

**CITY OF METHUEN, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2012**

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### INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council  
City of Methuen, Massachusetts

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 Methuen, Massachusetts, as of and for the year ended June 30, 2012 (except for the Methuen Contributory Retirement System, which is as of and for the year ended December 31, 2011), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Methuen's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Methuen as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 3, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

*Melanson, Heath + Company P.C.*  
January 3, 2013

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Methuen, we offer readers this narrative overview and analysis of the financial activities of the City of Methuen for the fiscal year ended June 30, 2012. Unless otherwise noted, all amounts are expressed in thousands.

### **A. 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 are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities include water and sewer activities.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, a single enterprise fund is used to account for the combined water and sewer operations.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal service funds are used to account for self-insured employee health programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

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

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 55,203 (i.e., net assets), a change of \$ 2,085 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances (deficit) of \$ (675), a change of \$ (3,521) in comparison to the prior year. The governmental funds deficit is a result of the High School Revitalization major fund's \$8,500 bond anticipation note, and will be eliminated when permanently financed.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 1,454, a change of \$ (131) in comparison to the prior year.
- Total bonds and loans payable at the close of the current fiscal year were \$ 54,582, a change of \$ (7,481) in comparison to the prior year.
- Total notes payable at the close of the current fiscal year were \$ 10,800, a change of \$ (2,134) in comparison to the prior year, exclusive of the \$ 7,500 TAN at June 30, 2011.

## **C. GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

The largest portion of net assets \$ 71,048 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment); 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 assets \$ 9,116 represents resources that are subject to external restrictions on how they may be used. The remaining amount is a deficit of \$ (24,962).

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

	Governmental Activities		Business-Type Activities		Totals	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 26,753	\$ 34,470	\$ 10,157	\$ 9,315	\$ 36,910	\$ 43,785
Capital assets	<u>93,758</u>	<u>88,690</u>	<u>38,915</u>	<u>39,145</u>	<u>132,673</u>	<u>127,835</u>
Total assets	120,511	123,160	49,072	48,460	169,583	171,620
Long-term liabilities	71,387	68,912	26,009	26,577	97,396	95,489
Other liabilities	<u>16,431</u>	<u>22,293</u>	<u>554</u>	<u>721</u>	<u>16,985</u>	<u>23,014</u>
Total liabilities	87,818	91,205	26,563	27,298	114,381	118,503
Net assets:						
Invested in capital assets,						
net of related debt	56,928	49,120	14,120	13,603	71,048	62,723
Restricted	8,305	8,031	811	655	9,116	8,686
Unrestricted	<u>(32,540)</u>	<u>(25,196)</u>	<u>7,578</u>	<u>6,904</u>	<u>(24,962)</u>	<u>(18,292)</u>
Total net assets	<u>\$ 32,693</u>	<u>\$ 31,955</u>	<u>\$ 22,509</u>	<u>\$ 21,162</u>	<u>\$ 55,202</u>	<u>\$ 53,117</u>

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

	Governmental		Business-Type		Totals	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 8,698	\$ 8,900	\$ 10,908	\$ 11,523	\$ 19,606	\$ 20,423
Operating grants and contributions	60,583	61,650	122	17	60,705	61,667
Capital grants and contributions	2,325	1,409	-	-	2,325	1,409
General revenues						
Property Taxes	64,458	62,182	-	-	64,458	62,182
Excises	4,731	4,696	-	-	4,731	4,696
Interest and Penalties	408	340	-	-	408	340
Grants and contributions not restricted to specific programs	14,108	13,255	-	-	14,108	13,255
Investment income	11	22	5	6	16	28
Other	<u>447</u>	<u>425</u>	<u>-</u>	<u>-</u>	<u>447</u>	<u>425</u>
Total revenues	155,769	152,879	11,035	11,546	166,804	164,425
<b>Expenses:</b>						
General government	14,573	13,962	-	-	14,573	13,962
Public safety	21,109	20,298	-	-	21,109	20,298
Education	104,985	102,121	-	-	104,985	102,121
Public works	8,492	9,049	-	-	8,492	9,049
Sanitation	2,463	2,576	-	-	2,463	2,576
Health and human services	1,463	1,335	-	-	1,463	1,335
Culture and recreation	1,745	1,814	-	-	1,745	1,814
Interest and costs	1,467	1,755	-	-	1,467	1,755
Enterprise services	-	-	8,422	8,856	8,422	8,856
Total expenses	<u>156,297</u>	<u>152,910</u>	<u>8,422</u>	<u>8,856</u>	<u>164,719</u>	<u>161,766</u>
Change in net assets before transfers	(528)	(31)	2,613	2,690	2,085	2,659
Transfers in (out)	<u>1,266</u>	<u>1,266</u>	<u>(1,266)</u>	<u>(1,266)</u>	<u>-</u>	<u>-</u>
Change in net assets	738	1,235	1,347	1,424	2,085	2,659
Beginning net assets	<u>31,955</u>	<u>30,720</u>	<u>21,162</u>	<u>19,738</u>	<u>53,117</u>	<u>50,458</u>
Ending net assets	<u>\$ 32,693</u>	<u>\$ 31,955</u>	<u>\$ 22,509</u>	<u>\$ 21,162</u>	<u>\$ 55,202</u>	<u>\$ 53,117</u>

**Governmental Activities** - The City's governmental activities resulted in a change in net assets of \$ 738. The City's conservative approach to budgeting

and the careful monitoring of expenses and revenue activity throughout the fiscal year allowed the City to react to tightening budgets and changing fiscal conditions. Property tax collections continued to remain strong. The City's revenues increased by 2 percent or \$ 2,890, while expenses similarly increased by 2 percent or \$ 3,387.

The cost of all governmental activities this year was \$ 156,297 compared to \$ 152,910 last year. However, as shown in the Statement of Activities in the accompanying financial statements, the amount that our taxpayers ultimately financed for these activities through property taxes was only \$ 64,458 because some of the cost was paid by those who directly benefited from the programs (i.e., charges for services \$ 8,698 or by other governments and organizations that subsidized certain programs with grants and contributions (i.e. operating and capital grants and contributions \$ 62,908). Overall, the City's total governmental revenues increased in current year from \$ 152,879 to \$ 155,769, principally due to an increase in the tax rate for residential and commercial properties from \$ 12.69 to \$ 13.04 and from \$ 22.91 to \$ 23.04, respectively. The City made efforts on restoring the cuts incurred in fiscal year 2010 and 2011. Nearly half of the total revenues or 49 percent were derived from grants and contributions of \$ 77,016. The City paid for the remaining "public benefit" portion of governmental activities with property taxes and with other revenues, such as interest and general entitlements.

The table below presents the largest activities resulting in the change in governmental activities net assets.

General fund expenditures in excess of revenues	\$ (1,435)
Transfer in to general fund for enterprise indirect costs	1,266
MSBA grants for capital assets	3,137
Capital asset additions funded by revenues	2,014
Debt service in excess of depreciation	3,188
Increase in net OPEB obligation	(9,234)
Internal service fund change in net assets	1,758
Other	44
Total	\$ <u>738</u>

**Business-type Activities** - Business-type activities for the year resulted in a change in net assets of \$ 1,347. This change resulted primarily from unspent appropriations of \$ 562, use of retained earnings of \$ 280, and carry forward of \$ 1,342 of encumbered funds to next year primarily for capital improvements.

#### **D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

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

**Governmental funds.** The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources.

Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$ 1,454, while total fund balance was \$ 2,407. Total fund balance changed by \$ (75). Unassigned fund balance decreased by \$ (131), primarily in attempt to restore cuts in the budgets in the past two years. Revenues increased 3% over prior year while expenditures increased 3% as well. Unassigned fund balance represents 1% of total expenditures, while total fund balance represents 2% of total expenditures.

At the end of the current fiscal year, the governmental funds reported a combined fund deficit of \$ (675) with a net change in fund balance of \$ (3,521). Included in this change in fund balance are General Fund results described in the previous paragraph and capital expenditures of the High School Revitalization fund exceeding MSBA reimbursement by \$ (3,293).

**Proprietary funds.** Proprietary funds include the water and sewer enterprise fund found in business-type activities reported in the government-wide financial statements, and the health insurance internal service fund, with the governmental activities on the entity-wide financial statements. Factors concerning the finances of the enterprise fund have already been addressed in the entity-wide discussion of business-type activities.

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

In Fiscal Year 2012, the \$ 100 million High School Renovation was underway, and funding for this project was accepted by the Commonwealth of Massachusetts' Qualified Bond Program.

