



## **CITY OF GARDNER, MASSACHUSETTS**

Financial Statements  
For the Year Ended June 30, 2020

(With Independent Auditors' Report Thereon)

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## 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, each major fund, and the aggregate remaining fund information of the City of Gardner, Massachusetts (the City), as of and for the year ended June 30, 2020 (except for the Gardner Contributory Retirement System which is as of and for the year ended December 31, 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 100% 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*.

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Merrimack, New Hampshire  
Andover, Massachusetts  
Greenfield, Massachusetts  
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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 City'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 City'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 auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gardner, Massachusetts, as of June 30, 2020 (except for the Gardner Contributory Retirement System which is as of and for the year ended December 31, 2019), and the respective changes in financial position and, where applicable, cash flows thereof and 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, the Budgetary Comparison for the General Fund 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 18, 2021, 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 black ink that reads "Melanson".

Andover, Massachusetts  
March 18, 2021



## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Gardner, Massachusetts (the City), we offer readers this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2020.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains required 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.

### ***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.

**Required/Other Supplementary Information (Other Than MD&A)**

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.

**Financial Highlights**

- As of the close of the current fiscal year, net position in governmental activities was \$(80,342,228), a change of \$(2,705,855), and net position in business-type activities was \$22,521,076, a change of \$1,442,348.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$9,676,741, a change of \$3,869,904 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,897,171, a change of \$79,964 in comparison to the prior year.

**Government-Wide Financial Analysis**

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

	NET POSITION					
	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 26,383,510	\$ 23,498,258	\$ 14,061,364	\$ 17,735,279	\$ 40,444,874	\$ 41,233,537
Capital assets	<u>69,656,642</u>	<u>66,632,095</u>	<u>29,442,237</u>	<u>23,481,490</u>	<u>99,098,879</u>	<u>90,113,585</u>
Total Assets	96,040,152	90,130,353	43,503,601	41,216,769	139,543,753	131,347,122
Deferred outflows of resources	39,144,293	15,428,747	1,071,956	706,561	40,216,249	16,135,308
Long-term liabilities outstanding	201,389,344	168,894,834	12,082,934	12,842,556	213,472,278	181,737,390
Other liabilities	<u>8,829,268</u>	<u>9,931,498</u>	<u>9,754,112</u>	<u>7,864,867</u>	<u>18,583,380</u>	<u>17,796,365</u>
Total Liabilities	210,218,612	178,826,332	21,837,046	20,707,423	232,055,658	199,533,755
Deferred inflows of resources	5,308,061	4,369,141	217,435	137,179	5,525,496	4,506,320
Invested in capital assets, net	47,554,660	43,871,481	15,460,186	14,892,777	63,014,846	58,764,258
Restricted	7,157,609	5,331,701	-	-	7,157,609	5,331,701
Unrestricted	<u>(135,054,497)</u>	<u>(126,839,555)</u>	<u>7,060,890</u>	<u>6,185,951</u>	<u>(127,993,607)</u>	<u>(120,653,604)</u>
Total Net Position	\$ <u>(80,342,228)</u>	\$ <u>(77,636,373)</u>	\$ <u>22,521,076</u>	\$ <u>21,078,728</u>	\$ <u>(57,821,152)</u>	\$ <u>(56,557,645)</u>

As noted earlier, net position may serve over time as a useful indicator of a City’s financial position. At the close of the most recent fiscal year, total net position was \$(57,821,152), a change of \$(1,263,507) in comparison to the prior year.

The largest portion of net position \$63,014,846 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 \$7,157,609 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position reflects a deficit of \$(127,993,607) primarily resulting from unfunded pension and OPEB liabilities.

CHANGES IN NET POSITION						
	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 4,426,427	\$ 3,946,059	\$ 8,897,350	\$ 8,732,060	\$ 13,323,777	\$ 12,678,119
Operating grants and contributions	37,472,893	34,704,901	-	-	37,472,893	34,704,901
Capital grants and contributions	4,282,875	1,279,559	288,391	238,480	4,571,266	1,518,039
General revenues:						
Property taxes	27,696,193	26,601,148	-	-	27,696,193	26,601,148
Excises	2,416,916	2,173,688	-	-	2,416,916	2,173,688
Penalties, interest on taxes	400,034	656,904	-	-	400,034	656,904
Grants and contributions not restricted to specific programs	4,816,430	4,743,766	-	-	4,816,430	4,743,766
Investment income	348,202	333,255	61,410	61,051	409,612	394,306
Miscellaneous	726,423	1,328,272	20,607	-	747,030	1,328,272
Total Revenues	82,586,393	75,767,552	9,267,758	9,031,591	91,854,151	84,799,143
<b>Expenses</b>						
General government	5,499,200	4,390,310	-	-	5,499,200	4,390,310
Public safety	14,960,584	13,936,829	-	-	14,960,584	13,936,829
Education	52,896,700	49,247,153	-	-	52,896,700	49,247,153
Public works	5,560,893	5,407,528	-	-	5,560,893	5,407,528
Health and human services	1,614,711	1,654,810	-	-	1,614,711	1,654,810
Culture and recreation	1,771,291	1,454,289	-	-	1,771,291	1,454,289
Interest on long-term debt	641,732	997,915	-	-	641,732	997,915
Intergovernmental	2,156,681	2,386,075	-	-	2,156,681	2,386,075
Water operations	-	-	2,722,266	2,989,061	2,722,266	2,989,061
Sewer operations	-	-	2,694,036	2,812,051	2,694,036	2,812,051
Golf operations	-	-	900,519	390,411	900,519	390,411
Nonmajor	-	-	1,699,045	1,821,876	1,699,045	1,821,876
Total Expenses	85,101,792	79,474,909	8,015,866	8,013,399	93,117,658	87,488,308
Change in net position before transfers	(2,515,399)	(3,707,357)	1,251,892	1,018,192	(1,263,507)	(2,689,165)
Transfers, net	(190,456)	(75,000)	190,456	75,000	-	-
Change in Net Position	(2,705,855)	(3,782,357)	1,442,348	1,093,192	(1,263,507)	(2,689,165)
Net assets - beginning of year	(77,636,373)	(73,854,016)	21,078,728	19,985,536	(56,557,645)	(53,868,480)
Net Assets - End of Year	\$ (80,342,228)	\$ (77,636,373)	\$ 22,521,076	\$ 21,078,728	\$ (57,821,152)	\$ (56,557,645)

**Governmental Activities**

Governmental activities for the year resulted in a change in net position of \$(2,705,855). Key elements of this change are as follows:

General fund operations	\$ 1,134,543
Major fund - City Capital Project fund transfers in excess of expenditures	975,559
Increase in nonmajor funds (primarily school choice and circuit breaker)	1,759,802
Depreciation expense in excess of principal debt service	(3,099,342)
Internal service fund operating results	102,110
Capital assets purchases, net of disposals	6,608,889
Change in OPEB expense from GASB 75	(9,538,706)
Change in pension expense from GASB 68	(1,064,180)
Other	<u>415,470</u>
Total	\$ <u>(2,705,855)</u>

**Business-Type Activities**

Business-type activities for the year resulted in a change in net position of \$1,442,348, primarily from a decrease in water and sewer plant operating expenses.

**Financial Analysis of the City's Funds**

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

**Governmental Funds**

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

### General Fund

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,897,171, while total fund balance was \$7,877,325. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/20</u>	<u>6/30/19</u>	<u>Change</u>	<u>% of General Fund Expenditures*</u>
Unassigned - General fund	\$ 3,072,842	\$ 3,403,065	\$ (330,223)	5.2%
Unassigned - Stabilization fund	<u>2,824,329</u>	<u>2,414,142</u>	<u>410,187</u>	<u>4.8%</u>
Total Unassigned Fund Balance	\$ <u>5,897,171</u>	\$ <u>5,817,207</u>	\$ <u>79,964</u>	<u>10.1%</u>
Total Fund Balance	\$ 7,877,325	\$ 6,742,782	\$ 1,134,543	12.8%

\* Expenditure amounts used to calculate the above percentages have been adjusted to exclude the on-behalf payment from the Commonwealth to the Massachusetts Teachers Retirement System of \$3,092,851.

The total fund balance of the general fund changed by \$1,134,543 during the current fiscal year. Key factors in this change are as follows:

#### General Fund Operating Results

Excess of state and local revenues over budget	\$ 998,441
Budgetary appropriations unspent by departments	1,778,632
Use of free cash (fund balance) as a funding source	(2,536,970)

#### Timing Differences

Difference between prior year encumbrances spent in the current year and current year encumbrances to be spent in subsequent period	966,860
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#### Other

Stabilization Fund interest and transfers in	497,906
Reverse effect of GAAP accruals	<u>(570,326)</u>
Total	\$ <u>1,134,543</u>

### Other Major Funds

The capital project major fund includes various capital projects, primarily the Watkins Field and new DPW building projects.

### Non-Major Governmental Funds

The non-major fund balance changed by \$1,759,802 primarily from timing differences between the receipt and disbursement of grants and permanent financing of capital projects.

### Proprietary Funds

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$7,060,890, a change of \$874,939 in comparison to the prior year, primarily from sewer debt service expenditures being lower than anticipated.

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

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget resulted in an overall change in appropriations and other financing uses of \$2,079,587. This resulted from the use of free cash of \$1,123,490 and prior year articles and encumbrances of \$956,097 to fund operating line items and capital purchases.

### **Capital Asset and Debt Administration**

#### ***Capital Assets***

Total investment in capital assets for governmental and business-type activities at year-end amounted to \$99,098,879 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

- \$5,221,295 – wastewater treatment facility
- \$2,980,591 – Waterford school project
- \$1,577,135 – water main replacement

#### ***Credit Rating***

During the fiscal year, the Moody's credit rating remained unchanged at A1.

