	1,019,149	102,684	17,735,279	4,790,141
Noncurrent:							
Land and construction in progress	591,769	7,755,032	419,653	-	-	8,766,454	-
Capital assets, net of accumulated depreciation	11,433,907	3,108,046	119,296	53,787	-	14,715,036	-
Total Noncurrent Assets	12,025,676	10,863,078	538,949	53,787	-	23,481,490	-
Deferred Outflows of Resources							
Related to pensions	119,978	62,159	182,137	56,278	-	420,552	-
Related to OPEB	80,463	40,995	131,695	32,856	-	286,009	-
Total Assets and Deferred Outflows of Resources	15,033,606	24,668,023	956,947	1,162,070	102,684	41,923,330	4,790,141
Liabilities							
Current:							
Warrants payable	169,891	231,875	8,786	6,077	8,060	424,689	64,018
Accrued claims payable	-	-	-	-	-	-	505,939
Notes payable	-	7,440,178	-	-	-	7,440,178	-
Current portion of long-term liabilities:							
Bonds payable	1,071,971	242,242	-	-	-	1,314,213	-
Other liabilities	-	-	-	-	27,963	27,963	-
Total Current Liabilities	1,241,862	7,914,295	8,786	6,077	36,023	9,207,043	569,957
Noncurrent:							
Bonds payable, net of current portion	1,613,513	4,190,292	-	-	-	5,803,805	-
Net pension liability	854,079	442,486	1,296,566	400,618	-	2,993,749	-
Net OPEB liability	504,288	388,846	1,042,057	300,554	-	2,235,745	-
Other liabilities, net of current portion	-	-	47,644	-	419,437	467,081	-
Total Noncurrent Liabilities	2,971,880	5,021,624	2,386,267	701,172	419,437	11,500,380	-
Deferred Inflows of Resources							
Related to pensions	4,678	2,424	7,102	2,194	-	16,398	-
Related to OPEB	33,979	17,312	55,614	13,876	-	120,781	-
Total Liabilities and Deferred Inflows of Resources	4,252,399	12,955,655	2,457,769	723,319	455,460	20,844,602	569,957
Net Position							
Invested in capital assets, net of related debt	9,441,386	6,617,034	538,949	53,787	-	16,651,156	-
Unrestricted	1,339,821	5,095,334	(2,039,771)	384,964	(352,776)	4,427,572	4,220,184
Total Net Position	\$ 10,781,207	\$ 11,712,368	\$ (1,500,822)	\$ 438,751	\$ (352,776)	\$ 21,078,728	\$ 4,220,184

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, 2019

	Business-Type Activities Enterprise Funds					Total	Governmental
	Water Fund	Sewer Fund	Golf Fund	Solid Waste Fund	Landfill Fund		Activities Internal Service Fund
Operating Revenues							
Charges for services	\$ 3,297,273	\$ 3,290,923	\$ 672,478	\$ 1,470,286	\$ 1,100	\$ 8,732,060	\$ -
Employee contributions	-	-	-	-	-	-	2,395,830
Employer contributions	-	-	-	-	-	-	7,118,778
Total Operating Revenues	3,297,273	3,290,923	672,478	1,470,286	1,100	8,732,060	9,514,608
Operating Expenses							
Salary and benefits	37,300	185,361	2,736	132,078	-	357,475	-
Other operating expenses	1,985,734	1,867,778	205,695	1,256,800	306,550	5,622,557	-
Depreciation	543,420	417,306	11,980	25,148	-	997,854	-
Administrative assessments	286,318	216,318	170,000	100,000	1,300	773,936	-
Employee benefits	-	-	-	-	-	-	9,215,982
Total Operating Expenses	2,852,772	2,686,763	390,411	1,514,026	307,850	7,751,822	9,215,982
Operating Income (Loss)	444,501	604,160	282,067	(43,740)	(306,750)	980,238	298,626
Nonoperating Revenues (Expenses)							
Intergovernmental revenue	229,466	9,014	-	-	-	238,480	-
Insurance reimbursement	-	-	-	-	-	-	350,506
Investment income	11,155	44,762	447	4,123	564	61,051	103,006
Interest expense	(136,289)	(125,288)	-	-	-	(261,577)	-
Total Nonoperating Revenues (Expenses), Net	104,332	(71,512)	447	4,123	564	37,954	453,512
Income (Loss) Before Transfers	548,833	532,648	282,514	(39,617)	(306,186)	1,018,192	752,138
Transfers:							
Transfers in	-	-	-	-	75,000	75,000	-
Change in Net Position	548,833	532,648	282,514	(39,617)	(231,186)	1,093,192	752,138
Net Position at Beginning of Year	10,232,374	11,179,720	(1,783,336)	478,368	(121,590)	19,985,536	3,468,046
Net Position at End of Year	\$ 10,781,207	\$ 11,712,368	\$ (1,500,822)	\$ 438,751	\$ (352,776)	\$ 21,078,728	\$ 4,220,184

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, 2019

	Business-Type Activities Enterprise Funds					Total	Governmental
	Water Fund	Sewer Fund	Golf Fund	Solid Waste Fund	Landfill Fund		Activities Internal Service Fund
Cash Flows From Operating Activities							
Receipts from customers and users	\$ 3,295,279	\$ 3,304,557	\$ 672,478	\$ 1,451,267	\$ 1,100	\$ 8,724,681	\$ -
Payments to vendors and employees	(2,431,205)	(2,158,508)	(722,294)	(1,577,745)	(78,373)	(6,968,125)	-
Receipts from employees and employer	-	-	-	-	-	-	9,514,608
Payments of employee benefits and expenses	-	-	-	-	-	-	(9,366,141)
Net Cash Provided By / (Used for) Operating Activities	864,074	1,146,049	(49,816)	(126,478)	(77,273)	1,756,556	148,467
Cash Flows From Non-Capital Financing Activities							
Insurance reimbursements	-	-	-	-	-	-	350,506
Transfer in	-	-	-	-	75,000	75,000	-
Net Cash Provided By Non-Capital Activities	-	-	-	-	75,000	75,000	350,506
Cash Flows From Capital and Related Financing Activities							
Receipts from governments	229,466	9,014	-	-	-	238,480	-
Acquisition and construction of capital assets	(134,616)	(2,463,824)	-	-	-	(2,598,440)	-
Principal payments on bonds	(1,066,788)	(236,147)	-	-	-	(1,302,935)	-
Proceeds from issuance of bonds and notes	-	2,150,688	-	-	-	2,150,688	-
Interest expense paid	(136,289)	(125,288)	-	-	-	(261,577)	-
Net Cash (Used For) Capital and Related Financing Activities	(1,108,227)	(665,557)	-	-	-	(1,773,784)	-
Cash Flows From Investing Activities							
Investment income	11,155	44,762	447	4,123	564	61,051	70,984
Net Cash Provided by / (Used For) Investing Activities	11,155	44,762	447	4,123	564	61,051	70,984
Net Change in Cash and Short-Term Investments	(232,998)	525,254	(49,369)	(122,355)	(1,709)	118,823	569,957
Cash and Short Term Investments, Beginning of Year	1,942,092	6,491,436	153,535	645,250	104,393	9,336,706	
Cash and Short Term Investments, End of Year	\$ 1,709,094	\$ 7,016,690	\$ 104,166	\$ 522,895	\$ 102,684	\$ 9,455,529	\$ 569,957