By qualifying and utilizing the State Qualified Bond program, the City is still issuing its own debt; however, it is enhancing its debt by pledging our state aid receipts to be automatically used to pay the bondholder, on top of the general obligation pledge of the City to pay the debt. In turn, the bondholder will automatically get paid the cash at the maturity of the bond. By issuing the City's notes and bonds pursuant to the program, the City will save ½ of 1 percent of interest cost on its debt, thus with the school debt ultimately coming on the books, the program will likely save the City millions of dollars of interest costs of the long term.

The City of Methuen's Health Insurance Trust Fund rebounded from its devastating loss in Fiscal Year 2010, and at the close of Fiscal Year 2012, the Health Insurance Trust Fund was disclosing a surplus of \$ 1,869 after reserving \$ 1,240

for incurred, but not reported claims. However, health insurance continues to have a significant impact on the operating budget with an appropriation of \$ 11,323. The City continues to pursue alternatives to cut health insurance costs by working with the Public Employees Committee. Over the past two years, the PEC made monumental concessions to reduce health care costs, and at the same time, a Health Insurance plan that works for the employee and the employer as evident by the remarkable turnaround in the Health Insurance Trust Fund.

The City started off FY 2012 with a free cash certification of \$ 989, and our Stabilization Fund was just shy of \$ 1million. The overall budget increased by 2.5% or \$ 3,305 with a majority of the increase going towards re-establishing employee's wages, after two consecutive years of wage concessions, that helped the City avoid layoffs through difficult financial times. We also witnessed a significant increase to the Greater Lawrence Regional Vocational Technical High School Net School Spending Appropriation, and a commitment to appropriate funds to our Stabilization Fund to address our dwindling reserves. However, during the tax rate setting process the City Council decided to offset the use of the tax levy and balanced the budget with a \$ 900 appropriation of free cash and a transfer from the stabilization fund of \$ 650 which narrowed our financial position. The trend of annual appropriations of free cash, and draws on available reserves such as the stabilization fund to balance operations needed to be stopped. Once the new City Council was sworn in, they were informed that this practice cease, and we need turn our direction towards increasing the City of Methuen's reserves. The Methuen City Council established a finance committee made up of three councilors and the City Auditor to address this concern. In early spring, the Finance Committee recommended to the City Council to vote to increase the percentage of the meals tax and dedicate these funds directly to our Stabilization Fund. In addition, the City Council also increased ambulance fees with a caveat that any additional revenues derived from the increase in fees would be dedicated to the Stabilization Fund. By the time Fiscal Year 2012 was closed, the City was in good working order and now has in place an administration that is working with legislative body to instill sound financial policies that will enhance the City's financial condition for the future.

The General Fund final budget changed by \$ 200 from the original appropriation. The change consisted of a \$ 67 supplemental appropriation from the state share of FEMA reimbursement for the 2008 ice storm, an \$ 88 appropriation funded by overlay surplus, and a \$ 45 funded by the transfer from premiums on loans for various purposes.

## **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total capital assets for governmental and business-type activities at year-end amounted to \$ 132,672 (net of accumulated depreciation), a change of \$ 4,837 from the prior year. This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, and infrastructure.

The following table provides a summary of the City's capital assets at June 30:

<b>City of Methuen's Capital Assets (net of accumulated depreciation)</b>									
	<u>Governmental Activities</u>			<u>Business-type Activities</u>			<u>Totals</u>		
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	
Land improvements	\$ 2,227	\$ 2,431	\$ 6	\$ 8	\$ 2,233	\$ 2,439			
Construction	57,994	59,994	27,423	28,108	85,417	88,102			
Infrastructure	7,832	7,397	9,963	9,720	17,795	17,117			
Machinery and equipment	1,114	1,001	931	850	2,045	1,851			
Licensed vehicles	1,207	915	340	207	1,547	1,122			
Land, easements, and right of way	9,210	9,210	252	252	9,462	9,462			
Construction in progress	<u>14,173</u>	<u>7,742</u>	<u>-</u>	<u>-</u>	<u>14,173</u>	<u>7,742</u>			
Total net assets	<u>\$ 93,757</u>	<u>\$ 88,690</u>	<u>\$ 38,915</u>	<u>\$ 39,145</u>	<u>\$ 132,672</u>	<u>\$ 127,835</u>			

Major capital asset acquisitions during the current fiscal year consist of the following:

Governmental	
Highway improvements	\$ 1,010
High School renovation	6,431
Licensed vehicles	560
Business-Type:	
Sewer rehabilitation	\$ 509

Additional information on capital assets can be found in the Notes to the Financial Statements.

**Long-Term Debt.** At the end of the current fiscal year, total bonded debt including long-term loans outstanding was \$ 54,582, all of which was backed by the full faith and credit of the government. Moody's assigned an A1 rating to the City in July 2012 with negative outlook. There were no changes in ratings from the prior year.

Additional information on long-term debt can be found in the Notes to the Financial Statements.

## **G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

As Methuen slowly emerges from the depths of recession, still struggling to find its financial footing, we made great strides producing a budget in Fiscal Year

2013. In the later part of Fiscal Year 2012, all unions and bargaining units were at the bargaining table and contract talks were underway. In addition to contract negotiations the City, along with PEC, were negotiating the Health Insurance Plan. The positive end result was due to the significant savings in healthcare costs as a result of plan changes the City made, thereby reducing its current appropriation by \$ 1,448. This savings allowed the administration to settle all contracts into Fiscal Year 2015. The overall budget for Fiscal Year 2013 increased by 2.51% or \$ 3,401 with a majority of the increase going to the School systems in the amount of \$ 2,314. Building permits and licenses showed a huge improvement, and it was anticipated the City would yield a moderate new growth number. The operating budget and the projected value of the City would produce a tax rate increase between \$160 and \$165 on the average homeowner.

A major concern as we move deeper into the fiscal year is Health Insurance. Although significant changes have been made to the plan, we continue to keep a watchful eye over our Health Insurance costs. Over the past ten years we have witnessed the Health Insurance appropriation increase from \$ 6.9 million to a Fiscal Year 2013 appropriation of \$ 11.3 million, an increase of 60%.

The \$ 100 million High School renovation is underway, and the City met with Moody's Credit Rating Agency for an in depth analysis of the City's finances and were assigned an A1 Bond Rating and a MIG1 rating on our temporary notes. As the project proceeds, the budget will be closely monitored to ensure that expenditures stay within the budget parameters, and that state reimbursements are timely and accurate.

As stated earlier the City is slowly emerging from difficult financial times. Contracts with all unions have been satisfied up until Fiscal Year 2015. The Administration and Legislative unit of this government are focused on building reserves. A newly renovated Methuen High School is on the horizon, and it is anticipated the City will also benefit in the coming years from \$ 50 million in federal funds for state road improvements earmarked for the Methuen Rotary which could attract additional commercial interest once complete, alleviating the tax burden to the residential community.

#### General Fund Budget

	FY 2012	FY 2013	Increase (Decrease)	% Change
City	\$ 60,012 (1)	\$ 60,771 (1)	\$ 759	1.26%
School	\$ 64,374	\$ 66,687	\$ 2,313	3.59%
County	\$ 1,630	\$ 1,701	\$ 71	4.36%
Enterprise Fund	\$ 9,132 (2)	\$ 9,662 (2)	\$ 530	5.80%
 Total Budget	 \$ 135,148	 \$ 138,821	 \$ 3,673	 2.72%

(1) Includes reserve for abatements and exemptions and cherry sheet offets.

(2) Excludes indirect costs.

**Tax Levy**

	FY 2012	FY 2013	Increase (Decrease)	% Change
General Government	\$ 19,399	\$ 20,348	\$ 949	4.89%
Fixed Costs	\$ 19,302	\$ 19,867	\$ 565	2.93%
School	\$ 25,550	\$ 27,577	\$ 2,027	7.93%
Overlay	\$ 316	\$ 332	\$ 16	5.06%
Court Judgment	\$ -	\$ -	\$ -	***
<b>Total Levy</b>	<b>\$ 64,567</b>	<b>\$ 68,124</b>	<b>\$ 3,557</b>	<b>5.51%</b>

**Tax Rate**

	FY 2012	FY 2013	Increase (Decrease)	% Change
Residential	\$ 13.04	\$ 14.40	\$ 1.36	10.43%
Commercial	\$ 23.04	\$ 24.12	\$ 1.08	4.69%

**Valuation by Classification**

<u>Classification</u>	FY 2012	FY 2013	Increase (Decrease)	% Change
Residential	\$ 3,730,583	\$ 3,564,107	\$ (166,476)	-4.46%
Commercial	\$ 397,420	\$ 398,674	\$ 1,254	0.32%
Industrial	\$ 143,782	\$ 144,844	\$ 1,062	0.74%
Personal Property	\$ 149,836	\$ 153,032	\$ 3,196	2.13%
	<b>\$ 4,421,621</b>	<b>\$ 4,260,657</b>	<b>\$ (160,964)</b>	<b>-3.64%</b>