#### ***Long-Term Debt***

At the end of the current fiscal year, total bonded debt outstanding was \$15,527,376, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the Notes to 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, 2020

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Levi Heywood Library Association
<b>Assets</b>				
Current:				
Cash and short-term investments	\$ 11,512,817	\$ 10,874,973	\$ 22,387,790	\$ 117,814
Investments	8,891,263	-	8,891,263	910,835
Receivables, net of allowance for uncollectibles:				
Property taxes	1,219,627	-	1,219,627	-
Excises	422,199	-	422,199	-
User fees	-	2,757,280	2,757,280	-
Departmental and other	988,583	-	988,583	-
Intergovernmental	1,429,728	429,111	1,858,839	297,444
Other assets	<u>716,658</u>	<u>-</u>	<u>716,658</u>	<u>8,791</u>
Total Current Assets	25,180,875	14,061,364	39,242,239	1,334,884
Noncurrent:				
Receivables, net of allowance for uncollectibles:				
Property taxes	1,202,635	-	1,202,635	-
Land and construction in progress	18,557,742	15,635,456	34,193,198	389,162
Capital assets, net of accumulated depreciation	<u>51,098,900</u>	<u>13,806,781</u>	<u>64,905,681</u>	<u>4,520,929</u>
Total Noncurrent Assets	<u>70,859,277</u>	<u>29,442,237</u>	<u>100,301,514</u>	<u>4,910,091</u>
Total Assets	96,040,152	43,503,601	139,543,753	6,244,975
<b>Deferred Outflows of Resources</b>				
Related to pensions	5,157,270	386,990	5,544,260	-
Related to OPEB	<u>33,987,023</u>	<u>684,966</u>	<u>34,671,989</u>	<u>-</u>
Total Deferred Outflows of Resources	39,144,293	1,071,956	40,216,249	-

(continued)

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

**CITY OF GARDNER, MASSACHUSETTS**

Statement of Net Position  
June 30, 2020

(continued)

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Levi Heywood Library Association
<b>Liabilities</b>				
Current:				
Warrants payable	1,558,190	813,934	2,372,124	-
Accounts payable	180,286	-	180,286	4,767
Accrued payroll and withholdings	496,904	-	496,904	297,447
Accrued claims payable	535,372	-	535,372	-
Notes payable	6,025,000	8,940,178	14,965,178	-
Other current liabilities	33,516	-	33,516	-
Current portion of long-term liabilities:				
Bonds payable	536,326	732,697	1,269,023	-
Capital leases	253,729	-	253,729	-
Landfill liability	-	27,963	27,963	-
Total Current Liabilities	<u>9,619,323</u>	<u>10,514,772</u>	<u>20,134,095</u>	<u>302,214</u>
Noncurrent:				
Bonds payable, net of current portion	9,187,245	5,071,108	14,258,353	-
Net pension liability	38,687,987	2,903,056	41,591,043	-
Net OPEB liability	145,486,086	2,902,002	148,388,088	-
Landfill liability, net of current portion	-	391,474	391,474	-
Capital leases, net of current portion	5,755,916	-	5,755,916	-
Compensated absences, net of current portion	1,482,055	54,634	1,536,689	-
Total Noncurrent Liabilities	<u>200,599,289</u>	<u>11,322,274</u>	<u>211,921,563</u>	<u>-</u>
Total Liabilities	210,218,612	21,837,046	232,055,658	302,214
<b>Deferred Inflows of Resources</b>				
Related to pensions	2,012,569	151,018	2,163,587	-
Related to OPEB	3,295,492	66,417	3,361,909	-
Total Deferred Inflows of Resources	<u>5,308,061</u>	<u>217,435</u>	<u>5,525,496</u>	<u>-</u>
<b>Net Position</b>				
Invested in capital assets	47,554,660	15,460,186	63,014,846	4,910,091
Restricted for:				
Grants and other statutory restrictions	6,644,976	-	6,644,976	-
Permanent funds:				
Nonexpendable	452,771	-	452,771	281,300
Expendable	59,862	-	59,862	125,277
Unrestricted	<u>(135,054,497)</u>	<u>7,060,890</u>	<u>(127,993,607)</u>	<u>626,093</u>
Total Net Position	\$ <u><u>(80,342,228)</u></u>	\$ <u><u>22,521,076</u></u>	\$ <u><u>(57,821,152)</u></u>	\$ <u><u>5,942,761</u></u>

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

**CITY OF GARDNER, MASSACHUSETTS**

Statement of Activities  
For the Year Ended June 30, 2020

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Unit
<b>Governmental Activities</b>								
General government	\$ 5,499,200	\$ 1,553,378	\$ 1,540,119	\$ 31,029	\$ (2,374,674)	\$ -	\$ (2,374,674)	\$ -
Public safety	14,960,584	1,441,248	913,021	-	(12,606,315)	-	(12,606,315)	-
Education	52,896,700	1,290,922	33,668,154	3,103,607	(14,834,017)	-	(14,834,017)	-
Public works	5,560,893	119,704	296,060	1,148,239	(3,996,890)	-	(3,996,890)	-
Health and human services	1,614,711	10,392	942,867	-	(661,452)	-	(661,452)	-
Culture and recreation	1,771,291	10,783	112,672	-	(1,647,836)	-	(1,647,836)	-
Interest	641,732	-	-	-	(641,732)	-	(641,732)	-
Intergovernmental	2,156,681	-	-	-	(2,156,681)	-	(2,156,681)	-
Total Governmental Activities	85,101,792	4,426,427	37,472,893	4,282,875	(38,919,597)	-	(38,919,597)	-
<b>Business-Type Activities</b>								
Water operations	2,722,266	3,509,758	-	273,585	-	1,061,077	1,061,077	-
Sewer operations	2,694,036	3,205,653	-	14,806	-	526,423	526,423	-
Golf operations	900,519	668,247	-	-	-	(232,272)	(232,272)	-
Nonmajor	1,699,045	1,513,692	-	-	-	(185,353)	(185,353)	-
Total Business-type Activities	8,015,866	8,897,350	-	288,391	-	1,169,875	1,169,875	-
Total Primary Government	\$ 93,117,658	\$ 13,323,777	\$ 37,472,893	\$ 4,571,266	(38,919,597)	1,169,875	(37,749,722)	-
<b>Component Unit</b>								
Levi Heywood Library Association	\$ 1,216,627	\$ 11,371	\$ 992,628	\$ -	-	-	-	(212,628)
<b>General Revenues and Transfers</b>								
Property taxes					27,696,193	-	27,696,193	-
Excises					2,416,916	-	2,416,916	-
Penalties, interest and other taxes					400,034	-	400,034	-
Grants and contributions not restricted to specific programs					4,816,430	-	4,816,430	-
Investment income					348,202	61,410	409,612	11,910
Miscellaneous					726,423	20,607	747,030	-
Transfers					(190,456)	190,456	-	-
Total General Revenues and Transfers					36,213,742	272,473	36,486,215	11,910
Change in Net Position					(2,705,855)	1,442,348	(1,263,507)	(200,718)
<b>Net Position</b>								
Beginning of Year					(77,636,373)	21,078,728	(56,557,645)	6,143,479
End of Year					\$ (80,342,228)	\$ 22,521,076	\$ (57,821,152)	\$ 5,942,761

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

**CITY OF GARDNER, MASSACHUSETTS**

Governmental Funds  
Balance Sheet  
June 30, 2020

	General <u>Fund</u>	City Capital Project <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Assets</b>				
Cash and short-term investments	\$ 4,016,762	\$ 809,159	\$ 5,951,034	\$ 10,776,955
Investments	4,795,038	-	508,335	5,303,373
Receivables:			-	
Property taxes	1,315,395	-	-	1,315,395
Tax title	1,503,294	-	-	1,503,294
Excises	668,552	-	-	668,552
Departmental and other	1,216,088	-	13,364	1,229,452
Intergovernmental	-	-	1,429,728	1,429,728
Other assets	<u>2,458</u>	<u>-</u>	<u>-</u>	<u>2,458</u>
Total Assets	\$ <u>13,517,587</u>	\$ <u>809,159</u>	\$ <u>7,902,461</u>	\$ <u>22,229,207</u>
<b>Liabilities</b>				
Warrants payable	\$ 717,866	\$ 79,539	\$ 760,785	\$ 1,558,190
Accrued payroll and withholdings	496,904	-	-	496,904
Notes payable	-	6,025,000	-	6,025,000
Other liabilities	<u>-</u>	<u>25,702</u>	<u>7,814</u>	<u>33,516</u>
Total Liabilities	1,214,770	6,130,241	768,599	8,113,610
<b>Deferred Inflows of Resources</b>				
Unavailable revenues	4,425,492	-	13,364	4,438,856
<b>Fund Balances</b>				
Nonspendable	-	-	452,771	452,771
Restricted	-	-	6,754,155	6,754,155
Committed	87,719	-	-	87,719
Assigned	1,892,435	-	-	1,892,435
Unassigned	<u>5,897,171</u>	<u>(5,321,082)</u>	<u>(86,428)</u>	<u>489,661</u>
Total Fund Balances	<u>7,877,325</u>	<u>(5,321,082)</u>	<u>7,120,498</u>	<u>9,676,741</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ <u>13,517,587</u>	\$ <u>809,159</u>	\$ <u>7,902,461</u>	\$ <u>22,229,207</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, 2020

<b>Total Governmental Fund Balances</b>	\$ 9,676,741
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</li></ul>	69,656,642
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting (net of allowance for uncollectible accounts) and are not deferred until collection. This accrual also includes future years' State reimbursement of school projects costs.</li></ul>	3,555,207
<ul style="list-style-type: none"><li>• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.</li></ul>	4,322,294
<ul style="list-style-type: none"><li>• 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.</li></ul>	<u>(167,553,112)</u>
<b>Net Position of Governmental Activities</b>	<b>\$ <u><u>(80,342,228)</u></u></b>

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

**CITY OF GARDNER, MASSACHUSETTS**

Governmental Funds  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
For the Year Ended June 30, 2020