(continued)

CITY OF GARDNER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2019

(continued)

	Business-Type Activities Enterprise Funds						Governmental
	Water Fund	Sewer Fund	Golf Fund	Solid Waste Fund	Landfill Fund	Total	Activities Internal Service Fund
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities							
Operating income (loss)	\$ 444,501	\$ 604,160	\$ 282,067	\$ (43,740)	\$ (306,750)	\$ 980,238	\$ 298,626
Adjustments to reconcile operating income (loss)							
Depreciation	543,420	417,306	11,980	25,148	-	997,854	-
Changes in assets, liabilities, and deferred outflows/inflows:							
User fee receivables	(1,994)	13,634	-	(19,019)	-	(7,379)	-
Prepaid expenses	-	-	-	-	-	-	11,929
Other assets	(45,320)	(31,933)	-	-	-	(77,253)	(45,250)
Deferred outflows - related to pensions	(83,188)	(38,527)	(115,039)	(38,618)	-	(275,372)	-
Deferred outflows - related to OPEB	(80,451)	(40,989)	(131,677)	(32,852)	-	(285,969)	-
Warrants and other payables	141,410	196,451	(11,211)	(96,498)	3,359	233,511	(116,838)
Accrued/other liabilities	-	-	(987)	-	226,118	225,131	-
Compensated absences	-	-	9,289	-	-	9,289	-
Net OPEB liability	(266,891)	(4,061)	(220,138)	(14,350)	-	(505,440)	-
Net pension liability	246,344	52,103	188,167	108,891	-	595,505	-
Deferred inflows - related to pensions	(34,053)	(22,455)	(63,537)	(16,398)	-	(136,443)	-
Deferred inflows - related to OPEB	296	360	1,270	958	-	2,884	-
Net Cash Provided By / (Used For) Operating Activities	\$ <u>864,074</u>	\$ <u>1,146,049</u>	\$ <u>(49,816)</u>	\$ <u>(126,478)</u>	\$ <u>(77,273)</u>	\$ <u>1,756,556</u>	\$ <u>148,467</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, 2019

	<u>Private Purpose Trust Funds</u>	<u>Pension and OPEB Trust Funds</u>	<u>Agency Funds</u>
Assets			
Cash and short-term investments	\$ -	\$ 82,405	\$ 1,120,432
Investments:			
Certificates of deposit	180,386	-	-
Federal agency securities	339,921	-	-
Corporate bonds	409,682	-	-
Corporate equities	229,027	48,049	-
Mutual funds	-	21,765	-
U.S. Treasury notes	177,899	-	-
Exchange-traded products	2,195,965	-	-
External investment pool	-	53,254,441	-
Total Investments	<u>3,532,880</u>	<u>53,324,255</u>	-
Accounts receivable	-	307,659	35,207
Total Assets	<u>3,532,880</u>	<u>53,714,319</u>	<u>1,155,639</u>
Liabilities and Net Position			
Warrants payable	-	-	17,319
Accounts payable	498	224,968	-
Deposits held in custody	-	-	1,022,533
Other liabilities	-	-	115,787
Total Liabilities	<u>498</u>	<u>224,968</u>	<u>1,155,639</u>
Net Position			
Restricted for pensions	-	53,419,537	-
Restricted for OPEB purposes	-	69,814	-
Restricted for other purposes	<u>3,532,382</u>	-	-
Total Net Position	<u>\$ 3,532,382</u>	<u>\$ 53,489,351</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, 2019

	<u>Private Purpose Trust Funds</u>	<u>Pension and OPEB Trust Funds</u>
Additions		
Contributions:		
Employers	\$ -	\$ 7,091,830
Other systems and Commonwealth of Massachusetts	-	127,463
Plan members	-	1,548,726
Other	<u>77,496</u>	<u>36,040</u>
Total Contributions	77,496	8,804,059
Investment Income:		
Interest and dividends	503,087	-
Appreciation (depreciation) in fair value of investments	-	(1,024,741)
Less: Management fees	<u>-</u>	<u>(290,752)</u>
Net Investment Income (Loss)	<u>503,087</u>	<u>(1,315,493)</u>
Total Additions	580,583	7,488,566
Deductions		
Benefit payments to plan members and beneficiaries	-	9,322,332
Refunds to plan members and other systems	-	84,703
Transfers to other systems	-	157,396
Administrative expenses	-	136,434
Education expenses	<u>437,719</u>	<u>-</u>
Total Deductions	<u>437,719</u>	<u>9,700,865</u>
Net Increase (Decrease)	142,864	(2,212,299)
Net Position Restricted for Pensions and Other Purposes		
Beginning of Year	<u>3,389,518</u>	<u>55,701,650</u>
End of Year	<u>\$ 3,532,382</u>	<u>\$ 53,489,351</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 2019, 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, Massachusetts 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% (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2019 tax levy reflected an excess capacity of \$82,870.

