

**CITY OF METHUEN, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2014**

## TABLE OF CONTENTS

	<u>Page</u>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	4
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-wide Financial Statements:</b>	
Statement of Net Position	17
Statement of Activities	18
<b>Governmental Funds:</b>	
Balance Sheet	20
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities in the Statement of Net Position	21
Statement of Revenues, Expenditures, and Changes in Fund Balances	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	23
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	24
<b>Proprietary Funds:</b>	
Statement of Net Position	25
Statement of Revenues, Expenses, and Changes in Fund Net Position	26
Statement of Cash Flows	27
<b>Fiduciary Funds:</b>	
Statement of Fiduciary Net Position	28
Statement of Changes in Fiduciary Net Position	29
<b>Notes to Financial Statements</b>	30
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
Schedule of Funding Progress	61

**INDEPENDENT AUDITORS' REPORT**

To the Mayor and City Council  
City of Methuen, Massachusetts

Additional Offices:  
Nashua, NH  
Manchester, NH  
Greenfield, MA  
Ellsworth, ME

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Methuen, Massachusetts, as of and for the year ended June 30, 2014, (except for the Methuen Contributory Retirement System, which is as of and for the year ended December 31, 2013) and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

**Management's Responsibility for the Financial Statements**

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and

fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, 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, Massachusetts, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Schedule of Funding Progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

### *Other Reporting Required by Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that

report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

*Melanson Heath*

March 26, 2015

## **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, 2014.

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

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, 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 and deferred outflows of resources exceeded liabilities by \$101,518,998 (i.e., net position), a change of \$25,332,642 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances (deficit) of \$(20,728,736), a change of \$(12,474,376) in comparison to the prior year. The governmental funds deficit results from financing the High School Revitalization major fund with a \$30,000,000 bond anticipation note. The deficit will be eliminated when permanently financed.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,738,612, a change of \$39,944 in comparison to the prior year.
- Total bonds and loans payable, including unamortized premium at the close of the current fiscal year were \$50,086,374, a change of \$(8,066,788) in comparison to the prior year.
- Total notes payable at the close of the current fiscal year were \$30,000,000, a change of \$15,000,000 in comparison to the prior year.

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

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

The largest portion of net position \$132,817,384 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 position of \$8,269,453 represents resources that are subject to external restrictions on how they may be used. The remaining amount is a deficit of \$(39,567,839).

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

### Summary of Net Position (000s)

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 30,504	\$ 31,562	\$ 9,451	\$ 10,231	\$ 39,955	\$ 41,793
Capital assets	<u>173,589</u>	<u>136,770</u>	<u>36,945</u>	<u>37,822</u>	<u>210,534</u>	<u>174,592</u>
Total assets	204,093	168,332	46,396	48,053	250,489	216,385
Deferred outflows of resources	<u>141</u>	<u>281</u>	<u>-</u>	<u>-</u>	<u>141</u>	<u>281</u>
Total assets and deferred outflows or resources	<u>\$ 204,234</u>	<u>\$ 168,613</u>	<u>\$ 46,396</u>	<u>\$ 48,053</u>	<u>\$ 250,630</u>	<u>\$ 216,666</u>
Long-term liabilities	85,182	86,079	23,290	24,752	108,472	110,831
Other liabilities	<u>40,147</u>	<u>29,103</u>	<u>492</u>	<u>546</u>	<u>40,639</u>	<u>29,649</u>
Total liabilities	125,329	115,182	23,782	25,298	149,111	140,480
Net position:						
Net investment in capital assets	117,742	87,380	15,076	14,452	132,818	101,832
Restricted	8,175	7,500	94	959	8,269	8,459
Unrestricted	<u>(47,012)</u>	<u>(41,449)</u>	<u>7,444</u>	<u>7,344</u>	<u>(39,568)</u>	<u>(34,105)</u>
Total net position	<u>78,905</u>	<u>53,431</u>	<u>22,614</u>	<u>22,755</u>	<u>101,519</u>	<u>76,186</u>
Total liabilities and net position	<u>\$ 204,234</u>	<u>\$ 168,613</u>	<u>\$ 46,396</u>	<u>\$ 48,053</u>	<u>\$ 250,630</u>	<u>\$ 216,666</u>