	General Fund	City Capital Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property taxes	\$ 27,466,120	\$ -	\$ -	\$ 27,466,120
Excises	2,533,100	-	-	2,533,100
Penalties, interest and other taxes	400,034	-	-	400,034
Charges for services	2,661,407	-	1,661,671	4,323,078
Intergovernmental	29,971,514	-	10,734,176	40,705,690
Licenses and permits	265,593	-	-	265,593
Fines and forfeitures	119,015	-	-	119,015
Investment income	196,160	-	25,091	221,251
Miscellaneous	<u>638,258</u>	<u>-</u>	<u>28,035</u>	<u>666,293</u>
<b>Total Revenues</b>	<b>64,251,201</b>	<b>-</b>	<b>12,448,973</b>	<b>76,700,174</b>
<b>Expenditures</b>				
Current:				
General government	2,689,440	227,352	1,581,305	4,498,097
Public safety	8,380,240	-	333,001	8,713,241
Education	28,722,047	-	6,950,132	35,672,179
Public works	3,136,747	-	1,430,605	4,567,352
Health and human services	1,078,160	-	170,002	1,248,162
Culture and recreation	932,291	145,769	31,603	1,109,663
Employee benefits	13,272,955	-	-	13,272,955
Debt service:				
Principal	485,000	-	-	485,000
Interest	916,484	-	-	916,484
Intergovernmental	<u>2,156,681</u>	<u>-</u>	<u>-</u>	<u>2,156,681</u>
<b>Total Expenditures</b>	<b><u>61,770,045</u></b>	<b><u>373,121</u></b>	<b><u>10,496,648</u></b>	<b><u>72,639,814</u></b>
Excess (Deficiency) of Revenues Over Expenditures	2,481,156	(373,121)	1,952,325	4,060,360
<b>Other Financing Sources (Uses)</b>				
Transfers in	287,866	1,348,680	95,343	1,731,889
Transfers out	<u>(1,634,479)</u>	<u>-</u>	<u>(287,866)</u>	<u>(1,922,345)</u>
<b>Total Other Financing Sources (Uses)</b>	<b><u>(1,346,613)</u></b>	<b><u>1,348,680</u></b>	<b><u>(192,523)</u></b>	<b><u>(190,456)</u></b>
Change in fund balance	1,134,543	975,559	1,759,802	3,869,904
Fund Balance at Beginning of Year	<u>6,742,782</u>	<u>(6,296,641)</u>	<u>5,360,696</u>	<u>5,806,837</u>
Fund Balance at End of Year	<u><u>\$ 7,877,325</u></u>	<u><u>\$ (5,321,082)</u></u>	<u><u>\$ 7,120,498</u></u>	<u><u>\$ 9,676,741</u></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, 2020

<b>Net Changes in Fund Balances - Total Governmental Funds</b>	<b>\$ 3,869,904</b>																		
<ul style="list-style-type: none"> <li>• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Capital purchases</td> <td style="text-align: right;">6,791,727</td> </tr> <tr> <td>Net effect on disposal of assets</td> <td style="text-align: right;">(182,838)</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(3,584,342)</td> </tr> </table> </li> <li>• The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and changes in other long term liabilities consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Repayments of debt</td> <td style="text-align: right;">485,000</td> </tr> </table> </li> <li>• Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, loans, etc.) differ between the two statements. This amount represents the net change in unavailable revenue. <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">15,468</td> </tr> </table> </li> <li>• Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">102,110</td> </tr> </table> </li> <li>• Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Change in pension expense from GASB 68</td> <td style="text-align: right;">(1,064,180)</td> </tr> <tr> <td>Change in OPEB expense from GASB 75</td> <td style="text-align: right;">(9,538,706)</td> </tr> </table> </li> <li>• Other <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right; border-top: 1px solid black;">400,002</td> </tr> </table> </li> </ul>		Capital purchases	6,791,727	Net effect on disposal of assets	(182,838)	Depreciation	(3,584,342)	Repayments of debt	485,000		15,468		102,110	Change in pension expense from GASB 68	(1,064,180)	Change in OPEB expense from GASB 75	(9,538,706)		400,002
Capital purchases	6,791,727																		
Net effect on disposal of assets	(182,838)																		
Depreciation	(3,584,342)																		
Repayments of debt	485,000																		
	15,468																		
	102,110																		
Change in pension expense from GASB 68	(1,064,180)																		
Change in OPEB expense from GASB 75	(9,538,706)																		
	400,002																		
<b>Changes in Net Position of Governmental Activities</b>	<b>\$ <u>(2,705,855)</u></b>																		

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

**CITY OF GARDNER, MASSACHUSETTS**

Proprietary Funds  
Statement of Net Position  
June 30, 2020

	Business-Type Activities Enterprise Funds					Governmental Activities
	Water Fund	Sewer Fund	Golf Fund	Nonmajor Funds	Total	Internal Service Funds
<b>Assets</b>						
Current:						
Cash and short-term investments	\$ 2,490,026	\$ 7,702,414	\$ 79,941	\$ 602,592	\$ 10,874,973	\$ 735,862
Investments	-	-	-	-	-	3,587,890
User fees	1,179,834	1,031,080	-	546,366	2,757,280	-
Intergovernmental receivables	-	429,111	-	-	429,111	-
Other assets	-	-	-	-	-	714,200
<b>Total Current Assets</b>	<b>3,669,860</b>	<b>9,162,605</b>	<b>79,941</b>	<b>1,148,958</b>	<b>14,061,364</b>	<b>5,037,952</b>
Noncurrent:						
Land and construction in progress	2,223,686	12,992,117	419,653	-	15,635,456	-
Capital assets, net of accumulated depreciation	10,947,029	2,720,615	107,316	31,821	13,806,781	-
<b>Total Noncurrent Assets</b>	<b>13,170,715</b>	<b>15,712,732</b>	<b>526,969</b>	<b>31,821</b>	<b>29,442,237</b>	<b>-</b>
<b>Total Assets</b>	<b>16,840,575</b>	<b>24,875,337</b>	<b>606,910</b>	<b>1,180,779</b>	<b>43,503,601</b>	<b>5,037,952</b>
<b>Deferred Outflows of Resources</b>						
Related to pensions	110,331	57,106	167,991	51,562	386,990	-
Related to OPEB	154,499	119,131	319,255	92,081	684,966	-
<b>Total Deferred Outflows of Resources</b>	<b>264,830</b>	<b>176,237</b>	<b>487,246</b>	<b>143,643</b>	<b>1,071,956</b>	<b>-</b>

(continued)

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

**CITY OF GARDNER, MASSACHUSETTS**

Proprietary Funds  
Statement of Net Position  
June 30, 2020

(continued)

	Business-Type Activities Enterprise Funds					Governmental Activities
	Water Fund	Sewer Fund	Golf Fund	Nonmajor Funds	Total	Internal Service Funds
<b>Liabilities</b>						
Current:						
Warrants payable	518,840	155,158	5,647	134,289	813,934	180,286
Accrued claims payable	-	-	-	-	-	535,372
Notes payable	1,500,000	7,440,178	-	-	8,940,178	-
Current portion of long-term liabilities:						
Bonds payable	484,272	248,425	-	-	732,697	-
Landfill liability	-	-	-	27,963	27,963	-
<b>Total Current Liabilities</b>	<b>2,503,112</b>	<b>7,843,761</b>	<b>5,647</b>	<b>162,252</b>	<b>10,514,772</b>	<b>715,658</b>
Noncurrent:						
Bonds payable, net of current portion	1,129,241	3,941,867	-	-	5,071,108	-
Net pension liability	827,662	428,388	1,260,209	386,797	2,903,056	-
Net OPEB liability	661,823	474,398	1,391,757	374,024	2,902,002	-
Landfill liability, net of current portion	-	-	-	391,474	391,474	-
Compensated absences, net of current portion	-	-	54,634	-	54,634	-
<b>Total Noncurrent Liabilities</b>	<b>2,618,726</b>	<b>4,844,653</b>	<b>2,706,600</b>	<b>1,152,295</b>	<b>11,322,274</b>	<b>-</b>
<b>Total Liabilities</b>	<b>5,121,838</b>	<b>12,688,414</b>	<b>2,712,247</b>	<b>1,314,547</b>	<b>21,837,046</b>	<b>715,658</b>
<b>Deferred Inflows of Resources</b>						
Related to pensions	43,055	22,285	65,557	20,121	151,018	-
Related to OPEB	14,981	11,551	30,956	8,929	66,417	-
<b>Total Deferred Inflows of Resources</b>	<b>58,036</b>	<b>33,836</b>	<b>96,513</b>	<b>29,050</b>	<b>217,435</b>	<b>-</b>
<b>Net Position</b>						
Invested in capital assets, net of related debt	10,092,430	4,808,966	526,969	31,821	15,460,186	-
Unrestricted	1,833,101	7,520,358	(2,241,573)	(50,996)	7,060,890	4,322,294
<b>Total Net Position</b>	<b>\$ 11,925,531</b>	<b>\$ 12,329,324</b>	<b>\$ (1,714,604)</b>	<b>\$ (19,175)</b>	<b>\$ 22,521,076</b>	<b>\$ 4,322,294</b>

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

**CITY OF GARDNER, MASSACHUSETTS**

Proprietary Funds  
Statement Of Revenues, Expenses And Changes In Fund Net Position  
For the Year Ended June 30, 2020