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</u>	<u>Expenditures</u>	<u>Other Financing Sources/Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 61,182,303	\$ 60,289,028	\$ (238,020)
Reverse the effect of including Stabilization Fund and General Fund activity	(102,791)	-	378,518
Adjust tax revenue to accrual basis	259,434	-	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(913,212)	-
Add end of year appropriation carryforwards to expenditures	-	925,575	-
To reverse the effect of non-budgeted State contributions for teachers retirement	(2,885,576)	(2,885,576)	-
To record use of free cash	-	-	1,482,201
Other	<u>(25,871)</u>	<u>(14,896)</u>	<u>(14,896)</u>
Budgetary Basis	<u>\$ 58,427,499</u>	<u>\$ 57,400,919</u>	<u>\$ 1,607,803</u>

D. Deficit Fund Equity

Certain individual governmental funds reflected deficit balances as of June 30, 2019:

City Capital Project fund	\$ <u>(6,484,332)</u>
Non Major Funds:	
MSBA - WSS Project	\$ (123,016)
Title II A	(20,592)
Early childhood intervention	(13,348)
Title IV Part A	<u>(27,728)</u>
Total Non Major Funds	\$ <u>(184,684)</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	\$ (1,500,822)
Landfill fund	\$ (352,776)

These deficits were caused primarily by recording the unfunded liabilities for net pension, 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 60% 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, 2019, \$4,941,849 of the City's bank balance of \$20,444,492 was exposed to custodial credit risk as uninsured and/or uncollateralized. \$2,514,520 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, 2018, the Retirement System's bank balance was fully insured under Federal Deposit Insurance Corporation (FDIC).

4. Investments (excluding OPEB Trust Fund)

The following is a summary of the City's investments as of June 30, 2019:

<u>Investment Type</u>	<u>Amount</u>
Certificates of deposits	\$ 1,282,469
Corporate bonds	2,912,678
Corporate equities	1,628,296
Exchange-traded products	2,195,965
Federal agency securities	2,416,698
U.S. Treasury notes	<u>1,264,789</u>
Total investments	<u>\$ 11,700,895</u>

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). The City does not have formal investment policies related to credit risk.

Presented below is the actual rating as of year-end for each investment type of the City. (All federal agency securities have an implied credit rating of AAA.):

<u>Investment Type</u>	<u>Amount</u>	<u>Rating as of Year End</u>				
		<u>AAA</u>	<u>A1</u>	<u>A2</u>	<u>A3</u>	<u>BAA1/BAA2</u>
Corporate bonds	\$ 2,912,678	\$ -	\$ 364,055	\$ 989,851	\$ 95,064	\$ 1,463,708
Federal agency securities	2,416,698	2,416,698	-	-	-	-
U.S. Treasury notes	<u>1,264,789</u>	<u>1,264,789</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ <u>6,594,165</u>	\$ <u>3,681,487</u>	\$ <u>364,055</u>	\$ <u>989,851</u>	\$ <u>95,064</u>	\$ <u>1,463,708</u>

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 does not have formal investment policies related to custodial credit risk. The City manages custodial credit risk exposure with SIPC and excess SIPC insurance.

As of June 30, 2019, \$10,418,426 of the City's total investments were 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 as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Held by Counterparty</u>
Corporate bonds	\$ 2,912,678	\$ 2,912,678
Corporate equities	1,628,296	1,628,296
Exchange-traded products	2,195,965	2,195,965
Federal agency securities	2,416,698	2,416,698
U.S. Treasury notes	<u>1,264,789</u>	<u>1,264,789</u>
Total	\$ <u>10,418,426</u>	\$ <u>10,418,426</u>

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 formal investment policies related to concentration of credit risk exposure.

As of June 30, 2019, 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 does not have a formal investment policies limiting investment maturities, however it manages 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>Investment Maturities (in Years)</u>	
		<u>Less Than 1</u>	<u>1-5</u>
Certificates of deposits	\$ 1,282,469	\$ 708,021	\$ 574,448
Corporate bonds	2,912,678	1,136,335	1,776,343
Federal agency securities	2,416,698	-	2,416,698
U.S. Treasury notes	<u>1,264,789</u>	<u>1,264,789</u>	<u>-</u>
Total	<u>\$ 7,876,634</u>	<u>\$ 3,109,145</u>	<u>\$ 4,767,489</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 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 and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2 – inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are

not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as level 2.

- Level 3 – unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation.

The City has the following fair value measurements as of June 30, 2019:

<u>Investment Type</u>	<u>Amount</u>	<u>Fair Value Measurements Using:</u>	
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>
Investments by fair value level:			
Corporate bonds	\$ 2,912,678	\$ -	\$ 2,912,678
Corporate equities	1,628,296	1,628,296	-
Exchange-traded products	2,195,965	-	2,195,965
Federal agency securities	2,416,698	-	2,416,698
U.S. Treasury notes	<u>1,264,789</u>	-	1,264,789
Total	<u>\$ 10,418,426</u>		

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features, and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quote prices. Level 2 debt securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market.

5. Investments – OPEB Trust Fund

The following is a summary of the OPEB Trust Fund’s investments as of June 30, 2019:

<u>Investment Type</u>	<u>Amount</u>
Corporate equities	\$ 48,049
Fixed income mutual funds	<u>21,765</u>
Total investments	<u>\$ 69,814</u>

A. 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 OPEB Trust Fund does not have formal investment policies related to custodial credit risk. The OPEB Trust Fund manages custodial credit risk exposure with SIPC and excess SIPC insurance.

As of June 30, 2019, all of the OPEB Trust Fund’s total investments were subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the OPEB Trust Fund’s brokerage firm, which is also the counterparty to these securities as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Held by Counterparty</u>
Corporate equities	\$ 48,049	\$ 48,049
Fixed income mutual funds	<u>21,765</u>	<u>21,765</u>
Total	<u>\$ 69,814</u>	<u>\$ 69,814</u>

B. Concentration of Credit Risk

The OPEB Trust Fund places no limit on the amount the OPEB Trust Fund may invest in any one issuer. The OPEB Trust Fund does not have formal investment policies related to concentration of credit risk exposure.

Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from concentration of credit disclosure.

As of June 30, 2019, the OPEB Trust Fund does not have an investment in one issuer greater than 5% of total investments.

C. 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 OPEB Trust Fund does not have formal investment policies related to foreign currency risk.

D. Fair Value

The OPEB Trust Fund 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 and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2 – inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as level 2.
- Level 3 – unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The OPEB Plan's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The OPEB Trust Fund has the following fair value measurements as of June 30, 2019:

<u>Investment Type</u>	<u>Amount</u>	Fair Value Measurements Using: <u>Quoted prices in active markets for identical assets (Level 1)</u>
Investments by fair value level:		
Corporate equities	\$ 48,049	\$ 48,049
Fixed income mutual funds	<u>21,765</u>	21,765
Total	<u>\$ 69,814</u>	

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

6. Investments - Pension Trust Fund (The System)

All of the System's investments totaling \$53,254,441 are in an external (state) investment pool.*

** 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 (PRIT) 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.*

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. Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT 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.