**Utility Fund Budget**

	FY 2012	FY 2013	Increase (Decrease)	% Change
Water & Sewer Enterprise Fund	\$ 10,397	\$ 11,003	\$ 606	5.83%

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Methuen'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:

City Auditor  
City of Methuen  
41 Pleasant Street  
Methuen, MA 01844

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 15,094,563	\$ 5,616,191	\$ 20,710,754
Receivables, net of allowance for uncollectibles:			
Property taxes	3,063,885	-	3,063,885
Excises	1,179,617	-	1,179,617
User fees	-	4,484,468	4,484,468
Assessments	347,262	-	347,262
Departmental and other	1,770,112	-	1,770,112
Intergovernmental	1,176,833	56,305	1,233,138
Loans	<u>3,179,533</u>	-	3,179,533
Total current assets	25,811,805	10,156,964	35,968,769
Noncurrent:			
Property taxes	519,471	-	519,471
Deferred debt expense	421,788	-	421,788
Capital assets:			
Nondepreciable capital assets	23,382,783	251,550	23,634,333
Other capital assets, net of accumulated depreciation	<u>70,374,791</u>	<u>38,663,388</u>	<u>109,038,179</u>
Total noncurrent assets	<u>94,698,833</u>	<u>38,914,938</u>	<u>133,613,771</u>
<b>TOTAL ASSETS</b>	<b>120,510,638</b>	<b>49,071,902</b>	<b>169,582,540</b>
<b>LIABILITIES</b>			
Current:			
Warrants and accounts payable	2,135,193	249,584	2,384,777
Accrued liabilities	1,017,549	304,156	1,321,705
Notes payable	10,800,000	-	10,800,000
Other current liabilities	2,477,803	-	2,477,803
Current portion of long-term liabilities:			
Bonds and loans payable	6,960,000	1,363,871	8,323,871
Other liabilities	<u>1,771,280</u>	<u>88,899</u>	<u>1,860,179</u>
Total current liabilities	25,161,825	2,006,510	27,168,335
Noncurrent:			
Bonds and loans payable, net of current portion	22,935,000	23,322,803	46,257,803
Net OPEB obligation	37,386,896	853,934	38,240,830
Other liabilities, net of current portion	<u>2,333,504</u>	<u>379,524</u>	<u>2,713,028</u>
Total noncurrent liabilities	<u>62,655,400</u>	<u>24,556,261</u>	<u>87,211,661</u>
<b>TOTAL LIABILITIES</b>	<b>87,817,225</b>	<b>26,562,771</b>	<b>114,379,996</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	56,928,166	14,120,118	71,048,284
Restricted externally or constitutionally for:			
Loan and grant programs and other restrictions	7,872,376	-	7,872,376
Sewer mitigation	-	811,139	811,139
Permanent fund:			
Nonexpendable	432,814	-	432,814
Unrestricted (deficit)	<u>(32,539,943)</u>	<u>7,577,874</u>	<u>(24,962,069)</u>
<b>TOTAL NET ASSETS</b>	<b>\$ 32,693,413</b>	<b>\$ 22,509,131</b>	<b>\$ 55,202,544</b>

See notes to financial statements.

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

			Program Revenues	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental Activities:</b>				
General government	\$ 14,573,153	\$ 1,613,812	\$ 65,923	\$ -
Public safety	21,108,652	2,475,671	199,045	-
Education	104,985,238	3,149,692	60,043,122	-
Public works	8,492,339	341,544	124,913	2,325,618
Sanitation	2,462,830	-	-	-
Health and human services	1,462,964	95,046	149,648	-
Culture and recreation	1,744,455	1,022,000	2	-
Interest	<u>1,467,008</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	156,296,639	8,697,765	60,582,653	2,325,618
<b>Business-Type Activities:</b>				
Enterprise services	<u>8,422,547</u>	<u>10,907,787</u>	<u>122,385</u>	<u>-</u>
Total	<u>\$ 164,719,186</u>	<u>\$ 19,605,552</u>	<u>\$ 60,705,038</u>	<u>\$ 2,325,618</u>

**General Revenues and Transfers:**

Property taxes  
 Excise taxes  
 Interest and penalties  
 Grants and contributions not restricted  
 to specific programs  
 Investment income  
 Other  
 Transfers, net

Total general revenues and transfers

Change in Net Assets

**Net Assets:**

Beginning of year

End of year

See notes to financial statements.

Net (Expenses) Revenues and Changes in Net Assets			
		Business-	
Governmental		Type	
<u>Activities</u>		<u>Activities</u>	<u>Total</u>
\$ (12,893,418)	\$ -	\$ (12,893,418)	
(18,433,936)	-	(18,433,936)	
(41,792,424)	-	(41,792,424)	
(5,700,264)	-	(5,700,264)	
(2,462,830)	-	(2,462,830)	
(1,218,270)	-	(1,218,270)	
(722,453)	-	(722,453)	
(1,467,008)	<u>-</u>	<u>(1,467,008)</u>	
(84,690,603)	-	(84,690,603)	
	<u>-</u>	<u>2,607,625</u>	<u>2,607,625</u>
	(84,690,603)	2,607,625	(82,082,978)
64,457,823	-	64,457,823	
4,730,782	-	4,730,782	
407,689	-	407,689	
14,108,564	-	14,108,564	
11,163	5,175	16,338	
447,143	-	447,143	
1,265,523	<u>(1,265,523)</u>	<u>-</u>	
<u>85,428,687</u>	<u>(1,260,348)</u>	<u>84,168,339</u>	
738,084	1,347,277	2,085,361	
<u>31,955,329</u>	<u>21,161,854</u>	<u>53,117,183</u>	
\$ <u>32,693,413</u>	\$ <u>22,509,131</u>	\$ <u>55,202,544</u>	

CITY OF METHUEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

	<u>General</u>	<u>High School Revitalization</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and short-term investments	\$ 4,419,973	\$ 1,227,411	\$ 6,207,164	\$ 11,854,548
Receivables:				
Property taxes	3,939,756	-	-	3,939,756
Excises	1,467,337	-	-	1,467,337
Assessments	347,262	-	-	347,262
Departmental and other	1,777,471	-	289,521	2,066,992
Intergovernmental	161,806	-	1,015,027	1,176,833
Loans	-	-	3,179,533	3,179,533
<b>TOTAL ASSETS</b>	<b>\$ 12,113,605</b>	<b>\$ 1,227,411</b>	<b>\$ 10,691,245</b>	<b>\$ 24,032,261</b>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>				
Liabilities:				
Warrants and accounts payable	\$ 1,109,628	\$ 324,691	\$ 541,434	\$ 1,975,753
Accrued liabilities	654,253	-	25,405	679,658
Deferred revenues	6,707,818	-	3,305,433	10,013,251
Notes payable	-	8,500,000	2,300,000	10,800,000
Other liabilities	1,235,241	-	2,870	1,238,111
<b>TOTAL LIABILITIES</b>	<b>9,706,940</b>	<b>8,824,691</b>	<b>6,175,142</b>	<b>24,706,773</b>
Fund Balances:				
Nonspendable	-	-	432,814	432,814
Restricted	-	-	4,767,726	4,767,726
Committed	48,799	-	-	48,799
Assigned	903,927	-	-	903,927
Unassigned	1,453,939	(7,597,280)	(684,437)	(6,827,778)
<b>TOTAL FUND BALANCES (DEFICIT)</b>	<b>2,406,665</b>	<b>(7,597,280)</b>	<b>4,516,103</b>	<b>(674,512)</b>
<b>TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)</b>	<b>\$ 12,113,605</b>	<b>\$ 1,227,411</b>	<b>\$ 10,691,245</b>	<b>\$ 24,032,261</b>

See notes to financial statements.

CITY OF METHUEN, MASSACHUSETTS

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

JUNE 30, 2012

<b>Total governmental fund balances (deficit)</b>	\$ (674,512)
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	93,757,574
• Deferred debt expense for refunding is net of amortization on the statement of net assets, whereas all debt expense is reported when paid in the governmental funds.	421,788
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	9,043,729
• 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 Assets.	1,869,406
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(337,892)
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds payable	(29,895,000)
Capital lease payable	(119,820)
Net OPEB obligation	(37,386,896)
Landfill liability	(640,000)
Compensated absences liability	<u>(3,344,964)</u>
<b>Net assets of governmental activities</b>	<u>\$ 32,693,413</u>

See notes to financial statements.