	Business-Type Activities Enterprise Funds					Governmental Activities
	Water Fund	Sewer Fund	Golf Fund	Nonmajor Funds	Total	Internal Service Fund
Operating Revenues						
Charges for services	\$ 3,509,758	\$ 3,205,653	\$ 668,247	\$ 1,513,692	\$ 8,897,350	\$ -
Employee contributions	-	-	-	-	-	2,393,314
Employer contributions	-	-	-	-	-	7,009,735
Other	-	-	18,115	2,492	20,607	-
Total Operating Revenues	3,509,758	3,205,653	686,362	1,516,184	8,917,957	9,403,049
Operating Expenses						
Salary and benefits	577,252	460,916	512,881	147,312	1,698,361	9,503,707
Other operating expenses	1,506,428	1,688,923	375,658	1,529,767	5,100,776	-
Depreciation	570,343	452,050	11,980	21,966	1,056,339	-
Total Operating Expenses	2,654,023	2,601,889	900,519	1,699,045	7,855,476	9,503,707
Operating Income (Loss)	855,735	603,764	(214,157)	(182,861)	1,062,481	(100,658)
Nonoperating Revenues (Expenses)						
Intergovernmental revenue	273,585	14,806	-	-	288,391	-
Insurance reimbursement	-	-	-	-	-	75,817
Investment income	30,558	27,766	375	2,711	61,410	126,951
Interest expense	(68,243)	(92,147)	-	-	(160,390)	-
Total Nonoperating Revenues (Expenses), Net	235,900	(49,575)	375	2,711	189,411	202,768
Income (Loss) Before Transfers	1,091,635	554,189	(213,782)	(180,150)	1,251,892	102,110
Transfers in	52,689	62,767	-	75,000	190,456	-
Change in Net Position	1,144,324	616,956	(213,782)	(105,150)	1,442,348	102,110
Net Position at Beginning of Year	10,781,207	11,712,368	(1,500,822)	85,975	21,078,728	4,220,184
Net Position at End of Year	\$ 11,925,531	\$ 12,329,324	\$ (1,714,604)	\$ (19,175)	\$ 22,521,076	\$ 4,322,294

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, 2020

	Business-Type Activities				Total
	Enterprise Funds				
	Water Fund	Sewer Fund	Golf Fund	Nonmajor Funds	
Cash Flows From Operating Activities					
Receipts from customers and users	\$ 3,382,999	\$ 3,145,942	\$ 686,362	\$ 1,466,072	\$ 8,681,375
Payments to vendors and employees	(2,025,417)	(2,183,160)	(710,962)	(1,566,770)	(6,486,309)
Receipts from employees and employer	-	-	-	-	-
Payments of employee benefits and expenses	-	-	-	-	-
Net Cash Provided By / (Used for) Operating Activities	1,357,582	962,782	(24,600)	(100,698)	2,195,066
Cash Flows From Non-Capital Financing Activities					
Insurance reimbursements	-	-	-	-	-
Transfer in	52,689	62,767	-	75,000	190,456
Net Cash Provided By Non-Capital Activities	52,689	62,767	-	75,000	190,456
Cash Flows From Capital and Related Financing Activities					
Receipts from governments	273,585	14,806	-	-	288,391
Acquisition and construction of capital assets	(1,293,268)	(5,300,696)	-	-	(6,593,964)
Principal payments on bonds	(1,058,026)	(239,029)	-	-	(1,297,055)
Proceeds from issuance of notes	1,500,000	5,252,688	-	-	6,752,688
Interest paid	(82,188)	(95,360)	-	-	(177,548)
Net Cash (Used For) Capital and Related Financing Activities	(659,897)	(367,591)	-	-	(1,027,488)
Cash Flows From Investing Activities					
Investment income	30,558	27,766	375	2,711	61,410
Net Cash Provided by Investing Activities	30,558	27,766	375	2,711	61,410
Net Change in Cash and Short-Term Investments	780,932	685,724	(24,225)	(22,987)	1,419,444
Cash and Short Term Investments, Beginning of Year	1,709,094	7,016,690	104,166	625,579	9,455,529
Cash and Short Term Investments, End of Year	\$ 2,490,026	\$ 7,702,414	\$ 79,941	\$ 602,592	\$ 10,874,973

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, 2020

(continued)

	Business-Type Activities Enterprise Funds					Governmental
	Water <u>Fund</u>	Sewer <u>Fund</u>	Golf <u>Fund</u>	Nonmajor <u>Funds</u>	<u>Total</u>	<u>Activities</u> Internal Service <u>Fund</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities						
Operating income (loss)	\$ 855,735	\$ 603,764	\$ (214,157)	\$ (182,861)	\$ 1,062,481	\$ (100,658)
Adjustments to reconcile operating income (loss)						
Depreciation	570,343	452,050	11,980	21,966	1,056,339	-
Changes in assets, liabilities, and deferred outflows/inflows:						
User fee receivables	(126,759)	(59,711)	-	(50,112)	(236,582)	-
Other assets	45,320	31,933	-	-	77,253	(73,650)
Deferred outflows - related to pensions	9,647	5,053	14,146	4,716	33,562	-
Deferred outflows - related to OPEB	(74,036)	(78,136)	(187,560)	(59,225)	(398,957)	-
Warrants and other payables	(73,165)	(77,725)	(3,139)	120,152	(33,877)	116,268
Accrued/other liabilities	-	-	-	(27,963)	(27,963)	29,433
Compensated absences	-	-	6,990	-	6,990	-
Net OPEB liability	157,535	85,552	349,700	73,470	666,257	-
Net pension liability	(26,417)	(14,098)	(36,357)	(13,821)	(90,693)	-
Deferred inflows - related to pensions	38,377	19,861	58,455	17,927	134,620	-
Deferred inflows - related to OPEB	(18,998)	(5,761)	(24,658)	(4,947)	(54,364)	-
Net Cash Provided By (Used For) Operating Activities	\$ <u>1,357,582</u>	\$ <u>962,782</u>	\$ <u>(24,600)</u>	\$ <u>(100,698)</u>	\$ <u>2,195,066</u>	\$ <u>(28,607)</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, 2020

	<u>Private Purpose Trust Funds</u>	<u>Pension and OPEB Trust Funds</u>	<u>Agency Funds</u>
<b>Assets</b>			
Cash and short-term investments	\$ 121,753	\$ 29,086	\$ 1,023,324
Investments:			
Market-linked certificates of deposit	168,848	-	-
Federal agency securities	337,696	-	-
Corporate bonds	405,235	-	-
Corporate equities	202,616	-	-
Mutual funds	-	103,297	-
U.S. Treasury notes	168,848	-	-
Exchange-traded products	2,093,713	-	-
External investment pool	<u>-</u>	<u>60,467,632</u>	<u>-</u>
Total Investments	3,376,956	60,570,929	-
Accounts receivable	<u>-</u>	<u>326,988</u>	<u>44,548</u>
Total Assets	3,498,709	60,927,003	\$ <u><u>1,067,872</u></u>
<b>Liabilities and Net Position</b>			
Accounts payable	4,309	223,971	14,151
Deposits held in custody	-	-	911,944
Other liabilities	<u>-</u>	<u>-</u>	<u>141,777</u>
Total Liabilities	<u>4,309</u>	<u>223,971</u>	\$ <u><u>1,067,872</u></u>
<b>Net Position</b>			
Restricted for pensions	-	60,599,735	
Restricted for OPEB purposes	-	103,297	
Restricted for individual organizations and other governments	<u>3,494,400</u>	<u>-</u>	
Total Net Position	\$ <u><u>3,494,400</u></u>	\$ <u><u>60,703,032</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, 2020

	<u>Private Purpose Trust Funds</u>	<u>Pension and OPEB Trust Funds</u>
<b>Additions</b>		
Contributions:		
Employers	\$ -	\$ 7,512,668
Other systems and Commonwealth of Massachusetts	-	127,030
Plan members	-	1,458,146
Other	<u>87,253</u>	<u>41,776</u>
Total Contributions	87,253	9,139,620
Investment Income:		
Interest and dividends	458,761	-
Appreciation (depreciation) in fair value of investments	-	8,674,665
Less: Management fees	<u>-</u>	<u>(288,186)</u>
Net Investment Income (Loss)	<u>458,761</u>	<u>8,386,479</u>
Total Additions	546,014	17,526,099
<b>Deductions</b>		
Benefit payments to plan members and beneficiaries	-	9,843,190
Refunds to plan members and other systems	-	168,448
Transfers to other systems	-	158,883
Administrative expenses	-	141,897
Scholarships	<u>583,996</u>	<u>-</u>
Total Deductions	<u>583,996</u>	<u>10,312,418</u>
Net Increase (Decrease)	(37,982)	7,213,681
<b>Net Position Restricted for Pensions, OPEB and Other Purposes</b>		
Beginning of Year	<u>3,532,382</u>	<u>53,489,351</u>
End of Year	\$ <u><u>3,494,400</u></u>	\$ <u><u>60,703,032</u></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:

##### ***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 2020, 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.

## **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.

## **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

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 including performance bonds and student activity funds. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

### ***Cash and 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, market-linked certificates of deposits, money markets and savings accounts. Generally, 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".

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

Investments, generally, are presented at fair value. Where applicable, fair values are based on quotations from national securities exchanges, except for certain investments that are required to be presented using the net asset value (NAV). The 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 City's investments in the Massachusetts Municipal Depository Trust (MMDT) Cash Portfolio, an external investment pool overseen by the Treasurer of the Commonwealth of Massachusetts. This cash portfolio meets the requirements of GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, and investments are valued at amortized cost.

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.

***Property Tax Limitations***

Legislation known as “Proposition 2½” has limited 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 is voted. The actual fiscal year 2020 tax levy reflected an excess capacity of \$272,435. Certain provisions of Proposition 2 ½ can be overridden by a referendum.

***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.

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

***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.

***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.

### ***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.

### ***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**

### ***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.

***Deficit Fund Equity***

Certain individual funds reflected deficit balances as of June 30, 2020:

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

**3. Deposits and Investments**

***City (Excluding the Pension and OPEB Trust Funds)***

State statutes (MGL Chapter 44, Section 55) place certain limitation on the nature of deposits and investments available to the City. Deposits, including demand deposits, money markets, certificates of deposits in any one financial institution, may not exceed 60% of the capital and surplus of such institution unless collateralized by the institution involved. Investments may be made in unconditionally guaranteed U.S. government obligations have maturities of a year or less from the date of purchase, or through repurchase agreements with maturities of no greater than 90 days in which the underlying securities consists of such obligations. Other allowable investments include certificates of deposits having a maturity date of up to 3 years from the date of purchase, national banks and Massachusetts Municipal Depository Trust (MMDT). MMDT, which is an external investment pool overseen by the Treasurer of the Commonwealth of Massachusetts, meets the criteria established by GASB 79, *Certain External Investment Pools and Pool Participants*, to report its investments at amortized cost, which approximates the net asset value of 1.00 per share. MMDT has an average maturity of less than 1 year and in not rated or subject to custodial credit risk disclosure. MGL Chapter 44, Section 54 provides additional investment options for certain special revenue, trust and OPEB funds.