Due to their nature, none of the System's investments are subject to credit risk disclosure.

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 System does not have formal investment policy for custodial credit risk but manages custodial risk through diversification and “prudent person” principles outlined in PERAC guidelines. The System manages this risk with SIPC and Excess SIPC.

All the System’s investments of \$53,254,441 are comprised of pooled investment funds, which are exempt from custodial risk disclosure.

C. Concentration of Credit Risk

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund.

Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from concentration of credit disclosure.

All the System’s Investments are in the PRIT fund, which are exempt from concentration of credit risk disclosure.

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 System does not have formal investment policies limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the System’s investments to market interest rate fluctuations is not applicable as all of the System’s investments are immediately liquid.

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 System does not have formal investment policies related to foreign currency risk.

F. Fair Value

The System 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. The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – Inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2 – Inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as level 2.
- Level 3 – Unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

The net asset value (NAV) per share is the amount of net assets attributable to each share of capital stock outstanding at the close of the period. Investments measured at the NAV for fair value are not subject to level classification.

The System has the following fair value measurements as of December 31, 2018:

Investments measured at the net asset value (NAV):
 External investment pools \$ 53,254,441

<u>Investment Type</u>	<u>Amount</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
External investment pools	\$ 53,254,441	\$ -	Monthly	30 Days

7. 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, 2019 consist of the following:

	Gross Amount <u>(fund basis)</u>	Allowance for Doubtful <u>Accounts</u>	Current <u>Portion</u>	Long- Term <u>Portion</u>
Real estate taxes (current)	\$ 1,018,681	\$ (30,736)	\$ 987,945	\$ -
Personal property taxes	125,874	(52,425)	73,449	-
Tax liens	<u>1,295,187</u>	<u>(259,037)</u>	<u>-</u>	<u>1,036,150</u>
Total Property Taxes	<u>\$ 2,439,742</u>	<u>\$ (342,198)</u>	<u>\$ 1,061,394</u>	<u>\$ 1,036,150</u>
Motor vehicle excise	<u>\$ 587,136</u>	<u>\$ (231,594)</u>	<u>\$ 355,542</u>	<u>\$ -</u>
Total Excises	<u>\$ 587,136</u>	<u>\$ (231,594)</u>	<u>\$ 355,542</u>	<u>\$ -</u>

8. Intergovernmental and Other Receivables

The balance reported in the accompanying governmental funds balance sheet represents late state aid, departmental receivables and reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2019 and are expected to be reimbursed in fiscal year 2020.

9. Other Assets

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

10. Capital Assets

Capital asset activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Convert CIP	Ending Balance
Governmental Activities					
Capital assets, being depreciated:					
Buildings and improvements	\$ 58,105,282	\$ -	\$ -	\$ -	\$ 58,105,282
Machinery, equipment, and furnishings	12,178,061	402,912	(94,219)	82,952	12,569,706
Infrastructure	<u>26,432,535</u>	<u>1,431,974</u>	<u>-</u>	<u>6,898,084</u>	<u>34,762,593</u>
Total Capital Assets, Being Depreciated	96,715,878	1,834,886	(94,219)	6,981,036	105,437,581
Less accumulated depreciation for:					
Buildings and improvements	(23,203,506)	(1,872,795)	-	-	(25,076,301)
Machinery, equipment, and furnishings	(9,713,358)	(550,483)	90,460	-	(10,173,381)
Infrastructure	<u>(16,253,575)</u>	<u>(889,257)</u>	<u>-</u>	<u>-</u>	<u>(17,142,832)</u>
Total Accumulated Depreciation	<u>(49,170,439)</u>	<u>(3,312,535)</u>	<u>90,460</u>	<u>-</u>	<u>(52,392,514)</u>
Total Capital Assets, Being Depreciated, Net	47,545,439	(1,477,649)	(3,759)	6,981,036	53,045,067
Capital assets, not being depreciated:					
Land	3,955,497	102,867	-	317,645	4,376,009
Construction in progress (CIP)	<u>11,079,132</u>	<u>5,430,568</u>	<u>-</u>	<u>(7,298,681)</u>	<u>9,211,019</u>
Total capital assets, not being depreciated	<u>15,034,629</u>	<u>5,533,435</u>	<u>-</u>	<u>(6,981,036)</u>	<u>13,587,028</u>
Governmental Activities Capital Assets, Net	<u>\$ 62,580,068</u>	<u>\$ 4,055,786</u>	<u>\$ (3,759)</u>	<u>\$ -</u>	<u>\$ 66,632,095</u>
Business-Type Activities					
Capital assets, being depreciated:					
Buildings and improvements	\$ 21,316,918	\$ -	\$ -	\$ -	\$ 21,316,918
Machinery, equipment, and furnishings	3,822,916	330,432	-	-	4,153,348
Infrastructure	<u>18,407,856</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,407,856</u>
Total Capital Assets, Being Depreciated	43,547,690	330,432	-	-	43,878,122
Less accumulated depreciation for:					
Buildings and improvements	(11,147,382)	(525,473)	-	-	(11,672,855)
Machinery, equipment, and furnishings	(3,146,092)	(204,877)	-	-	(3,350,969)
Infrastructure	<u>(13,871,758)</u>	<u>(267,504)</u>	<u>-</u>	<u>-</u>	<u>(14,139,262)</u>
Total Accumulated Depreciation	<u>(28,165,232)</u>	<u>(997,854)</u>	<u>-</u>	<u>-</u>	<u>(29,163,086)</u>
Total Capital Assets, Being Depreciated, Net	15,382,458	(667,422)	-	-	14,715,036
Capital assets, not being depreciated:					
Land	1,011,422	-	-	-	1,011,422
Construction in progress (CIP)	<u>5,487,024</u>	<u>2,268,008</u>	<u>-</u>	<u>-</u>	<u>7,755,032</u>
Total Capital Assets, Not Being Depreciated	<u>6,498,446</u>	<u>2,268,008</u>	<u>-</u>	<u>-</u>	<u>8,766,454</u>
Business-Type Activities Capital Assets, Net	<u>\$ 21,880,904</u>	<u>\$ 1,600,586</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,481,490</u>

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

Governmental Activities	
General government	\$ 85,746
Public safety	526,459
Education	1,068,192
Public works	1,493,763
Human services	78,649
Culture and recreation	<u>59,726</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 3,312,535</u>
Business-Type Activities	
Water	\$ 543,420
Sewer	417,306
Golf	11,980
Solid Waste	<u>25,148</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 997,854</u>

11. 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.