CITY OF METHUEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>High School Revitalization</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 64,412,641	\$ -	\$ -	\$ 64,412,641
Excise taxes	4,714,524	- -	- -	4,714,524
Departmental	2,090,431	- -	- -	2,090,431
Licenses and permits	1,191,807	- -	- -	1,191,807
Intergovernmental	60,465,469	3,126,939	13,210,866	76,803,274
Charges for services	72,685	- -	5,335,396	5,408,081
Interest and penalties	407,689	- -	- -	407,689
Investment income	10,399	- -	765	11,164
Fines and forfeitures	236,324	- -	- -	236,324
Contributions	- -	- -	66,569	66,569
Other revenue	<u>199,988</u>	<u>10,651</u>	<u>236,507</u>	<u>447,146</u>
Total Revenues	<u>133,801,957</u>	<u>3,137,590</u>	<u>18,850,103</u>	<u>155,789,650</u>
<b>Expenditures:</b>				
Current:				
General government	24,410,780	- -	121,791	24,532,571
Public safety	16,375,267	- -	1,872,080	18,247,347
Education	76,442,580	6,430,597	13,489,595	96,362,772
Public works	5,373,099	- -	2,426,815	7,799,914
Sanitation	2,381,366	- -	81,464	2,462,830
Health and human services	1,098,069	- -	238,873	1,336,942
Culture and recreation	1,059,526	- -	678,356	1,737,882
Debt service:				
Principal	6,560,000	- -	- -	6,560,000
Interest	1,536,297	- -	- -	1,536,297
Total Expenditures	<u>135,236,984</u>	<u>6,430,597</u>	<u>18,908,974</u>	<u>160,576,555</u>
Excess (deficiency) of revenues over expenditures	(1,435,027)	(3,293,007)	(58,871)	(4,786,905)
<b>Other Financing Sources (Uses):</b>				
Transfers in	1,360,523	- -	- -	1,360,523
Transfers out	- -	- -	(95,000)	(95,000)
Total Other Financing Sources (Uses)	<u>1,360,523</u>	<u>- -</u>	<u>(95,000)</u>	<u>1,265,523</u>
Net change in fund balances	(74,504)	(3,293,007)	(153,871)	(3,521,382)
Fund Balances (Deficit), at Beginning of Year	<u>2,481,169</u>	<u>(4,304,273)</u>	<u>4,669,974</u>	<u>2,846,870</u>
Fund Balances (Deficit), at End of Year	<u>\$ 2,406,665</u>	<u>\$ (7,597,280)</u>	<u>\$ 4,516,103</u>	<u>\$ (674,512)</u>

See notes to financial statements.

CITY OF METHUEN, 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, 2012

**NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS**      \$ (3,521,382)

- 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:

Capital outlay purchases, net of disposals	8,444,845
Depreciation	(3,371,770)
Net effect from disposal of capital assets	(5,260)

- 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, etc.) differ between the two statements. This amount represents the net change in deferred revenue.

(20,449)

- The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets:

Repayments of debt	6,560,000
Deferred debt amortization	(140,595)
Payments of capital leases	56,655

- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.

69,290

- 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.

Compensated absences	103,452
Landfill	40,000
Net OPEB obligation	(9,234,413)

- 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.

1,757,711

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES**

\$ 738,084

See notes to financial statements.

CITY OF METHUEN, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES  
AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
<b>Revenues and Transfers In:</b>				
Property tax	\$ 64,067,179	\$ 64,067,179	\$ 64,067,179	\$ -
Local revenue	9,075,001	9,075,001	9,468,092	393,091
Cherry sheet	48,876,122	48,876,122	48,968,293	92,171
Transfers in	1,965,523	2,010,523	2,010,523	-
Other	550,000	616,904	743,617	126,713
Total Revenues and Transfers In	124,533,825	124,645,729	125,257,704	611,975
<b>Expenditures and Transfers Out:</b>				
Current:				
General government	24,866,052	24,997,748	24,984,948	12,800
Intergovernmental	1,629,858	1,681,401	1,681,401	-
Public safety	16,808,156	16,425,011	16,425,011	-
Education	64,373,743	64,528,541	64,528,541	-
Public works	4,714,134	4,984,458	4,984,458	-
Sanitation	2,444,274	2,351,566	2,351,566	-
Library	1,411,416	1,411,416	1,411,416	-
Health and human services	942,294	1,010,719	1,010,719	-
Debt service	7,743,898	7,742,869	7,742,869	-
Transfers out	500,000	500,000	500,000	-
Total Expenditures and Transfers Out	125,433,825	125,633,729	125,620,929	12,800
Excess of revenues and transfers in over expenditures and transfers out	(900,000)	(988,000)	(363,225)	624,775
<b>Other Financing Sources:</b>				
Use of free cash	900,000	900,000	-	(900,000)
Use of overlay	-	88,000	-	(88,000)
Total Other Financing Sources	900,000	988,000	-	(988,000)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (363,225)	\$ (363,225)

See notes to financial statements.

## CITY OF METHUEN, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF NET ASSETS

JUNE 30, 2012

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
<b><u>ASSETS</u></b>		
Current:		
Cash and short-term investments	\$ 5,616,191	\$ 3,240,015
User fees receivable	4,484,468	-
Intergovernmental receivable	56,305	-
Other receivable	<u>-</u>	<u>28,522</u>
Total current assets	10,156,964	3,268,537
Noncurrent:		
Capital assets:		
Nondepreciable capital assets	251,550	-
Other capital assets, net of accumulated depreciation	<u>38,663,388</u>	<u>-</u>
Total noncurrent assets	<u>38,914,938</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b>49,071,902</b>	<b>3,268,537</b>
<b><u>LIABILITIES</u></b>		
Current:		
Accounts payable	249,584	159,439
Accrued liabilities	304,156	-
Other current liabilities	<u>-</u>	<u>1,239,692</u>
Current portion of long-term liabilities:		
Bonds and loans payable	1,363,871	-
Other liabilities	<u>88,899</u>	<u>-</u>
Total current liabilities	2,006,510	1,399,131
Noncurrent:		
Bonds and loans payable, net of current portion	23,322,803	-
Net OPEB obligation	853,934	-
Other liabilities, net of current portion	<u>379,524</u>	<u>-</u>
Total noncurrent liabilities	<u>24,556,261</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<b>26,562,771</b>	<b>1,399,131</b>
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	14,120,118	-
Restricted	811,139	-
Unrestricted	<u>7,577,874</u>	<u>1,869,406</u>
<b>TOTAL NET ASSETS</b>	<b>\$ 22,509,131</b>	<b>\$ 1,869,406</b>

See notes to financial statements.

CITY OF METHUEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
<b>Operating Revenues:</b>		
Charges for services	\$ 10,650,197	\$ -
Contributions	-	17,767,282
Permits and fees	<u>257,590</u>	<u>-</u>
Total Operating Revenues	10,907,787	17,767,282
<b>Operating Expenses:</b>		
Personal services	2,255,128	-
Materials	1,825,416	-
Depreciation	1,093,539	-
Sanitary district assessment	2,686,828	-
Employee benefits	<u>-</u>	<u>16,009,571</u>
Total Operating Expenses	<u>7,860,911</u>	<u>16,009,571</u>
Operating Income	3,046,876	1,757,711
<b>Nonoperating Revenues (Expenses):</b>		
Intergovernmental revenue	122,385	-
Investment income	5,175	-
Interest expense	<u>(561,636)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(434,076)</u>	<u>-</u>
Income (Loss) Before Transfers	2,612,800	1,757,711
Transfers out	<u>(1,265,523)</u>	<u>-</u>
Change in Net Assets	1,347,277	1,757,711
Net Assets at Beginning of Year	<u>21,161,854</u>	<u>111,695</u>
Net Assets at End of Year	<u>\$ 22,509,131</u>	<u>\$ 1,869,406</u>

See notes to financial statements.

CITY OF METHUEN, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Receipts from customers and users	\$ 10,980,206	\$ -
Employer contributions and stop loss reimbursements	- -	11,922,374
Employee contributions	- -	5,816,386
Payments of employee salaries, benefits, and related expenses	(2,079,114)	(15,447,357)
Payments to vendors	(1,822,351)	- -
Payments to other governments	<u>(2,686,828)</u>	<u>- -</u>
Net Cash Provided By Operating Activities	4,391,913	2,291,403
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>		
Transfers to other funds	<u>(1,265,523)</u>	<u>- -</u>
Net Cash (Used For) Noncapital Financing Activities	<u>(1,265,523)</u>	<u>- -</u>
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>		
Acquisition and construction of capital assets	(583,028)	- -
Proceeds from notes (MWPAT reimbursements)	414,591	- -
Principal payments on bonds and notes	(1,331,717)	- -
Principal payments on capital leases	(99,655)	- -
Interest expense	(569,352)	- -
Intergovernmental subsidy	<u>103,598</u>	<u>- -</u>
Net Cash (Used For) Capital and Related Financing Activities	(2,065,563)	- -
<b><u>Cash Flows From Investing Activities:</u></b>		
Investment income	<u>5,175</u>	<u>- -</u>
Net Cash Provided By Investing Activities	<u>5,175</u>	<u>- -</u>
Net Change in Cash and Short-Term Investments	1,066,002	2,291,403
Cash and Short-Term Investments, Beginning of Year	<u>4,550,189</u>	<u>948,612</u>
Cash and Short-Term Investments, End of Year	<u>\$ 5,616,191</u>	<u>\$ 3,240,015</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u></b>		
Operating income	\$ 3,046,876	\$ 1,757,711
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,093,539	- -
Changes in assets and liabilities:		
User fees	72,419	- -
Other receivables	- -	(28,523)
Accounts payable	3,065	159,440
Accrued liabilities	3,496	- -
Other liabilities	- -	402,775
Compensated absences	(5,274)	- -
OPEB liability	<u>177,792</u>	<u>- -</u>
Net Cash Provided By Operating Activities	<u>\$ 4,391,913</u>	<u>\$ 2,291,403</u>

See notes to financial statements.