### *Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned. The City's policies related to the custodial credit risk of deposits consists of complying with applicable Massachusetts General Laws and obtaining collateralization agreements for any amounts in excess of FDIC or DIF.

As of June 30, 2020, \$5,086,289, of the City's bank balance of \$24,270,156 was exposed to custodial credit risk as uninsured and uncollateralized. Additionally, \$544,522 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.

### *Investment Summary*

The following is a summary of the City's investments as of June 30, 2020:

<u>Investment Type</u>	<u>Amount</u>
Market-linked certificates of deposit	\$ 2,094,024
Corporate bonds	3,881,627
Corporate equities	901,353
Equity mutual funds	239,887
Exchange-traded products	2,125,295
U.S. Treasury and agencies	<u>3,026,033</u>
Total investments	<u>\$ 12,268,219</u>

### *Custodial Credit Risk – Investments*

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, the City will not be able to recover the value of its investment or collateral securities that are in possession of another party. The City does not have formal investment policies related to custodial credit risk.

As of June 30, 2020, the City did not have investments subject to custodial credit risk exposure as all assets were held in the City's name.

### *Credit Risk – Investments of Debt Securities*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations. The City does not have formal investment policies related to credit risk.

As of June 30, 2020, the credit quality ratings, as rated by Moody's Investors Service, Inc., of the City's debt securities are as follows:

<u>Investment Type</u>	<u>Rating as of Year End</u>					
	<u>Amount</u>	<u>AAA</u>	<u>A1</u>	<u>A2</u>	<u>A3</u>	<u>BAA1/BAA2</u>
Corporate bonds	\$ 3,881,627	\$ -	\$ 294,162	\$ 1,528,640	\$ 424,007	\$ 1,634,818
U.S. Treasury and agencies	<u>3,026,033</u>	<u>3,026,033</u>	-	-	-	-
Total	<u>\$ 6,907,660</u>	<u>\$ 3,026,033</u>	<u>\$ 294,162</u>	<u>\$ 1,528,640</u>	<u>\$ 424,007</u>	<u>\$ 1,634,818</u>

### *Concentration of Credit Risk - Investments*

Concentration of credit risk is the risk of loss attributable to the magnitude of the City's investment in a single issuer. The City places no limit on the amount invested in any one issuer. The City does not have formal investment policies related to concentration of credit risk exposure.

As of June 30, 2020, the City does not have investments in any one issuer that exceeded 5% of total investments.

### *Interest Rate Risk – Investments of Debt Securities*

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 formal investment policies limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, 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>	<u>6-10</u>
Corporate bonds	\$ 3,881,627	\$ 718,168	\$ 3,163,459	-
U.S. Treasury and agencies	<u>3,026,033</u>	<u>544,573</u>	<u>2,261,119</u>	<u>220,341</u>
Total	<u>\$ 6,907,660</u>	<u>\$ 1,262,741</u>	<u>\$ 5,424,578</u>	<u>\$ 220,341</u>

### *Foreign Currency Risk – Investments*

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.

### *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, 2020:

<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:			
Market-linked certificates of deposit	\$ 2,094,024	\$ -	\$ 2,094,024
Corporate bonds	3,881,627	-	3,881,627
Corporate equities	901,353	901,353	-
Exchange-traded products	2,125,295	2,125,295	-
Equity mutual funds	239,887	239,887	-
U.S. Treasury and agencies	<u>3,026,033</u>	1,450,963	1,575,070
Total	<u>\$ 12,268,219</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.

#### 4. Investments – OPEB Trust Fund

Generally the City’s OPEB investment policies mirror that of the City as discussed in the previous note.

The following is a summary of the OPEB Trust Fund’s investments as of June 30, 2020:

<u>Investment Type</u>	<u>Amount</u>
Equity mutual funds	\$ 66,305
Fixed income mutual funds	<u>36,992</u>
Total investments	<u>\$ 103,297</u>

##### ***Custodial Credit Risk***

As of June 30, 2020, the OPEB Trust Fund did not have investments subject to custodial credit risk exposure as all assets were held in the City’s name.

##### ***Concentration of Credit Risk***

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, 2020, the OPEB Trust Fund does not have an investment in one issuer greater than 5% of total investments.

##### ***Fair Value***

The OPEB Trust Fund has the following fair value measurements as of June 30, 2020:

<u>Investment Type</u>	<u>Amount</u>	<u>Fair Value Measurements Using:</u>	
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)
Investments by fair value level:			
Equity mutual funds	66,305	66,305	-
Fixed income mutual funds	<u>\$ 36,992</u>	\$ -	36,992
Total	<u>\$ 103,297</u>		

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

## 5. Investments - Pension Trust Fund (The System)

All of the System's investments totaling \$60,467,632 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.*

### **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 \$60,467,632 are comprised of pooled investment funds, which are exempt from custodial risk disclosure.

### **Credit Risk – Investments of Debt Securities**

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.

All the System's investments of \$60,467,632 are comprised of pooled investment funds, which are exempt from credit risk disclosure.

### **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.

**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.

**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.

**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, 2019:

<u>Investment Type</u>	<u>Amount</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
Investments measured at the net asset value (NAV):				
External investment pools	\$ 60,467,632	\$ -	Monthly	30 Days

## 6. Property Taxes and Excises Receivable

Real and personal property taxes are based on market values assessed as of each January 1. By law, all taxable property must be assessed at 100% of fair cash value. Also by law, property taxes must be levied at least 30 days prior to their due date. Once levied, these taxes are recorded as receivables, net of estimated uncollectible balances. Property tax revenues have been recorded using the accrual and modified accrual basis of accounting on the government-wide and fund basis statements accordingly.

The City bills and collects its property taxes on a quarterly basis following the January 1 assessment. The due dates for those quarterly tax billings are August 1, November 1, February 1, and May 1. Property taxes that remain unpaid after the respective due dates are subject to penalties and interest charges.

Based on the City's experience, most property taxes are collected during the year in which they are assessed. Liening of properties on which taxes remain unpaid generally occurs annually. The City ultimately has the right to foreclose on all properties where the taxes remain unpaid.

A statewide property tax limitation known as "Proposition 2 ½" limits the amount of increase in the property tax levy in any fiscal year. Generally, Proposition 2 ½ limits the total levy to an amount not greater than 2 ½% of the total assessed value of all taxable property within the City. Secondly, the tax levy cannot increase by more than 2 1/2 % of the prior year's levy plus the taxes on property newly added to the tax rolls.

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, excise, and departmental receivables at June 30, 2020 consist of the following:

	Gross Amount (fund basis)	Allowance for Doubtful Accounts	Current Portion	Long- Term Portion
Real estate taxes (current)	\$ 1,179,598	\$ (27,112)	\$ 1,152,486	\$ -
Personal property taxes	135,797	(68,656)	67,141	-
Tax liens	<u>1,503,294</u>	<u>(300,659)</u>	<u>-</u>	<u>1,202,635</u>
Total Property Taxes	\$ <u>2,818,689</u>	\$ <u>(396,427)</u>	\$ <u>1,219,627</u>	\$ <u>1,202,635</u>
Motor vehicle excise	\$ <u>668,552</u>	\$ <u>(246,353)</u>	\$ <u>422,199</u>	\$ <u>-</u>
Total Excises	\$ <u>668,552</u>	\$ <u>(246,353)</u>	\$ <u>422,199</u>	\$ <u>-</u>
Other departmental	\$ <u>1,229,452</u>	\$ <u>(240,869)</u>	\$ <u>988,583</u>	\$ <u>-</u>
Total departmental	\$ <u>1,229,452</u>	\$ <u>(240,869)</u>	\$ <u>988,583</u>	\$ <u>-</u>

#### 7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2020.

#### 8. Other Assets

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

**9. 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	\$ 287,866	\$ 1,634,479
City Capital Projects	1,348,680	-
Nonmajor funds:		
Special revenue funds	<u>95,343</u>	<u>287,866</u>
Subtotal Nonmajor Funds	95,343	287,866
 <u>Business-Type Funds:</u>		
Sewer fund	62,767	-
Water fund	52,689	-
Landfill	<u>75,000</u>	<u>-</u>
Subtotal Business-Type Funds	<u>190,456</u>	<u>-</u>
Total	\$ <u><u>1,922,345</u></u>	\$ <u><u>1,922,345</u></u>

\$1,173,680 of the \$1,348,680 transfer into the City capital project major fund is for a bond anticipation note paydown funded by the general fund. The City’s routine transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the general fund to other funds based on budgetary authorization, and (2) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them.