12. Warrants and Accounts Payable

Warrants payable represent 2019 expenditures paid by July 15, 2019 as permitted by law. Accounts payable represent additional 2019 expenditures paid after July 15, 2019.

13. Notes Payable

The City had the following notes outstanding at June 30, 2019:

<u>Purpose</u>	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2019</u>
Bond anticipation	2.75	06/29/18	06/28/19	\$ 7,198,680
MCWT interim loan CWP-17-23	-	10/15/18	10/15/19	6,822,078
MCWT interim loan CWP-17-23A	-	09/05/18	09/05/19	<u>618,100</u>
			Total	<u>\$ 14,638,858</u>

The following summarizes activity in notes payable during fiscal year 2019:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ 4,360,000	\$ 3,497,380	\$ (658,700)	\$ 7,198,680
MCWT loan	-	7,440,178	-	7,440,178
Total	\$ 4,360,000	\$ 10,937,558	\$ (658,700)	\$ 14,638,858

14. 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, 2019 follows:

	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Loan Balance Outstanding June 30, 2019</u>	<u>Unamortized Bond Premium</u>	<u>Total Balance Outstanding June 30, 2019</u>
<u>Governmental Activities:</u>					
Police Station	03/01/34	3.0-5.0	\$ 9,840,000	\$ 394,897	\$ 10,234,897
Total Governmental Activities			\$ 9,840,000	\$ 394,897	\$ 10,234,897
<u>Business-Type Activities:</u>					
<u>Water Fund:</u>					
Water treatment (MWPAT 99-16)	08/01/19	2.0	\$ 584,945	\$ -	\$ 584,945
Water treatment (MWPAT 00-16A)	08/01/19	2.0	39	-	39
General obligation 2012 - water portion	04/01/22	2.0	850,000	7,061	857,061
Water treatment (MWPAT 03-10)	08/01/24	2.0	1,176,588	66,851	1,243,439
Total Water Fund			2,611,572	73,912	2,685,484
<u>Sewer Fund:</u>					
Sewer treatment (MWPAT 03-10)	08/01/24	2.0	342,572	19,275	361,847
Sewer treatment (MCWT 15-21)	01/15/37	2.0	4,070,687	-	4,070,687
Total Sewer Fund			4,413,259	19,275	4,432,534
Total Business-Type Activities			\$ 7,024,831	\$ 93,187	\$ 7,118,018

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding (excluding bond premium amortization) as of June 30, 2019 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 485,000	\$ 378,413	\$ 863,413
2021	510,000	354,163	864,163
2022	535,000	328,663	863,663
2023	560,000	301,913	861,913
2024	590,000	273,913	863,913
2025 - 2029	3,290,000	1,028,031	4,318,031
2030 - 2034	<u>3,870,000</u>	<u>439,119</u>	<u>4,309,119</u>
Total	\$ <u>9,840,000</u>	\$ <u>3,104,215</u>	\$ <u>12,944,215</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,297,505	\$ 176,115	\$ 1,473,620
2021	715,989	138,897	854,886
2022	714,548	117,489	832,037
2023	458,195	95,135	553,330
2024	471,936	77,461	549,397
2025 - 2029	1,362,178	266,700	1,628,878
2030 - 2034	1,212,130	153,006	1,365,136
Thereafter	<u>792,350</u>	<u>31,918</u>	<u>824,268</u>
Total	\$ <u>7,024,831</u>	\$ <u>1,056,721</u>	\$ <u>8,081,552</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2019, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion</u>
Governmental Activities						
Bonds payable	\$ 10,305,000	\$ -	\$ (465,000)	\$ 9,840,000	\$ (485,000)	\$ 9,355,000
Unamortized bond premium	421,223	-	(26,326)	394,897	(26,326)	368,571
Subtotal	10,726,223	-	(491,326)	10,234,897	(511,326)	9,723,571
Net pension liability	33,456,135	6,404,079	-	39,860,214	-	39,860,214
Net OPEB liability	94,206,214	16,728,133	-	110,934,347	-	110,934,347
Other:						
Capital lease	6,536,739	-	(278,668)	6,258,071	(248,426)	6,009,645
Compensated absences	2,044,648	-	(437,343)	1,607,305	-	1,607,305
Subtotal - Other	8,581,387	-	(716,011)	7,865,376	(248,426)	7,616,950
Totals	\$ <u>146,969,959</u>	\$ <u>23,132,212</u>	\$ <u>(1,207,337)</u>	\$ <u>168,894,834</u>	\$ <u>(759,752)</u>	\$ <u>168,135,082</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Less Current Portion	Equals Long-Term Portion
Business-Type Activities						
Bonds payable	\$ 8,311,058	\$ -	\$ (1,286,227)	\$ 7,024,831	\$ (1,297,505)	\$ 5,727,326
Unamortized bond premium	109,895	-	(16,708)	93,187	(16,708)	76,479
Subtotal	8,420,953	-	(1,302,935)	7,118,018	(1,314,213)	5,803,805
Net pension liability	2,398,244	595,505	-	2,993,749	-	2,993,749
Net OPEB liability	2,741,185	-	(505,440)	2,235,745	-	2,235,745
Other:						
Landfill liability	221,282	254,054	(27,936)	447,400	(27,963)	419,437
Compensated absences	38,355	9,289	-	47,644	-	47,644
Total Other Liabilities	259,637	263,343	(27,936)	495,044	(27,963)	467,081
Totals	\$ 13,820,019	\$ 858,848	\$ (1,836,311)	\$ 12,842,556	\$ (1,342,176)	\$ 11,500,380

D. Long-Term Debt Supporting Governmental and Business-Type Activities

General obligation bonds, issued by the City for various municipal projects are approved by City Council and repaid with revenues recorded in the general fund and user fees recorded in enterprise funds. All other long-term debt is repaid from the funds that the cost related to, primarily the general fund and enterprise fund(s).