## CITY OF METHUEN, MASSACHUSETTS

## FIDUCIARY FUNDS

## STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Pension Trust Fund (As of <u>December 31, 2011</u> )	Private Purpose Trust Fund	Agency Fund
<b><u>ASSETS</u></b>			
Non-pooled cash and short-term investments	\$ 381,845	\$ 389,492	\$ 127,906
Investments, at fair value:			
Pooled alternative investments	2,667,691	-	-
Pooled real estate funds	1,878,885	-	-
PRIT Fund	74,571,168	-	-
Receivables	<u>68,405</u>	<u>-</u>	<u>-</u>
Total Assets	79,567,994	389,492	127,906
<b><u>LIABILITIES AND NET ASSETS</u></b>			
Other liabilities	<u>989</u>	<u>-</u>	<u>127,906</u>
Total Liabilities	<u>989</u>	<u>-</u>	<u>127,906</u>
<b><u>NET ASSETS</u></b>			
Total net assets held in trust for pension benefits and other purposes	\$ <u>79,567,005</u>	\$ <u>389,492</u>	\$ <u>-</u>

See notes to financial statements.

## CITY OF METHUEN, MASSACHUSETTS

## FIDUCIARY FUNDS

## STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2012

	Pension Trust Fund (For the Year Ended <u>December 31, 2011</u> )	Private Purpose Trust Fund
<b>Additions:</b>		
Contributions:		
Employers	\$ 7,302,776	\$ -
Other systems and Commonwealth of Massachusetts	331,877	-
Plan members	2,884,424	-
Other	72,173	-
Total contributions	<u>10,591,250</u>	<u>-</u>
Investment Income:		
Change in fair value of investments	976,077	2,189
Less: management fees	(409,038)	-
Net investment income	<u>567,039</u>	<u>2,189</u>
Total additions	11,158,289	2,189
<b>Deductions:</b>		
Benefit payments to plan members and beneficiaries	10,347,221	-
Refunds to plan members	393,445	-
Transfers to other systems	200,817	-
Administrative expenses	186,870	-
Other	-	20,700
Total deductions	<u>11,128,353</u>	<u>20,700</u>
Net increase (decrease)	29,936	(18,511)
<b>Net assets:</b>		
Beginning of year	<u>79,537,069</u>	<u>408,003</u>
End of year	<u>\$ 79,567,005</u>	<u>\$ 389,492</u>

See notes to financial statements.

## CITY OF METHUEN, MASSACHUSETTS

### Notes to Financial Statements

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

The accounting policies of the City of Methuen (the City) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

##### **A. Reporting Entity**

The government is a municipal corporation governed by an elected City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

**Component Units** - 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:

**In the Fiduciary Funds:** The Methuen 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 41 Pleasant Street, Methuen, MA 01844.

##### **B. Government-wide and Fund Financial Statements**

###### **Government-wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

#### Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

##### Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

##### Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures

generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental fund:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *high school revitalization fund* was established to account for construction costs of the High School renovation financed by MSBA and issuance of notes/bonds.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The *enterprise fund* accounts for the operating activities of the City's water and sewer utilities and capital improvement services.

The self-insured employee health program is reported as an *internal service fund* in the accompanying financial statements.

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

The *private-purpose trust fund* is used to account for trust arrangements, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The *agency fund* is used to account for student activity funds.

***D. Cash and Short-Term Investments***

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

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

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

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

Trust Funds may be combined and invested in any instruments allowed by Legal List issued by the Banking Commissioner, except those required to be segregated by trust documents. Each trust fund is accounted for separately.

***E. Investments***

The City did not have long-term investments as of June 30, 2012. The System's investments are carried at market value.

***F. Property Tax Limitations***

The City 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 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2012 tax levy reflected an excess capacity of approximately \$ 3,500,000.

#### *G. Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets, (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Construction	25 - 50
Infrastructure	10 - 30
Equipment	5 - 20
Machinery and licensed vehicles	8

#### *H. Compensated Absences*

The government's policy is to permit employees to accumulate earned but unused vacation and sick pay benefits. Full-time, permanent employees are granted vacation benefits in varying amounts depending on contracts with the City. Sick leave accrues to full-time, permanent employees to specified maximums. Generally, after one year of service, employees are entitled to a percentage of their sick leave ranging between 30% and 50% depending on their contract with the City, and all of their accrued vacation upon termination. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

### *I. Long-Term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets.

### *J. Fund Equity*

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net assets”.

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The City reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The City’s fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the City Council).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year. The City follows an informal policy that permits management to assign fund balance amounts to a specific purpose, although fund balance to be applied against a subsequent year’s budget is voted by City Council.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned and unassigned.

**Net Assets** - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist 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 assets are 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. All other net assets are reported as unrestricted.

**K. Use of Estimates**

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

**2. Stewardship, Compliance, and Accountability**

**A. Budgetary Information**

At a City Council meeting in May, 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, also 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 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 major line items as voted by the City Council. 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.

Annually, prior to year-end, the City Council authorizes the Mayor and City Accountant to amend the budget by making various inter and intradepart-

mental transfers and using available sources to avoid individual departmental over-expenditures.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances, which will be honored during the subsequent year.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Enterprise Funds.

Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

***B. Budgetary Basis***

The General Fund final appropriation appearing on the “Budget and Actual” page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

***C. Budget/GAAP Reconciliation***

The budgetary data for the general and proprietary funds 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 and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 133,801,957	\$ 135,236,984
Other financing sources/uses (GAAP Basis)	1,360,523	-
Subtotal (GAAP Basis)	135,162,480	135,236,984

(continued)

(continued)

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
To adjust property tax revenue to the budgetary basis	(181,945)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(700,994)
To book current year appropriation carryforwards	-	603,280
To reverse GASB 24 MTRS	(10,660,847)	(10,660,847)
To reverse court judgment	-	50,000
To gross up employee benefits grant allocations	592,506	592,506
To remove nonbudgeted funds	<u>345,510</u>	<u>500,000</u>
Budgetary Basis	<u>\$ 125,257,704</u>	<u>\$ 125,620,929</u>

*D. Deficit Fund Equity*

The following funds or projects within the funds had deficits as of June 30, 2012:

Major Funds:

Methuen High School Revitalization      \$ (7,597,280)

Nonmajor Governmental Funds:

Police Outside Detail      \$ (111,199)

Carol White PEP Grant      (100,885)

2010 MA Community Development      (32,474)

Departmental Equipment      (439,879)

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

**3. Cash and Short-Term Investments**

*Custodial Credit Risk.* Custodial credit risk is the risk that in the event of a bank failure, the City's and Contributory Retirement System's (the System) deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits

deposits “in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess.” Massachusetts General Law Chapter 32, Section 23, limits the System’s deposits “in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company.”

As of June 30, 2012, \$ 12,326,394 of the City’s bank balances of \$ 24,551,800 was exposed to custodial credit risk as uninsured, and collateral held by pledging bank’s trust department not in the System’s name. The exposed balance was invested in the Massachusetts Municipal Depository Trust (MMDT), which is not considered an uncollateralized product under Government Accounting Standards Board Regulation. Per the City’s policy, the City may invest in MMDT, U.S. Treasury and Agencies up to one-year maturity, bank accounts and Certificates of Deposits, which are fully insured by FDIC, DIF, or collateralized through a third party agreement, and certain mutual funds, under Chapter 44, Sec. 55 of MGL, as amended by Chapter 314 of the Acts of 1996. Unsecured deposits are limited to no more than 5% of an institution’s assets and no more than 10% of the City’s cash. To maintain adequate cash flow, the City’s balances as of June 30, 2012 were deposited in MMDT and bank accounts (checking, savings, and money market accounts).