## 10. Capital Assets

Capital asset activity for the year ended June 30, 2020 was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
<b>Governmental Activities</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 58,105,282	\$ -	\$ -	\$ 58,105,282
Machinery, equipment, and furnishings	12,569,706	546,762	(104,564)	13,011,904
Infrastructure	<u>34,762,593</u>	<u>1,091,413</u>	<u>-</u>	<u>35,854,006</u>
Total Capital Assets, Being Depreciated	105,437,581	1,638,175	(104,564)	106,971,192
Less accumulated depreciation for:				
Buildings and improvements	(25,076,301)	(1,822,540)	-	(26,898,841)
Machinery, equipment, and furnishings	(10,173,381)	(611,182)	104,564	(10,679,999)
Infrastructure	<u>(17,142,832)</u>	<u>(1,150,620)</u>	<u>-</u>	<u>(18,293,452)</u>
Total Accumulated Depreciation	<u>(52,392,514)</u>	<u>(3,584,342)</u>	<u>104,564</u>	<u>(55,872,292)</u>
Total Capital Assets, Being Depreciated, Net	53,045,067	(1,946,167)	-	51,098,900
Capital assets, not being depreciated:				
Land	4,376,009	51,677	(182,838)	4,244,848
Construction in progress (CIP)	<u>9,211,019</u>	<u>5,101,875</u>	<u>-</u>	<u>14,312,894</u>
Total capital assets, not being depreciated	<u>13,587,028</u>	<u>5,153,552</u>	<u>(182,838)</u>	<u>18,557,742</u>
Governmental Activities Capital Assets, Net	<u>\$ 66,632,095</u>	<u>\$ 3,207,385</u>	<u>\$ (182,838)</u>	<u>\$ 69,656,642</u>
<b>Business-Type Activities</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 21,316,918	\$ -	\$ -	\$ 21,316,918
Machinery, equipment, and furnishings	4,153,348	148,084	-	4,301,432
Infrastructure	<u>18,407,856</u>	<u>-</u>	<u>-</u>	<u>18,407,856</u>
Total Capital Assets, Being Depreciated	43,878,122	148,084	-	44,026,206
Less accumulated depreciation for:				
Buildings and improvements	(11,672,855)	(525,475)	-	(12,198,330)
Machinery, equipment, and furnishings	(3,350,969)	(263,357)	-	(3,614,326)
Infrastructure	<u>(14,139,262)</u>	<u>(267,507)</u>	<u>-</u>	<u>(14,406,769)</u>
Total Accumulated Depreciation	<u>(29,163,086)</u>	<u>(1,056,339)</u>	<u>-</u>	<u>(30,219,425)</u>
Total Capital Assets, Being Depreciated, Net	14,715,036	(908,255)	-	13,806,781
Capital assets, not being depreciated:				
Land	1,011,422	-	-	1,011,422
Construction in progress (CIP)	<u>7,755,032</u>	<u>6,869,002</u>	<u>-</u>	<u>14,624,034</u>
Total Capital Assets, Not Being Depreciated	<u>8,766,454</u>	<u>6,869,002</u>	<u>-</u>	<u>15,635,456</u>
Business-Type Activities Capital Assets, Net	<u>\$ 23,481,490</u>	<u>\$ 5,960,747</u>	<u>\$ -</u>	<u>\$ 29,442,237</u>

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

<b>Governmental Activities</b>	
General government	\$ 292,168
Public safety	526,531
Education	1,039,294
Public works	1,587,974
Human services	78,649
Culture and recreation	<u>59,726</u>
Total Depreciation Expense - Governmental Activities	\$ <u>3,584,342</u>
<b>Business-Type Activities</b>	
Water	\$ 570,343
Sewer	452,050
Golf	11,980
Solid Waste	<u>21,966</u>
Total Depreciation Expense - Business-Type Activities	\$ <u>1,056,339</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 2020 expenditures paid by July 15, 2020 as permitted by law. Accounts payable represent additional 2020 expenditures paid after July 15, 2020.

**13. Accrued Liabilities**

Accrued liabilities represent 2020 expenditures paid in 2021.

#### 14. Notes Payable

The City had the following notes outstanding at June 30, 2020:

<u>Purpose</u>	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2020</u>
Bond anticipation	2%	06/26/20	12/18/20	\$ 7,525,000
MCWT interim loan CWP-17-23	0%	10/15/18	10/15/20	6,822,078
MCWT interim loan CWP-17-23A	0%	09/05/18	09/05/20	<u>618,100</u>
			Total	\$ <u>14,965,178</u>

The following summarizes activity in notes payable during fiscal year 2020:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ 7,198,680	\$ 1,500,000	\$ (1,173,680)	\$ 7,525,000
MCWT loan	<u>7,440,178</u>	<u>-</u>	<u>-</u>	<u>7,440,178</u>
Total	\$ <u>14,638,858</u>	\$ <u>1,500,000</u>	\$ <u>(1,173,680)</u>	\$ <u>14,965,178</u>

#### 15. 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. Future minimum lease payments under the capital lease consisted of the following as of June 30, 2020:

	<u>Fiscal Year</u>
	2021
	2022
	2023
	2024
	2025
	2026 - 2030
	2031 - 2035
	Thereafter
Total payments	
Less amounts representing interest	
Present value of minimum lease payments	

\$ 380,000
380,000
380,000
380,000
400,000
2,190,001
2,550,000
<u>549,999</u>
7,210,000
<u>(1,200,355)</u>
\$ <u>6,009,645</u>

## 16. Long-Term Debt

### ***General Obligation Bonds and Loans***

The City issues general obligation bonds and direct borrowings 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. General obligation bonds and direct borrowings currently outstanding are as follows:

<u>Governmental Activities</u>	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>June 30, 2020</u>
<u>General Obligation Bonds</u>			
Public offerings:			
Police Station	03/01/34	3.0-5.0	\$ 9,355,000
<u>Business-Type Activities</u>	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>June 30, 2020</u>
<u>General Obligation Bonds</u>			
Public offerings:			
General obligation 2012 - water portion	04/01/22	2.0	\$ <u>555,000</u>
Total public offerings			555,000
<u>Loans - Direct Borrowings</u>			
Water treatment (MWPAT 03-10)	08/01/24	2.0	\$ 998,096
Sewer treatment (MWPAT 03-10)	08/01/24	2.0	290,752
Sewer treatment (MCWT 15-21)	01/15/37	2.0	<u>3,883,478</u>
Total loans - direct borrowings			<u>5,172,326</u>
Total business-type activities			<u>\$ 5,727,326</u>

### ***Future Debt Service***

The annual payments to retire all general obligation long-term debt outstanding (excluding bond premium amortization) as of June 30, 2020 are as follows:

<u>Governmental</u>	<u>Bonds - Public Offerings</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 510,000	\$ 354,163
2022	535,000	328,663
2023	560,000	301,913
2024	590,000	273,913
2025	620,000	244,413
2026 - 2030	3,390,000	925,044
2031 - 2034	<u>3,150,000</u>	<u>297,694</u>
Total	<u>\$ 9,355,000</u>	<u>\$ 2,725,803</u>

Business-Type	Bonds - Public Offerings		Loans - Direct Borrowings	
	Principal	Interest	Principal	Interest
2021	\$ 285,000	\$ 11,100	\$ 430,989	\$ 127,797
2022	270,000	5,400	444,548	112,089
2023	-	-	458,195	95,135
2024	-	-	471,936	77,461
2025	-	-	482,052	61,862
2026 - 2030	-	-	1,112,241	244,928
2031 - 2035	-	-	1,238,474	128,764
Thereafter	-	-	533,891	16,070
Total	<u>\$ 555,000</u>	<u>\$ 16,500</u>	<u>\$ 5,172,326</u>	<u>\$ 864,106</u>

### Changes in General Long-Term Liabilities

During the year ended June 30, 2020, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Less Current Portion	Equals Long-Term Portion
<b>Governmental Activities</b>						
Bonds payable	\$ 9,840,000	\$ -	\$ (485,000)	\$ 9,355,000	\$ (510,000)	\$ 8,845,000
Unamortized bond premium	394,897	-	(26,326)	368,571	(26,326)	342,245
Subtotal	10,234,897	-	(511,326)	9,723,571	(536,326)	9,187,245
Net pension liability	39,860,214	-	(1,172,227)	38,687,987	-	38,687,987
Net OPEB liability	110,934,347	34,551,739	-	145,486,086	-	145,486,086
Capital lease	6,258,071	-	(248,426)	6,009,645	(253,729)	5,755,916
Compensated absences	1,607,305	-	(125,250)	1,482,055	-	1,482,055
Totals	<u>\$ 168,894,834</u>	<u>\$ 34,551,739</u>	<u>\$ (2,057,229)</u>	<u>\$ 201,389,344</u>	<u>\$ (790,055)</u>	<u>\$ 200,599,289</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Less Current Portion	Equals Long-Term Portion
<b>Business-Type Activities</b>						
Bonds payable	\$ 7,024,831	\$ -	\$ (1,297,505)	\$ 5,727,326	\$ (715,989)	\$ 5,011,337
Unamortized bond premium	93,187	-	(16,708)	76,479	(16,708)	59,771
Subtotal	7,118,018	-	(1,314,213)	5,803,805	(732,697)	5,071,108
Net pension liability	2,993,749	-	(90,693)	2,903,056	-	2,903,056
Net OPEB liability	2,235,745	666,257	-	2,902,002	-	2,902,002
Landfill liability	447,400	-	(27,963)	419,437	(27,963)	391,474
Compensated absences	47,644	6,990	-	54,634	-	54,634
Totals	<u>\$ 12,842,556</u>	<u>\$ 673,247</u>	<u>\$ (1,432,869)</u>	<u>\$ 12,082,934</u>	<u>\$ (760,660)</u>	<u>\$ 11,322,274</u>

### Long-Term Debt Supporting Governmental and Business-Type Activities

Bonds and loans 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).

**17. 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 \$419,437 reported as landfill post-closure care liability at June 30, 2020 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.

**18. 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.

**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, 2020:

***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, 2020:

	General Fund	City Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Permanent funds	\$ -	\$ -	\$ 452,771	\$ 452,771
Total Nonexpendable	-	-	452,771	452,771
Restricted				
Bonded projects	-	-	169,579	169,579
Special revenue funds	-	-	6,528,220	6,528,220
Permanent funds	-	-	56,356	56,356
Total Restricted	-	-	6,754,155	6,754,155
Committed				
Assessor's stabilization*	87,719	-	-	87,719
Total Committed	87,719	-	-	87,719
Assigned				
Encumbrances				
General government	149,971	-	-	149,971
Public safety	224,683	-	-	224,683
Education	620,583	-	-	620,583
Public works	877,958	-	-	877,958
Health and human services	8,038	-	-	8,038
Culture and recreation	11,202	-	-	11,202
Total Assigned	1,892,435	-	-	1,892,435
Unassigned				
General fund	3,072,842	-	-	3,072,842
Stabilization fund	2,824,329	-	-	2,824,329
Deficit fund balances	-	(5,321,082)	(86,428)	(5,407,510)
Total Unassigned	5,897,171	(5,321,082)	(86,428)	489,661
Total Fund Balance	\$ 7,877,325	\$ (5,321,082)	\$ 7,120,498	\$ 9,676,741

\* 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. 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	254
Terminated plan members entitled to but not yet receiving benefits	81
Active plan members	<u>296</u>
Total	<u>631</u>
Number of participating employers	2

**Participant 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 member’s 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, 2020 was \$4,074,610, which was equal to its annual required contribution.