E. 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.

15. 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 \$447,400 reported as landfill post-closure care liability at June 30, 2019 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, with funds transferred from the general fund.

In fiscal year 2019, the estimated cost of annual monitoring was increased from approximately \$12,000 to approximately \$28,000 due to increased monitoring requirements.

16. 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, 2019:

	<u>Fiscal Year</u>	
	2020	\$ 379,999
	2021	380,000
	2022	380,000
	2023	380,000
	2024	380,000
	2025 - 2029	2,120,001
	2030 - 2034	2,470,000
	Thereafter	<u>1,099,999</u>
Total payments		7,589,999
Less amounts representing interest		<u>(1,331,928)</u>
Present value of minimum lease payments		<u>\$ 6,258,071</u>

17. 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.

18. 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	\$ 263,267	\$ 501,287
City Capital Projects	311,287	-
Nonmajor funds:		
Special revenue funds	-	263,267
Capital project funds	<u>115,000</u>	<u>-</u>
Subtotal Nonmajor Funds	115,000	263,267
 <u>Business-Type Funds:</u>		
Landfill	<u>75,000</u>	<u>-</u>
Total	<u>\$ 764,554</u>	<u>\$ 764,554</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.

19. 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, 2019:

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, 2019:

	General Fund	City Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 460,726	\$ 460,726
Total Nonexpendable	-	-	460,726	460,726
Restricted				
Bonded projects	-	187,691	152,010	339,701
Special revenue funds	-	-	4,885,453	4,885,453
Expendable permanent funds	-	-	47,191	47,191
Total Restricted	-	187,691	5,084,654	5,272,345
Committed				
Special articles				
General government	15,498	-	-	15,498
Public safety	34,552	-	-	34,552
Public works	372,341	-	-	372,341
Health and human services	9,181	-	-	9,181
Culture and recreation	32,607	-	-	32,607
Total Committed	464,179	-	-	464,179
Assigned				
Encumbrances				
General government	22,120	-	-	22,120
Public safety	15,523	-	-	15,523
Education	239,325	-	-	239,325
Public works	182,411	-	-	182,411
Health and human services	2,017	-	-	2,017
Total Assigned	461,396	-	-	461,396
Unassigned				
General fund	3,403,065	-	-	3,403,065
Stabilization fund*	2,414,142	-	-	2,414,142
Deficit fund balances	-	(6,484,332)	(184,684)	(6,669,016)
Total Unassigned	5,817,207	(6,484,332)	(184,684)	(851,809)
Total Fund Balance	\$ 6,742,782	\$ (6,296,641)	\$ 5,360,696	\$ 5,806,837

*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.

20. 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, 2018)	Other Post-Employment Benefits Trust Fund	Pension and OPEB Trust Funds
Assets			
Cash and short-term investments	\$ 82,405	\$ -	\$ 82,405
Investments:			
Corporate equities	-	48,049	48,049
Mutual funds	-	21,765	21,765
External investment pool	<u>53,254,441</u>	<u>-</u>	<u>53,254,441</u>
Total Investments	53,254,441	69,814	53,324,255
Accounts receivable	307,659	-	307,659
Other assets	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	53,644,505	69,814	53,714,319
Liabilities and Net Position			
Accounts payable	<u>224,968</u>	<u>-</u>	<u>224,968</u>
Total Liabilities	224,968	-	224,968
Net Position			
Restricted for pensions	53,419,537	-	53,419,537
Restricted for OPEB purposes	<u>-</u>	<u>69,814</u>	<u>69,814</u>
	<u>\$ 53,419,537</u>	<u>\$ 69,814</u>	<u>\$ 53,489,351</u>
Additions			
Contributions:			
Employers	\$ 4,061,169	\$ 3,030,661	\$ 7,091,830
Other systems and Commonwealth of Massachusetts	127,463	-	127,463
Plan members	1,548,726	-	1,548,726
Other	<u>36,040</u>	<u>-</u>	<u>36,040</u>
Total contributions	5,773,398	3,030,661	8,804,059
Investment Income:			
Appreciation (depreciation) in fair value of investments	(1,032,214)	7,473	(1,024,741)
Less: management fees	<u>(290,752)</u>	<u>-</u>	<u>(290,752)</u>
Net investment income	<u>(1,322,966)</u>	<u>7,473</u>	<u>(1,315,493)</u>
Total Additions	4,450,432	3,038,134	7,488,566
Deductions			
Benefit payments to plan members and beneficiaries	6,306,567	3,015,765	9,322,332
Refunds to plan members	84,703	-	84,703
Transfers to other systems	157,396	-	157,396
Administrative expenses	<u>136,434</u>	<u>-</u>	<u>136,434</u>
Total Deductions	<u>6,685,100</u>	<u>3,015,765</u>	<u>9,700,865</u>
Net Increase (Decrease)	(2,234,668)	22,369	(2,212,299)
Net position restricted for pensions and other purposes			
Beginning of Year	<u>55,654,205</u>	<u>47,445</u>	<u>55,701,650</u>
End of Year	<u>\$ 53,419,537</u>	<u>\$ 69,814</u>	<u>\$ 53,489,351</u>

21. 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.

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	248
Terminated plan members entitled to but not yet receiving benefits	67
Active plan members	<u>286</u>
Total	<u>601</u>
Number of participating employers	2

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.

Participant Retirement Benefits

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.

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest 5-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%, 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.

There are four classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the Massachusetts State Police. The other three classes are as follows:

- Group 1 – General employees, including clerical, administrative, technical, and all other employees not otherwise classified.
- Group 2 – Certain specified hazardous duty positions.
- Group 4 – Police officers, firefighters, and other specified hazardous positions.

A retirement allowance may be received at any age, upon attaining 20 years of service. 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.

Methods of Payment

A member may elect to receive his or her retirement allowance in one of three forms of payment as follows:

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the members death.
- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree’s beneficiary or beneficiaries of choice.
- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member’s designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or “pops up” to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable “pops up” to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

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%.

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, 2019 was \$3,900,753, which was equal to its annual required contribution.

Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2018 conform to generally accepted accounting principles for public employee retirement systems (PERS).

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, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was (2.41)%. 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.

Net Pension Liability of Participating Employers

The net pension liability was based on an actuarial valuation dated January 1, 2018, rolled forward to December 31, 2018.