As of December 31, 2011, \$ 212,214 of the System’s bank balances of \$ 462,239 was exposed to custodial credit risk as uninsured, and collateral held by pledging bank’s trust department not in the System’s name. Of the System’s total exposed balance, \$ 263 was invested in MMDT and PRIT. The System does not have a deposit policy for custodial credit risk.

#### **4. Investments**

##### **A. Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment.

Massachusetts General Law, Chapter 32, Section 23, limits the investment of the Retirement 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.

In accordance with Chapter 32 Section 22 of the Massachusetts General Laws, the System has transferred its investments to the Commonwealth’s

PRIT fund because its funding ratio and rate of return in prior years has not met the standards established by PERAC.

At December 31, 2011, the System's investments consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>
Pooled Alternative Funds	\$ 2,667,691
Pooled Real Estate Funds	1,878,885
State Investment Pool*	<u>74,571,168</u>
Total investments	<u>\$ 79,117,744</u>

These investments are not rated.

*\*Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.*

#### **B. Custodial Credit Risk**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The System does not have a policy for custodial credit risk.

The System's investment in Pooled funds of \$ 79,117,744 were exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the system's brokerage firm, which is also the Counterparty to these securities. The System manages this risk with SIPC, Excess SIPC and because the assets are held in separately identifiable trust accounts. Of the System's total exposure, \$ 74,571,168 is invested in the State Investment Pool (PRIT).

#### **C. Concentration of Credit Risk**

The City's policy prohibits concentration in any one issuer. The City did not have any long-term investments at June 30, 2012.

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.

The System does not have an investment in one issuer greater than 5% of total investments, with the exception of the PRIT Fund.

***D. Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's current policy does not allow maturities of over one year. The current objective of the City is to have highly liquid investments (see note 3) to sustain adequate cash flow needs of the City. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

***E. Foreign Currency Risk***

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City does not have foreign investments. The System does not have a foreign currency risk policy.

**5. Taxes Receivable**

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

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

Taxes receivable at June 30, 2012 consist of the following (in thousands):

Real Estate		
2012		\$ 1,571
Personal Property		
2009 - 2012	21	
Prior	<u>283</u>	
		304
Tax Liens		<u>2,065</u>
Total		\$ <u>3,940</u>

## **6. Allowance for Doubtful Accounts**

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

Property taxes	\$ 356
Excises	288

## **7. User Fees Receivable**

User fees receivable in the enterprise fund includes amounts due from customers for water and sewer usage. Water and sewer delinquent receivables are liened in a similar manner as property taxes, described in Note 5.

## **8. Departmental and Other Receivables**

The City's departmental and other receivables at June 30, 2012 consist of the following:

	Fire	Police	Outside	Veterans	Other	Total
	Ambulance	Detail	Benefits			
Gross	\$ 1,021,722	\$ 125,900	\$ 364,146	\$ 583,746	\$ 2,095,514	
Less: Allowance for doubtful accounts	(306,517)	(18,885)	-	-	(325,402)	
Total	\$ <u>715,205</u>	\$ <u>107,015</u>	\$ <u>364,146</u>	\$ <u>583,746</u>	\$ <u>1,770,112</u>	

## **9. Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2012 and the amount to be drawn

down from Massachusetts Water Pollution Abatement Trust for the improvement of the water distribution system, which is included in the City's long-term debt.

## 10. Loans Receivable

Loans receivable represent collectible balances from developers for loans under Community Development Block Grant and Housing and Urban Development programs.

## 11. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 7,142	\$ 30	\$ -	\$ 7,172
Construction	107,823	97	-	107,920
Infrastructure	24,624	1,010	-	25,634
Machinery and equipment	9,561	317	(170)	9,708
Licenses and vehicles	9,588	560	-	10,148
Total capital assets, being depreciated	158,738	2,014	(170)	160,582
Less accumulated depreciation for:				
Land improvements	(4,711)	(234)	-	(4,945)
Construction	(47,829)	(2,097)	-	(49,926)
Infrastructure	(17,227)	(575)	-	(17,802)
Machinery and equipment	(8,560)	(198)	164	(8,594)
Licenses and vehicles	(8,673)	(268)	-	(8,941)
Total accumulated depreciation	(87,000)	(3,372)	164	(90,208)
Total capital assets, being depreciated, net	71,738	(1,358)	(6)	70,374
Capital assets, not being depreciated:				
Land, easements and right of way	9,210	-	-	9,210
Construction in progress	7,742	6,431	-	14,173
Total capital assets, not being depreciated	16,952	6,431	-	23,383
Governmental activities capital assets, net	\$ 88,690	\$ 5,073	\$ (6)	\$ 93,757

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Land improvements	\$ 218	\$ -	\$ -	\$ 218
Construction	34,431	23	-	34,454
Infrastructure	25,771	509	-	26,280
Machinery and equipment	2,526	145	(58)	2,613
Licenses and vehicles	<u>452</u>	<u>185</u>	<u>-</u>	<u>637</u>
Total capital assets, being depreciated	63,398	862	(58)	64,202
Less accumulated depreciation for:				
Land improvements	(210)	(2)	-	(212)
Construction	(6,323)	(708)	-	(7,031)
Infrastructure	(16,051)	(266)	-	(16,317)
Machinery and equipment	(1,676)	(64)	58	(1,682)
Licenses and vehicles	<u>(245)</u>	<u>(52)</u>	<u>-</u>	<u>(297)</u>
Total accumulated depreciation	<u>(24,505)</u>	<u>(1,092)</u>	<u>58</u>	<u>(25,539)</u>
Total capital assets, being depreciated, net	38,893	(230)	-	38,663
Capital assets, not being depreciated:				
Land, easements & right of way	<u>252</u>	<u>-</u>	<u>-</u>	<u>252</u>
Business-type activities capital assets, net	\$ <u>39,145</u>	\$ <u>(230)</u>	\$ <u>-</u>	\$ <u>38,915</u>

Depreciation expense was charged to functions of the City as follows (in thousands):

**Governmental Activities:**

General government	\$ 101
Public safety	167
Education	2,261
Public works	836
Culture and recreation	<u>7</u>
Total depreciation expense - governmental activities	\$ <u>3,372</u>

**Business-Type Activities:**

Enterprise	\$ <u>1,092</u>
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## **12. Warrants and Accounts Payable**

Warrants payable represent 2012 expenditures paid by July 15, 2012 as permitted by law. Accounts payable represent additional 2012 expenditures paid after July 15, 2012.

## **13. Accrued Liabilities**

The City had the following accrued liabilities as of June 30, 2012:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Salaries and wages	\$ 566,732	\$ 49,077
Debt interest	337,892	251,079
Tailings	50,696	4,000
ATB liability	62,229	-
Total accrued liabilities	\$ <u>1,017,549</u>	\$ <u>304,156</u>

## **14. Deferred Revenue**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2012 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

## **15. Loan and Anticipation Notes Payable**

The City had the following notes outstanding at June 30, 2012:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/12</u>
Methuen High School Revitalization	1.50%	05/14/12	08/10/12	\$ 8,500,000
Departmental Equipment	1.50%	02/03/12	08/10/12	<u>2,300,000</u>
Total				\$ <u>10,800,000</u>

The following summarizes activity in notes payable during fiscal year 2012:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
High School Revitalization	\$ 8,500,000	\$ 8,500,000	\$ (8,500,000)	\$ 8,500,000
Departmental Equipment	-	2,300,000	-	2,300,000
Revenue Anticipation	7,500,000	-	(7,500,000)	-
Sewer Rehabilitation	<u>166,243</u>	<u>335,349</u>	<u>(501,592)</u>	<u>-</u>
Total	<u>\$ 16,166,243</u>	<u>\$ 11,135,349</u>	<u>\$ (16,501,592)</u>	<u>\$ 10,800,000</u>

## **16. Other Current Liabilities**

Other current liabilities as of June 30, 2012 consist of the following:

	<u>Governmental Activities</u>
IBNR (see note 26)	\$ 1,239,692
Guaranteed deposits	1,141,040
Employee withholdings and other	<u>97,071</u>
Total other current liabilities	<u>\$ 2,477,803</u>

## **17. Capital Lease Obligations**

The City's outstanding lease agreements include the acquisition of computers, fire trucks, highway trucks, police vehicles and a communication system. These leases qualify as capital leases. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2012:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2013	\$ 62,742	\$ 105,606
2014	62,742	105,606
2015	-	62,665
2016	-	62,665
Total minimum lease payments	<u>125,484</u>	<u>336,542</u>
Less amount representing interest	<u>(5,664)</u>	<u>(38,644)</u>
Present Value of Minimum Lease Payments	<u>\$ 119,820</u>	<u>\$ 297,898</u>

The following is an analysis for the leased assets included in capital assets at June 30, 2012:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Machinery, vehicles and equipment	\$ 1,387,072	\$ 510,596
Less: accumulated depreciation	<u>(702,924)</u>	<u>(70,551)</u>
Equipment under capital leases, net	<u><u>684,148</u></u>	<u><u>440,045</u></u>

## 18. Long-Term Debt

### A. Long-Term Debt Supporting Activities

The City issues general obligation bonds to provide funds for the acquisition, construction, and improvements of major capital facilities and infrastructure. General obligation bonds have been issued for both governmental and business-type activities and are repaid with general and enterprise fund revenues. Compensated absences are paid from the fund responsible for the employee's compensation with significant liabilities paid from general fund and the rest from enterprise fund. Landfill closure costs are paid from general fund, and capital lease payments are made from general and enterprise funds.