#### *Summary of Significant Accounting Policies*

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.

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

At June 30, 2020, the City reported a liability of \$41,591,042 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2019 rolled forward to December 31, 2019. 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, 2020, the City’s proportion was 95.69%, which was a decrease of (0.36)% from its proportion measured as of June 30, 2019.)

For the year ended June 30, 2020, the City recognized pension expense of \$3,380,671. In addition, the City reported deferred outflows of resources and deferred (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	\$ -	\$ (1,912,423)
Changes in assumptions	4,266,408	(110,814)
Differences between expected and actual experience	1,162,807	(13,264)
Changes in proportion and differences between contributions and proportionate share of contributions	<u>115,045</u>	<u>(127,086)</u>
	<u>\$ 5,544,260</u>	<u>\$ (2,163,587)</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:	
2021	\$ 1,055,163
2022	819,287
2023	1,418,388
2024	(51,050)
2025	<u>138,885</u>
Total	<u>\$ 3,380,673</u>

**Actuarial Assumptions**

The total pension liability in the January 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	1/1/2019
Actuarial cost method	Entry Age Normal Cost Method
Actuarial assumptions:	
Investment rate of return	7.25%
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 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%	4.29%
International Equities	13.00%	4.39%
Emerging Equities	5.00%	6.54%
Hedged equity	8.00%	3.61%
Core Bonds	6.00%	0.88%
Short-term fixed income	2.00%	0.59%
20+ Yr. Treasury STRIPS	3.00%	0.00%
TIPS	4.00%	0.20%
Value-Added Fixed Income	8.00%	4.20%
Private Equity	13.00%	8.20%
Real Estate	10.00%	3.51%
Timberland	4.00%	4.10%
Portfolio Completion	<u>11.00%</u>	3.22%
Total	<u>100.00%</u>	

### ***Discount Rate***

The discount rate used to measure the total pension liability was 7.25%. 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 7.25%, 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:

1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$52,285,974	\$41,591,042	\$32,539,013

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan’s fiduciary net position is available in the separately issued System financial report.

**21. Massachusetts Teachers’ Retirement System (MTRS)**

***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.

***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.

***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 to 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

***Actuarial Assumptions***

The total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of January 1, 2019 rolled forward to June 30, 2019. This valuation used the following assumptions:

- (a) 7.25% (changed from 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, updated to reflect post-retirement mortality through January 1, 2017.
- 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).

### ***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, 2019 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%	4.90%
Portfolio completion strategies	11.00%	3.90%
Core fixed income	15.00%	1.30%
Private equity	13.00%	8.20%
Real estate	10.00%	3.60%
Value added fixed income	8.00%	4.70%
Timber/natural resources	<u>4.00%</u>	4.10%
Total	<u>100.00%</u>	

### ***Discount Rate***

The discount rate used to measure the total pension liability was 7.25%. 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.

### ***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 (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$31,232,100	\$25,214,020	\$20,062,500

### ***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.

### ***City Proportions***

In fiscal year 2019 (the most recent measurement period), the City's proportionate share of the MTRS' collective net pension liability was \$54,015,842 based on a proportionate share of 0.214229%. As required by GASB 68, the City has recognized its portion of the Commonwealth's contribution of \$3,092,851 as both a revenue and expenditure in the general fund, and its portion of the collective pension expense of \$6,550,358 as both a revenue and expense in the governmental activities.

## **22. 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, 2020.

### ***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, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefit payments	371
Active employees	<u>534</u>
Total	<u>905</u>

**Investments**

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

*Rate of return.* For the year ended June 30, 2020, the annual money-weighted rate of return on investments, net of investment expense, was 2.77%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Actuarial Assumptions and Other Inputs**

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	2.4%
Investment rate of return	4%, net of OPEB plan investment expense
Municipal bond rate	2.21%
Discount rate	2.21%
Healthcare cost trend rates	7% for 2020, 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.

**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 real rates of return for each major asset class included in the target asset allocation as of June 30, 2020 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%	4.96%
Domestic bond	26.00%	2.22%
International equity	19.00%	7.01%
Alternatives	20.00%	2.76%
International bond	<u>6.00%</u>	1.53%
Total	<u>100.00%</u>	

**Contributions**

In addition to the implicit subsidy contribution, the City’s policy is to contribute amounts provided annually by the budget.

**Discount Rate**

The discount rate used to measure the net OPEB liability was 2.21%. 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 2.21% (based on the Bond Buyer 20-Bond GO Index as of June 28, 2020).

**Net OPEB Liability**

The components of the net OPEB liability, measured as of June 30, 2020, were as follows:

Total OPEB liability	\$ 148,491,385
Plan fiduciary net position	<u>(103,297)</u>
Net OPEB liability	<u>\$ 148,388,088</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.07%

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.

**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	\$ 113,239,969	\$ 69,877	\$ 113,170,092
Changes for the year:			
Service cost	5,133,601	-	5,133,601
Interest	4,086,663	-	4,086,663
Contributions - employer	-	3,254,532	(3,254,532)
Net investment income	-	2,435	(2,435)
Differences between expected and actual experience	(1,707,462)	-	(1,707,462)
Changes in assumptions*	30,962,161	-	30,962,161
Benefit payments	<u>(3,223,547)</u>	<u>(3,223,547)</u>	<u>-</u>
Net Changes	<u>35,251,416</u>	<u>33,420</u>	<u>35,217,996</u>
Balances, end of year	<u>\$ 148,491,385</u>	<u>\$ 103,297</u>	<u>\$ 148,388,088</u>

\* Changes of assumptions and other inputs reflect a change in the discount rate from 3.5% in 2019 to 2.21% in 2020.

**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 (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
\$ 180,211,077	\$ 148,388,088	\$ 123,974,368

**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 (6%)	Current Healthcare Cost Trend Rates (7%)	1% Increase (8%)
\$ 119,773,375	\$ 148,388,088	\$ 187,107,751

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

For the year ended June 30, 2020, the City recognized an OPEB expense of \$13,006,174. At June 30, 2020, 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	\$ -	\$ (747,699)
Change in assumptions	34,671,620	(2,614,210)
Net difference between projected and actual OPEB investment earnings	<u>369</u>	<u>-</u>
Total	<u>\$ 34,671,989</u>	<u>\$ (3,361,909)</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>	
2021	\$ 5,499,510
2022	5,499,512
2023	5,499,173
2024	5,873,720
2025	5,744,760
Thereafter	<u>3,193,405</u>
Total	<u>\$ 31,310,080</u>

## 23. Consolidation of Pension and OPEB Trust Funds

The Gardner Contributory Retirement System and the OPEB Trust Fund are presented in a single column on pages 24 and 25. Details of the financial position and changes in net position are as follows:

	Pension Trust Fund (December 31, 2019)	Other Post-Employment Benefits Trust Fund	Pension and OPEB Trust Funds
<b>Assets</b>			
Cash and short-term investments	\$ 29,086	\$ -	\$ 29,086
Investments:			
Mutual funds	-	103,297	103,297
External investment pool	<u>60,467,632</u>	<u>-</u>	<u>60,467,632</u>
Total Investments	60,467,632	103,297	60,570,929
Accounts receivable	<u>326,988</u>	<u>-</u>	<u>326,988</u>
Total Assets	60,823,706	103,297	60,927,003
<b>Liabilities and Net Position</b>			
Accounts payable	<u>223,971</u>	<u>-</u>	<u>223,971</u>
Total Liabilities	223,971	-	223,971
<b>Net Position</b>			
Restricted for pensions	60,599,735	-	60,599,735
Restricted for OPEB purposes	<u>-</u>	<u>103,297</u>	<u>103,297</u>
	<u>\$ 60,599,735</u>	<u>\$ 103,297</u>	<u>\$ 60,703,032</u>
<b>Additions</b>			
Contributions:			
Employers	4,258,136	3,254,532	7,512,668
Other systems and Commonwealth of Massachusetts	127,030	-	127,030
Plan members	1,458,146	-	1,458,146
Other	<u>41,776</u>	<u>-</u>	<u>41,776</u>
Total contributions	5,885,088	3,254,532	9,139,620
Investment Income:			
Appreciation in fair value of investments	8,672,167	2,498	8,674,665
Less: management fees	<u>(288,186)</u>	<u>-</u>	<u>(288,186)</u>
Net investment income	8,383,981	2,498	8,386,479
Total Additions	14,269,069	3,257,030	17,526,099
<b>Deductions</b>			
Benefit payments to plan members and beneficiaries	6,619,643	3,223,547	9,843,190
Refunds to plan members	168,448	-	168,448
Transfers to other systems	158,883	-	158,883
Administrative expenses	<u>141,897</u>	<u>-</u>	<u>141,897</u>
Total Deductions	<u>7,088,871</u>	<u>3,223,547</u>	<u>10,312,418</u>
Net Increase	7,180,198	33,483	7,213,681
<b>Net position restricted for pensions and other purposes</b>			
Beginning of Year	<u>53,419,537</u>	<u>69,814</u>	<u>53,489,351</u>
End of Year	<u>\$ 60,599,735</u>	<u>\$ 103,297</u>	<u>\$ 60,703,032</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 years ended June 30, 2020 and 2019 are as follows:

	2020 Health <u>Coverage</u>	2019 Health <u>Coverage</u>
Claims liability, beginning of year	\$ 505,939	\$ 1,010,326
Claims incurred/recognized	9,503,707	9,215,982
Claims paid	<u>(9,474,274)</u>	<u>(9,720,369)</u>
Claims Liability, End of Year	<u>\$ 535,372</u>	<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. Subsequent Events**

Management has evaluated subsequent events through March 18, 2021, which is the date the financial statements were available to be issued.