The components of the net pension liability of the participating employers at December 31, 2018 were as follows:

Net Pension Liability of Employers

Total pension liability	\$ 98,035,844
Plan fiduciary net position	<u>(53,419,537)</u>
Employers' Net Pension Liability	<u>\$ 44,616,307</u>
Plan fiduciary net position as a percentage of total pension liability	54.5%

Actuarial Assumptions

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

Valuation Date	1/1/2018
Actuarial cost method	Entry Age Normal Cost Method
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	3.25%
Inflation rate	3% per year
Post-retirement cost-of-living adjustment	3% on 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/geometric 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	13.00%	5.25%
International Equities	13.00%	5.43%
Emerging Equities	5.00%	6.12%
Hedged equity	8.00%	4.54%
Core Bonds	6.00%	2.07%
Short-term fixed income	2.00%	1.72%
20+ Yr. Treasury STRIPS	3.00%	1.22%
TIPS	4.00%	1.71%
Value-Added Fixed Income	8.00%	5.21%
Private Equity	13.00%	8.70%
Real Estate	10.00%	4.09%
Timberland	4.00%	4.65%
Portfolio Completion	<u>11.00%</u>	4.41%
Total	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that 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 7.5%, 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
\$52,097	\$42,854	\$35,886

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred (Inflows) of Resources Related to Pensions

At June 30, 2019, the City reported a liability of \$42,853,963 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. 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, 2019, the City’s proportion was 96.05%.

For the year ended June 30, 2019, the City recognized pension expense of \$5,035,135. In addition, the City reported deferred outflows and (inflows) of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred (Inflows) of <u>Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 2,359,693	\$ -
Changes in assumptions	2,734,220	(161,790)
Differences between expected and actual experience	766,844	(35,505)
Changes in proportion and differences between contributions and proportionate share of contributions	<u>159,229</u>	<u>(37,429)</u>
	<u>\$ 6,019,986</u>	<u>\$ (234,724)</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:	
2019	\$ 1,923,599
2020	1,211,035
2021	974,225
2022	1,575,646
2023	<u>100,757</u>
Total	\$ <u>5,785,262</u>

22. 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 3-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last 5 years or any 5 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 10 years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of creditable service or upon reaching the age of 55 with 10 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, 2018 measurement date was determined by an actuarial valuation as of January 1, 2018 rolled forward to June 30, 2018. This valuation used the following assumptions:

- (a) 7.35% 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 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct).

E. Target Allocations

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, 2018 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	39.00%	5.00%
Portfolio completion strategies	13.00%	3.70%
Core fixed income	12.00%	0.90%
Private equity	12.00%	6.60%
Real estate	10.00%	3.80%
Value added fixed income	10.00%	3.80%
Timber/natural resources	4.00%	3.40%
Total	<u>100.00%</u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 7.35%. 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.

G. 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 1 percentage-point lower or 1 percentage-point higher than the current discount rate (in thousands):

1% Decrease (6.35%)	Current Discount Rate (7.35%)	1% Increase (8.35%)
\$29,482,300	\$23,711,289	\$18,771,300

H. 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.

I. City Proportions

In fiscal year 2018 (the most recent measurement period), the City's proportionate share of the MTRS' collective net pension liability was \$52,039,556 based on a proportionate share of .219472%. As required by GASB 68, the City has recognized its portion of the Commonwealth's contribution of \$2,885,576 as both a revenue and expenditure in the general fund, and its portion of the collective pension expense of \$5,273,455 as both a revenue and expense in the governmental activities.

23. 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 a single-employer defined benefit OPEB Trust Fund to provide funding for future employee health care costs. The OPEB Trust Fund does not issue a stand-alone financial report.

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, 2019.

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.

Funding Policy

The City’s funding policy includes financing the implicit subsidy on a pay-as-you-go basis, as required by statute. Additional contributions are based on (select one only) actuarially determined amounts or annual budget limitations/authorizations.

Plan Membership

At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefit payments	395
Active employees	<u>525</u>
Total	<u><u>920</u></u>

B. Investments

The OPEB trust fund assets consist of corporate equities and mutual funds.

Rate of return. For the year ended June 30, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 14.93%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Actuarial Assumptions

The net OPEB liability was determined by an actuarial valuation as of July 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3%
Investment rate of return	4%, net of OPEB plan investment expense
Municipal bond rate	3.50%
Discount rate	3.50%
Healthcare cost trend rates	8% for 2018, decreasing .5% per year to an ultimate rate of 3.9%

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.

D. Target Allocations

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic/geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2019 are summarized in the following table.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	29.00%	5.92%
Domestic bond	26.00%	3.69%
International equity	19.00%	2.73%
Alternatives	20.00%	3.50%
International bond	<u>6.00%</u>	3.80%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the net OPEB liability was 3.5%. 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 3.5% (based on the Bond Buyer 20-Bond GO Index as of June 28, 2019).

F. Net OPEB Liability

The components of the net OPEB liability, measured as of June 30, 2019, were as follows:

Total OPEB liability	\$ 113,239,969
Plan fiduciary net position	<u>(69,877)</u>
Net OPEB liability	<u>\$ 113,170,092</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 0.06%

The fiduciary net position has been determined on the same basis used by the OPEB Plan. For this purpose, the Plan recognizes benefit payments when due and payable.

G. Changes in the Net OPEB Liability

The following summarizes the changes in the net OPEB liability for the past year:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances, beginning of year	\$ 96,994,933	\$ 47,534	\$ 96,947,399
Changes for the year:			
Service cost	4,562,376	-	4,562,376
Interest	3,871,913	-	3,871,913
Contributions - employer	-	3,030,661	(3,030,661)
Net investment income	-	7,447	(7,447)
Differences between expected and actual experience	(1,066,547)	-	(1,066,547)
Changes in assumptions or other inputs	11,893,059	-	11,893,059
Benefit payments	<u>(3,015,765)</u>	<u>(3,015,765)</u>	<u>-</u>
Net Changes	<u>16,245,036</u>	<u>22,343</u>	<u>16,222,693</u>
Balances, end of year	<u>\$ 113,239,969</u>	<u>\$ 69,877</u>	<u>\$ 113,170,092</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.87% in 2018 to 3.5% in 2019.