### B. General Obligation Bonds and Other Long-Term Debt

General obligation bonds and loans currently outstanding are as follows:

<u>Governmental Activities:</u>	Original Issue <u>Amount</u>	Serial Maturities <u>Through</u>	Interest Rate(s)%	Amount Outstanding <u>as of 6/30/12</u>
Recreation	\$ 1,600,000	* 11/01/12	5.01%	\$ 105,000
Marsh School Expansion	17,399,400	* 11/01/16	4.80%	5,265,000
Timony School Expansion	21,190,000	* 11/01/16	5.01%	7,680,000
Landfill Closure	3,500,000	* 11/01/16	5.01%	920,000
Tenney School Expansion	22,850,000	* 05/15/17	4.79%	8,310,000
Additional School Expansion	6,500,000	* 10/15/19	5.00%	2,635,000
Library	4,800,000	* 10/15/19	5.00%	2,070,000
Road and Surface Drains	5,630,000	09/01/21	3.27%	1,500,000
Landfill Closure	85,000	09/01/21	3.91%	50,000
Road and Surface Drains	3,500,000	08/15/16	4.30%	760,000
Dileo Judgment	600,000	08/14/10	1.90%	<u>600,000</u>
Total Governmental Activities				<u><u>\$ 29,895,000</u></u>

\*Partially refunded, original amount shown

<u>Business-Type Activities:</u>		<u>Original Issue Amount</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of 6/30/12</u>
Sewer	\$	821,670	*	02/01/15	variable \$ 185,755
Sewer		395,100	*	08/01/18	variable 209,300
Storm Water Management		468,063	*	08/01/23	variable 318,117
Water Distribution System		5,786,500	*	07/15/25	2.00% 4,304,144
Water Distribution System		700,000		08/15/27	4.16% 605,000
Water Treatment Plant		1,250,000		08/15/27	4.16% 1,080,000
Water Distribution System		18,550,000	*	07/15/27	2.00% 15,431,590
Storm Water Management		200,000	*	07/15/27	2.00% 154,671
Water Tank		750,000	*	07/15/27	2.00% 407,251
Sewer Rehabilitation and Replacement		1,117,204	*	07/15/28	2.00% 926,712
Storm Water Management		12,243		07/15/27	2.00% 11,634
Water Treatment Plant Improvement		650,000		07/15/30	2.00% 599,895
Sewer Rehabilitation		452,604		07/15/32	2.00% 452,604
<b>Total Business-Type Activities</b>					<b>\$ 24,686,674</b>

\*Partially refunded, original amount shown.

### **C. Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2012 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 6,960,000	\$ 1,110,231	\$ 8,070,231
2014	6,080,000	838,301	6,918,301
2015	5,830,000	586,693	6,416,693
2016	5,475,000	348,221	5,823,221
2017	4,545,000	136,053	4,681,053
<b>2018-2022</b>	<b>1,005,000</b>	<b>70,558</b>	<b>1,075,558</b>
<b>Total</b>	<b>\$ 29,895,000</b>	<b>\$ 3,090,057</b>	<b>\$ 32,985,057</b>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,363,871	\$ 553,527	\$ 1,917,398
2014	1,430,233	517,671	1,947,904
2015	1,467,742	484,688	1,952,430
2016	1,433,921	451,743	1,885,664
2017	1,476,050	418,080	1,894,130
2018-2022	7,730,501	1,568,356	9,298,857
2023-2027	8,058,427	653,991	8,712,418
2028-2032	1,698,381	34,478	1,732,859
2033	<u>27,546</u>	<u>296</u>	<u>27,842</u>
Total	<u>\$ 24,686,672</u>	<u>\$ 4,682,830</u>	<u>\$ 29,369,502</u>

#### *D. Bond Authorizations*

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2012 are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
07/05/06	Sewer rehab and East Capital St. Project	\$ 202,796
07/05/06	Stormwater Management	681
06/15/10	Methuen High School	92,600,000
11/03/10	Sewer System Rehab Projects	<u>146,795</u>
Total		<u>\$ 92,950,272</u>

#### *E. Changes in General Long-Term Liabilities*

During the year ended June 30, 2012, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/11	Additions	Reductions	Total Balance 6/30/12	Less Current Portion	Equals Long-Term Portion 6/30/12
<b>Governmental Activities</b>						
General obligation debt	\$ 36,455	\$ -	\$ (6,560)	\$ 29,895	\$ (6,960)	\$ 22,935
Net OPEB obligation	28,152	13,207	(3,973)	37,386	-	37,386
Other:						
Capital leases	177	-	(57)	120	(59)	61
Landfill closure	680	-	(40)	640	(40)	600
Accrued employee benefits	3,448	-	(103)	3,345	(1,672)	1,673
Totals	<u>\$ 68,912</u>	<u>\$ 13,207</u>	<u>\$ (10,733)</u>	<u>\$ 71,386</u>	<u>\$ (8,731)</u>	<u>\$ 62,655</u>

	Total Balance 7/1/11	Additions	Reductions	Total Balance 6/30/12	Less Current Portion	Equals Long-Term Portion 6/30/12
<b>Business-Type Activities</b>						
General obligation debt	\$ 25,608	\$ 453	\$ (1,374)	\$ 24,687	\$ (1,364)	\$ 23,323
Net OPEB obligation	676	254	(76)	854		854
Other:						
Capital leases	117	281	(100)	298	(89)	209
Accrued employee benefits	176	-	(5)	171	-	171
Totals	\$ <u>26,577</u>	\$ <u>988</u>	\$ <u>(1,555)</u>	\$ <u>26,010</u>	\$ <u>(1,453)</u>	\$ <u>24,557</u>

General obligation bonds, issued by the City for various municipal projects, are approved by City Council and repaid with revenues from the General Fund. Compensated absences and capital leases are repaid from the funds that the costs relate to, mostly general fund and also enterprise fund. Landfill closure costs are repaid from general fund revenues.

#### *F. Prior Year Defeasance of Debt*

In prior years, certain outstanding bonds were defeased by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the financial statements.

Defeased debt still outstanding at June 30, 2012 is \$ 5,250,000.

### **19. Subsequent Events**

The City issued a general obligation state qualified municipal purpose loans for court judgment, departmental equipment, and High School Revitalization on August 1, 2012 in the amount of \$ 11,394,000 maturing between September 1, 2029 and September 1, 2041 with an interest rate ranging from 2.00 to 5.00 percent.

### **20. Landfill Closure and Postclosure Care Costs**

State and Federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure.

The \$ 640,000 is reported as landfill postclosure care liability at June 30, 2012. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

## 21. **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, 2012:

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 general fund reserves for prepaid expenditures and 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 general fund encumbrances 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 at City Meeting, capital reserve funds set aside by City Meeting vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and various special revenue funds.

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.

Following is a breakdown of the City's fund balances at June 30, 2012:

	<u>General Fund</u>	<u>High School Revitalization</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable				
Nonexpendable perpetual care permanent fund	\$ <u>        -</u>	\$ <u>        -</u>	\$ <u>432,814</u>	\$ <u>432,814</u>
Total Nonspendable	-	-	432,814	432,814
Restricted				
Bonded projects	-	-	200,783	200,783
Special revenue funds:				
Community development	-	-	275,557	275,557
School lunch	-	-	163,106	163,106
Revolving fund	-	-	3,084,295	3,084,295
State grants	-	-	170,025	170,025
Federal grants	-	-	418,328	418,328
Other funds	-	-	226,307	226,307
Law enforcement trust	-	-	4,673	4,673
Expendable trust	-	-	187,903	187,903
Other trusts	<u>        -</u>	<u>        -</u>	<u>36,749</u>	<u>36,749</u>
Total Restricted	-	-	4,767,726	4,767,726
Committed				
School stabilization	<u>        48,799</u>	<u>        -</u>	<u>        -</u>	<u>        48,799</u>
Total Committed	48,799	-	-	48,799
Assigned				
General government	104,856	-	-	104,856
Public safety	51,012	-	-	51,012
Education	263,757	-	-	263,757
Public works	181,023	-	-	181,023
Health and human services	2,070	-	-	2,070
Culture and recreation	562	-	-	562
City stabilization	<u>        300,647</u>	<u>        -</u>	<u>        -</u>	<u>        300,647</u>
Total Assigned	903,927	-	-	903,927
Unassigned	<u>        1,453,939</u>	<u>        (7,597,280)</u>	<u>        (684,437)</u>	<u>        (6,827,778)</u>
Total Unassigned	<u>        1,453,939</u>	<u>        (7,597,280)</u>	<u>        (684,437)</u>	<u>        (6,827,778)</u>
Total Fund Balance	<u>        \$ 2,406,665</u>	<u>        \$ (7,597,280)</u>	<u>        \$ 4,516,103</u>	<u>        \$ (674,512)</u>

## 22. Restricted Net Assets

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

## **23. Commitments and Contingencies**

Outstanding Legal Issues - There are several pending legal issues in which the City is involved. The City's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

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.