The City appropriated \$558,505 of free cash to be spent in the subsequent year.

**Debt**

Subsequent to June 30, 2020, the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General obligation bond	\$ 7,070,000	4.00%	12/03/20	12/03/30

## 26. Commitments and Contingencies

### ***COVID-19***

The COVID-19 outbreak in the United States (and across the globe) has resulted in economic uncertainties. There is considerable uncertainty around the duration and scope of the economic disruption. 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 individuals served by the 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.

### ***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.

### ***Encumbrances***

At year-end the City's general fund has \$1,892,435 in encumbrances that will be honored in the next fiscal year.

## 27. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 84, *Fiduciary Activities*, effective for the City beginning with its fiscal year ending June 30, 2021. 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 beginning with its fiscal year ending June 30, 2022. This statement establishes new reporting and disclosure requirements, including the recording of various operating leases in the financial statements.

**CITY OF GARDNER, MASSACHUSETTS**

Required Supplemental Information  
General Fund

Schedule of Revenues and Other Sources, and Expenditures and Other Uses –  
Budget and Actual  
For the Year Ended June 30, 2020

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive <u>(Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
<b>Revenues</b>				
Property taxes	\$ 27,578,431	\$ 27,578,431	\$ 27,466,120	\$ (112,311)
Excise	2,152,260	2,227,260	2,533,100	305,840
Penalties, interest and other taxes	488,990	373,990	400,034	26,044
Charges for services	2,460,156	2,460,156	2,661,407	201,251
Intergovernmental	26,759,355	26,784,355	26,878,663	94,308
Licenses and permits	277,180	277,180	265,593	(11,587)
Fines and forfeitures	125,479	125,479	119,015	(6,464)
Investment income	30,000	45,000	108,102	63,102
Miscellaneous	<u>200,000</u>	<u>200,000</u>	<u>638,258</u>	<u>438,258</u>
Total Revenues	60,071,851	60,071,851	61,070,292	998,441
<b>Expenditures</b>				
General government	2,980,073	3,080,794	2,839,411	241,383
Public safety	8,548,212	8,968,096	8,604,923	363,173
Education	25,979,649	26,299,839	26,249,779	50,060
Public works	3,163,410	4,082,024	4,014,705	67,319
Health and human services	1,227,250	1,239,756	1,086,198	153,558
Culture and recreation	951,676	984,284	943,493	40,791
Employee benefits	13,490,128	13,490,127	13,048,492	441,635
Debt service	2,600,001	2,600,001	2,575,164	24,837
Intergovernmental	<u>2,552,492</u>	<u>2,552,557</u>	<u>2,156,681</u>	<u>395,876</u>
Total Expenditures	<u>61,492,891</u>	<u>63,297,478</u>	<u>61,518,846</u>	<u>1,778,632</u>
Excess (Deficiency) of Revenues over Expenditures	(1,421,040)	(3,225,627)	(448,554)	2,777,073
<b>Other Financing Sources (Uses)</b>				
Transfers in	287,866	287,866	287,866	-
Transfers out	(626,632)	(901,632)	(870,647)	30,985
Use of free cash:				
Operating budget	442,799	1,466,289	1,466,289	-
Capital budget	629,848	629,848	629,848	-
Transfer to stabilization fund(s)	309,848	409,848	409,848	-
OPEB trust fund contribution	30,985	30,985	30,985	-
Other source(s)	<u>346,326</u>	<u>1,302,423</u>	<u>1,302,423</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>1,421,040</u>	<u>3,225,627</u>	<u>3,256,612</u>	<u>30,985</u>
Overall Budgetary Excess (Deficiency)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,808,058</u>	\$ <u>2,808,058</u>

See Independent Auditors' Report.

**Notes to the Required Supplemental Information  
for General Fund Budget**

**Budgetary Basis**

The general fund final appropriation appearing on the previous page represents the final amended budget after all reserve fund transfers and supplemental appropriations.

**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 to 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>
GAAP basis	\$ 64,251,201	\$ 61,770,045	\$ (1,346,613)
Reverse the effect of including Stabilization Fund and General Fund activity	(88,058)	-	(409,848)
Add end of year appropriation carryforwards to expenditures	-	1,892,435	-
To reverse the effect of non-budgeted State contributions for teachers retirement	(3,092,851)	(3,092,851)	-
To record use of free cash	-	-	2,536,970
To reclassify transfer	-	1,173,680	1,173,680
Other	<u>-</u>	<u>(224,463)</u>	<u>1,302,423</u>
Budgetary Basis	<u>\$ 61,070,292</u>	<u>\$ 61,518,846</u>	<u>\$ 3,256,612</u>

See Independent Auditors' Report.

**CITY OF GARDNER, MASSACHUSETTS**

Required Supplementary Information  
Schedule of Proportionate Share of the Net Pension Liability

(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, 2020	December 31, 2019	95.69%	\$41,591	\$14,156	293.81%	58.23%
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, 2020	June 30, 2019	0.21%	-	\$54,016	\$54,016	\$15,590	-	53.95%
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

(Unaudited)

(Amounts expressed in thousands)

**Gardner Contributory Retirement System**

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Actuarially Determined Contribution</u>	<u>Contributions in Relation to the Actuarially Determined Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2020	December 31, 2019	\$4,075	\$4,075	-	\$14,156	28.79%
June 30, 2019	December 31, 2018	\$3,901	\$3,901	-	\$12,527	31.14%
June 30, 2018	December 31, 2017	\$3,686	\$3,686	-	\$12,285	30.00%
June 30, 2017	December 31, 2016	\$3,485	\$3,485	-	\$11,762	29.63%
June 30, 2016	December 31, 2015	\$3,279	\$3,279	-	\$10,920	30.03%
June 30, 2015	December 31, 2014	\$3,105	\$3,105	-	\$10,465	29.67%

**Massachusetts Teachers' Retirement System**

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Actuarially Determined Contribution Provided by Commonwealth</u>	<u>Contributions in Relation to the Actuarially Determined Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2020	June 30, 2019	\$3,093	\$3,093	-	\$15,590	19.84%
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  
 (Unaudited)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Total OPEB Liability</b>				
Service cost	\$ 5,133,601	\$ 4,562,376	\$ 4,790,887	\$ 5,736,706
Interest	4,086,663	3,871,913	3,566,773	3,063,959
Changes of benefit terms	(1,707,462)	-	-	-
Differences between expected and actual experience	-	(1,066,547)	-	-
Changes of assumptions	30,962,161	11,893,059	(4,854,961)	(13,084,732)
Benefit payments, including refunds of member contributions	<u>(3,223,547)</u>	<u>(3,015,765)</u>	<u>(2,694,837)</u>	<u>(2,598,945)</u>
Net Change in Total OPEB Liability	35,251,416	16,245,036	807,862	(6,883,012)
Total OPEB Liability - Beginning	<u>113,239,969</u>	<u>96,994,933</u>	<u>96,187,071</u>	<u>103,070,083</u>
Total OPEB Liability - Ending (a)	148,491,385	113,239,969	96,994,933	96,187,071
<b>Plan Fiduciary Net Position*</b>				
Contributions - employer	3,254,532	3,030,661	2,717,578	2,623,310
Net investment income (loss)	2,435	7,447	(230)	658
Benefit payments, including refunds of member contributions	<u>(3,223,547)</u>	<u>(3,015,765)</u>	<u>(2,694,837)</u>	<u>(2,598,945)</u>
Net Change in Plan Fiduciary Net Position	33,420	22,343	22,511	25,023
Plan Fiduciary Net Position - Beginning	<u>69,877</u>	<u>47,534</u>	<u>25,023</u>	<u>-</u>
Plan Fiduciary Net Position - Ending (b)	<u>103,297</u>	<u>69,877</u>	<u>47,534</u>	<u>25,023</u>
Net OPEB Liability - Ending (a-b)	<u>\$ 148,388,088</u>	<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 22.

*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 OPEB Liability, Contributions, and Investment Returns  
(Unaudited)

<b>Schedule of Net OPEB Liability</b>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability	\$ 148,491,385	\$ 113,239,969	\$ 96,994,933	\$ 96,187,071
Plan fiduciary net position	<u>(103,297)</u>	<u>(69,877)</u>	<u>(47,534)</u>	<u>(25,023)</u>
Net OPEB liability	<u>\$ 148,388,088</u>	<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%	0.06%	0.05%	0.03%
Covered employee payroll	\$ 30,177,268	\$ 28,202,316	\$ 27,635,969	\$ 26,575,037
Net OPEB liability as a percentage of covered employee payroll	491.72%	401.28%	350.80%	361.85%
 <b>Schedule of Contributions</b>	 <u>2020</u>	 <u>2019</u>	 <u>2018</u>	 <u>2017</u>
Actuarially determined contribution	\$ 9,217,645	\$ 8,272,247	\$ 8,319,483	\$ 7,413,437
Contributions in relation to the actuarially determined contribution	<u>(3,254,532)</u>	<u>(3,030,661)</u>	<u>(2,717,578)</u>	<u>(2,623,310)</u>
Contribution deficiency (excess)	<u>\$ 5,963,113</u>	<u>\$ 5,241,586</u>	<u>\$ 5,601,905</u>	<u>\$ 4,790,127</u>
Covered employee payroll	\$ 30,177,268	\$ 28,202,316	\$ 27,635,969	\$ 26,575,037
Contributions as a percentage of covered employee payroll	19.76%	18.59%	20.27%	18.02%
 <b>Schedule of Investment Returns</b>	 <u>2020</u>	 <u>2019</u>	 <u>2017</u>	 <u>2015</u>
Annual money weighted rate of return, net of investment expense	2.77%	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 the City's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.