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

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

1% Decrease (2.5%)	Current Discount Rate (3.5%)	1% Increase (4.5%)
\$ 134,954,175	\$ 113,170,092	\$ 96,177,278

I. 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 1 percentage-point lower or 1 percentage-point higher than the current healthcare cost trend rates:

1% Decrease (2.9%)	Current Healthcare Cost Trend Rates (3.9%)	1% Increase (4.9%)
\$ 79,398,132	\$ 113,170,092	\$ 121,756,076

J. OPEB Expense and Deferred Outflows of Resources and Deferred (Inflows) of Resources Related to OPEB

For the year ended June 30, 2019, the City recognized an OPEB expense of \$9,302,933. At June 30, 2019, the City reported deferred outflows and (inflows) of resources related to OPEB from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference between expected and actual experience	\$ -	\$ (907,123)
Change in assumptions	10,115,322	(3,361,127)
Net difference between projected and actual OPEB investment earnings	<u>-</u>	<u>(3,346)</u>
Total	<u>\$ 10,115,322</u>	<u>\$ (4,271,596)</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>	
2020	\$ 870,643
2021	870,643
2022	870,645
2023	870,307
2024	1,244,854
Thereafter	<u>1,116,634</u>
Total	<u>\$ 5,843,726</u>

24. Self-Insurance

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

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

The City contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the City is liable for up to \$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, 2019 are as follows:

	<u>Health Coverage</u>
Claims liability, beginning of year	\$ 1,010,326
Claims incurred/recognized in fiscal year 2019	9,215,982
Claims paid in fiscal year 2019	<u>(9,720,369)</u>
Claims Liability, End of Year	<u>\$ 505,939</u>

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

25. 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.

Encumbrances – At year-end the City’s general fund has \$461,396 in encumbrances that will be honored in the next fiscal year.

26. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 84, *Fiduciary Activities*, effective for the City in future fiscal years to be determined by GASB. This statement establishes guidance on how to address the categorization of fiduciary activities for financial reporting and how fiduciary activities are to be reported and may require reclassification of certain funds.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 87, *Leases*, effective for the City in future fiscal years to be determined by GASB. This statement establishes new reporting and disclosure requirements, including the recording of various operating leases in the financial statements.

27. Subsequent Events

The COVID-19 outbreak in the United States (and across the globe) has resulted in economic uncertainties. The disruption is expected to be temporary, but there is considerable uncertainty around the duration and scope. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our City, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain.

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

JUNE 30, 2019

(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, 2019	December 31, 2018	96.05%	\$42,854	\$12,527	342.09%	54.49%
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, 2019	June 30, 2018	0.22%	-	\$52,040	\$52,040	\$15,413	-	54.84%
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
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)
 JUNE 30, 2019
 (Unaudited)
 (Amounts expressed in thousands)

Gardner Contributory Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution</u>	<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, 2019	December 31, 2018	\$3,901	\$3,935	(\$34)	\$12,527	31.41%
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>	<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, 2019	June 30, 2018	\$2,886	\$2,886	-	\$15,413	18.72%
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
 REQUIRED SUPPLEMENTARY INFORMATION
 OTHER POST-EMPLOYMENT BENEFITS (OPEB)
 SCHEDULE OF CHANGES IN NET OPEB LIABILITY (GASB 74 AND 75)
 (Unaudited)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability			
Service cost	\$ 4,562,376	\$ 4,790,887	\$ 5,736,706
Interest on unfunded liability - time value of money	3,871,913	3,566,773	3,063,959
Differences between expected and actual experience	(1,066,547)	-	-
Changes of assumptions	11,893,059	(4,854,961)	(13,084,732)
Benefit payments, including refunds of member contributions	<u>(3,015,765)</u>	<u>(2,694,837)</u>	<u>(2,598,945)</u>
Net Change in Total OPEB Liability	16,245,036	807,862	(6,883,012)
Total OPEB Liability - Beginning	<u>96,994,933</u>	<u>96,187,071</u>	<u>103,070,083</u>
Total OPEB Liability - Ending (a)	113,239,969	96,994,933	96,187,071
Plan Fiduciary Net Position*			
Contributions - employer	3,030,661	2,717,578	2,623,310
Net investment income (loss)	7,447	(230)	658
Benefit payments, including refunds of member contributions	<u>(3,015,765)</u>	<u>(2,694,837)</u>	<u>(2,598,945)</u>
Net Change in Plan Fiduciary Net Position	22,343	22,511	25,023
Plan Fiduciary Net Position - Beginning	<u>47,534</u>	<u>25,023</u>	<u>-</u>
Plan Fiduciary Net Position - Ending (b)	<u>69,877</u>	<u>47,534</u>	<u>25,023</u>
Net OPEB Liability (Asset) - Ending (a-b)	<u>\$ 113,170,092</u>	<u>\$ 96,947,399</u>	<u>\$ 96,162,048</u>

*May reflect certain rounding and immaterial classification differences from Note 20.

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
 REQUIRED SUPPLEMENTARY INFORMATION
 OTHER POST-EMPLOYMENT BENEFITS (OPEB)
 SCHEDULES OF NET PENSION LIABILITY, CONTRIBUTIONS, AND INVESTMENT RETURNS
 (GASB 74 AND 75)
 (Unaudited)

Schedule of Net OPEB Liability	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability	\$ 113,239,969	\$ 96,994,933	\$ 96,187,071
Plan fiduciary net position	<u>(69,877)</u>	<u>(47,534)</u>	<u>(25,023)</u>
Net OPEB liability (asset)	<u>\$ 113,170,092</u>	<u>\$ 96,947,399</u>	<u>\$ 96,162,048</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 0.06%	 0.05%	 0.03%
 Schedule of Contributions	 <u>2019</u>	 <u>2018</u>	 <u>2017</u>
Actuarially determined contribution	\$ 8,272,247	\$ 8,319,483	\$ 7,413,437
Contributions in relation to the actuarially determined contribution	<u>(3,030,661)</u>	<u>(2,717,578)</u>	<u>(2,623,310)</u>
Contribution deficiency (excess)	<u>\$ 5,241,586</u>	<u>\$ 5,601,905</u>	<u>\$ 4,790,127</u>
 Schedule of Investment Returns	 <u>2019</u>	 <u>2017</u>	 <u>2015</u>
Annual money weighted rate of return, net of investment expense	 14.93%	 -0.60%	 5.48%

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

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

See Independent Auditors' Report.