## **24. Post-Employment Healthcare and Life Insurance Benefits**

### **Other Post-Employment Benefits**

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

#### ***A. Plan Description***

In addition to providing the pension benefits described, the City provides post-employment healthcare and life insurance benefits for retired employees through the City's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2008, the actuarial valuation date, approximately 763 retirees and 794 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

#### ***B. Benefits Provided***

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

***C. Funding Policy***

Medicare retirees contribute 20% and Tufts or Blue Cross retirees contribute 38% of the cost of the health plan, as determined by the City. The City contributes the remainder of the health plan costs on a pay-as-you-go basis.

***D. Annual OPEB Costs and Net OPEB Obligation***

The City's fiscal 2012 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2012, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of December 31, 2011.

Annual Required Contribution (ARC)	\$ 13,358,387
Interest on net OPEB obligation	1,153,702
Adjustment to ARC	<u>(1,050,559)</u>
Annual OPEB cost	13,461,530
Contributions made	<u>4,049,325</u>
Increase in net OPEB obligation	9,412,205
Net OPEB obligation - beginning of year	<u>28,828,625</u>
Net OPEB obligation - end of year	\$ <u>38,240,830</u>

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

Fiscal year ended	Percentage of OPEB		
	Annual OPEB Cost	Cost Contributed	Net OPEB Obligation
2012	\$ 13,461,530	30.1%	\$ 38,240,830
2011	\$ 12,826,083	28.8%	\$ 28,828,625
2010	\$ 14,340,252	31.3%	\$ 19,692,532
2009	\$ 14,340,252	31.3%	\$ 9,846,266

*E. Funded Status and Funding Progress*

The funded status of the plan as of December 31, 2011, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 206,686,174
Actuarial value of plan assets	<hr/> -
Unfunded actuarial accrued liability (UAAL)	\$ <u>206,686,174</u>
Funded ratio (actuarial value of plan assets/AAL)	<hr/> 0%
Covered payroll (active plan members)	<hr/> N/A
UAAL as a percentage of covered payroll	<hr/> N/A

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*F. Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the plan as understood by the City and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2011 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advance funded its obligation. The actuarial assumptions included a 4.0% investment rate of return and an initial annual healthcare cost trend rate of 9.0% which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level

percentage of payroll for a period of 30 years, on an open basis. This has been calculated assuming the amortization payment increases at a rate of 3.5%.

## **25. Contributory Retirement System**

The City follows the provisions of GASB Statement No. 27, Accounting for Pensions for State and Local Government Employees, (as amended by GASB 50) with respect to the employees' retirement funds.

### ***A. Plan Description and Contribution Information***

Substantially all employees of the City (except teachers and administrators under contract employed by the School Department) are members of the Methuen Contributory Retirement System (MCRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the MCRS. 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 MCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The MCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2011:

Retirees and beneficiaries receiving benefits	419
Terminated plan members entitled to but not yet receiving benefits	75
Active plan members	<u>609</u>
Total	<u><u>1,103</u></u>
Number of participating employers	2

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings 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%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC). The City's Schedule of Employer Contributions is as follows:

Year Ended <u>June 30</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2012	\$ 7,395,000	100%
2011	6,600,000	100%
2010	6,600,000	100%
2009	6,000,000	100%
2008	5,362,000	100%
2007	5,160,000	100%
2006	4,966,000	100%
2005	3,186,100	100%
2004	2,244,581	100%
2003	2,772,000	100%

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

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

**Method Used to Value Investments** - Investments is reported at fair value in accordance with PERAC requirements.

***C. Funded Status and Funding Progress***

The information presented below is from the Methuen Contributory Retirement System's most recent valuation.

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued			Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
		Actuarial Assets <u>(a)</u>	Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>				
01/01/12	\$ 86,498,317	\$ 184,918,524	\$ 98,420,207	46.8%	\$ 29,440,881			334.3%

The Schedule of Funding Progress following the notes to the financial statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

*D. Actuarial Methods and Assumptions*

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$ 98 million was calculated. The actuarial assumptions included (a) 8% investment rate of return and (b) a projected salary increase of 4.75 - 5.25% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first \$ 12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of December 31, 2011, the unfunded actuarially accrued liability is being amortized over 30 years using a 4.0% increasing payment method.

*E. Teachers*

As required by State statutes, teachers of the City are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The City is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$ 30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7% *
January 1, 1984 - June 30, 1996	8% *
July 1, 1996 - June 30, 2001	9% *
Beginning July 1, 2001	11%

\*Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$ 30,000.

The City's current year covered payroll for teachers and administrators was not available.

In fiscal year 2012, the Commonwealth of Massachusetts contributed \$ 10,660,847 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

## **26. Self-insurance**

The City self-insures for health coverage. Annual estimated requirements for claims are provided in the City's annual operating budget. 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 claims up to \$ 125,000 per incident. The claims liability represents an estimate of claims incurred but unpaid at year-end, based on past historical costs and claims paid subsequent to year-end.

Changes in the aggregate liability for claims for the year ended June 30, 2012 are as follows:

	Year Ended <u>June 30, 2012</u>	Year Ended <u>June 30, 2011</u>
Unpaid claims, beginning of fiscal year	\$ 836,917	\$ 1,115,809
Claims incurred (including IBNRs)	16,009,571	14,191,788
Claims paid	<u>(15,606,796)</u>	<u>(14,470,680)</u>
Unpaid claims, end of fiscal year	<u>\$ 1,239,692 *</u>	<u>\$ 836,917</u>

\* This liability is considered to be all current.

The \$ 1,239,692 estimated liability for claims incurred but not reported includes only an estimate for known loss events expected to later be presented as claims. The City is unable to estimate the amount of unknown loss events expected to become claims and expected future developments on claims already reported. Tufts Health Plan calculates the IBNR on the City's behalf, using actual utilization data to assign costs to the fiscal year in which they were incurred. As a result, the City believes that the estimate is reasonable.

## **27. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

## **28. Implementation of New GASB Standards**

The GASB has issued Statement No. 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015.

Management's current assessment is that this pronouncement will have a significant impact on the City's basic financial statements by recognizing as a liability and expense, the City's applicable portion of the City of Methuen's actuarially accrued liability.

**CITY OF METHUEN, MASSACHUSETTS**  
**SCHEDULE OF FUNDING PROGRESS**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2012**

**(Unaudited)**

**Employees' Retirement System**

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
01/01/12	\$ 86,498,317	\$ 184,918,524	\$ 98,420,207	46.8%	\$ 29,440,881	334.3%
01/01/10	\$ 83,414,310	\$ 168,427,213	\$ 85,012,903	49.5%	\$ 29,781,891	285.5%
01/01/08	\$ 87,315,553	\$ 154,331,693	\$ 67,016,140	56.6%	\$ 30,100,933	222.6%
01/01/07	\$ 79,875,823	\$ 146,337,558	\$ 66,461,735	54.6%	\$ 29,257,209	227.2%
01/01/04	\$ 71,932,860	\$ 117,599,583	\$ 45,666,723	61.2%	\$ 25,933,704	176.1%
01/01/01	\$ 68,625,708	\$ 92,496,265	\$ 23,870,557	74.2%	\$ 22,480,573	106.2%
01/01/97	\$ 42,617,519	\$ 66,863,478	\$ 24,245,959	63.7%	\$ 16,295,087	148.8%
01/01/96	\$ 37,886,763	\$ 58,261,376	\$ 20,374,613	65.0%	\$ 15,520,687	131.3%
01/01/93	\$ 25,970,674	\$ 45,965,677	\$ 19,995,003	56.5%	\$ 14,905,887	134.1%

**Other Post-Employment Benefits**

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
12/31/11	\$ -	\$ 206,686,174	\$ 206,686,174	0.0%	N/A	N/A
06/30/08	\$ -	\$ 209,816,378	\$ 209,816,378	0.0%	\$ 80,056,909	262.1%

See Independent Auditors' Report.