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

## Summary of Changes in Net Position (000s)

	Governmental		Business-Type		Totals	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 9,226	\$ 9,351	\$ 10,116	\$ 10,502	\$ 19,342	\$ 19,853
Operating grants and contributions	60,994	60,225	20	11	61,014	60,236
Capital grants and contributions	1,930	991	-	-	1,930	991
General revenues						
Property Taxes	70,822	67,780	-	-	70,822	67,780
Excises	5,253	5,020	-	-	5,253	5,020
Local option meals tax	727	580	-	-	727	580
Interest and penalties	583	511	-	-	583	511
Grants and contributions not restricted to specific programs	36,230	36,944	-	-	36,230	36,944
Investment income	40	31	13	10	53	41
Other	<u>403</u>	<u>559</u>	<u>-</u>	<u>-</u>	<u>403</u>	<u>559</u>
Total revenues	<u>186,208</u>	<u>181,992</u>	<u>10,149</u>	<u>10,523</u>	<u>196,357</u>	<u>192,515</u>
<b>Expenses:</b>						
General government	16,576	16,200	-	-	16,576	16,200
Public safety	23,755	23,583	-	-	23,755	23,583
Education	106,238	107,325	-	-	106,238	107,325
Public works	8,315	8,082	-	-	8,315	8,082
Sanitation	2,502	2,392	-	-	2,502	2,392
Health and human services	1,584	1,585	-	-	1,584	1,585
Culture and recreation	1,680	1,889	-	-	1,680	1,889
Interest and costs	1,438	1,538	-	-	1,438	1,538
Enterprise services	<u>-</u>	<u>-</u>	<u>8,936</u>	<u>8,937</u>	<u>8,936</u>	<u>8,937</u>
Total expenses	<u>162,088</u>	<u>162,594</u>	<u>8,936</u>	<u>8,937</u>	<u>171,024</u>	<u>171,531</u>
Change in net position before transfers	24,120	19,398	1,213	1,586	25,333	20,984
Transfers in (out)	<u>1,354</u>	<u>1,340</u>	<u>(1,354)</u>	<u>(1,340)</u>	<u>-</u>	<u>-</u>
Change in net position	<u>25,474</u>	<u>20,738</u>	<u>(141)</u>	<u>246</u>	<u>25,333</u>	<u>20,984</u>
Beginning net position	<u>53,431</u>	<u>32,693</u>	<u>22,755</u>	<u>22,509</u>	<u>76,186</u>	<u>55,202</u>
Ending net position	<u><b>\$ 78,905</b></u>	<u><b>\$ 53,431</b></u>	<u><b>\$ 22,614</b></u>	<u><b>\$ 22,755</b></u>	<u><b>\$ 101,519</b></u>	<u><b>\$ 76,186</b></u>

**Governmental Activities** - The City's governmental activities resulted in a change in net position of \$25,474,013. The change was primarily attributed to MSBA grants for the High School Revitalization Project. Property tax collections continued to remain strong. The City's revenues increased by 2.3 percent or \$4,215,158, while expenses decreased by 0.3 percent or \$(507,814).

The cost of all governmental activities this year was \$162,087,362 compared to \$162,595,176 last year. A portion of the cost was paid by:

- Those who directly benefited from the programs, reported as charges for services of \$9,226,167.
- Other governments and organizations that subsidized certain programs with operating and capital grants and contributions in the amount of \$62,923,769.

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 amount that our taxpayers ultimately financed for these activities through property taxes was \$70,822,159. Grants and contributions not restricted to specific programs amounted to \$36,229,534.

The City’s tax rate increased from fiscal year 2013 to 2014 for residential and commercial properties from \$14.40 to \$14.85 and from \$24.12 to \$24.81, respectively. Overall, the City’s total governmental revenues remained steady, including State Education Aid in the amount of \$40,306,473 comparing to \$39,366,234 in the prior year and Methuen High School construction grant reimbursement from Massachusetts School Business Authority in the amount of \$25,360,157 in the current year and \$26,249,318 in the prior year. About half of the total revenues or 53 percent were derived from grants and contributions.

The table below presents the largest activities resulting in the change in governmental activities net position (in thousands).

MSBA grants for capital assets	\$ 25,360
Other capital asset additions funded by revenues	3,201
Debt service in excess of depreciation	2,730
Increase in net OPEB obligation	<u>(5,817)</u>
Total	<u>\$ 25,474</u>

**Business-type Activities** - Business-type activities for the year resulted in a change in net position of \$(141,371). Therefore, the City’s net position in business-type activities remained virtually unchanged as a result of this year’s operations.

#### **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 infor-

mation 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.

At the end of the current fiscal year, the governmental funds reported a combined fund deficit of \$(20,728,736) with a net change in fund balance of \$(12,474,376). The governmental funds deficit results from financing the High School Revitalization major fund with a \$30,000,000 bond anticipation note. The deficit will be eliminated when permanently financed.

The General Fund is the chief operating fund. At the end of the fiscal year, fund balance categories of the General Fund are as follows (in thousands):

<u>General Fund</u>	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>	<u>Balance % of Total General Fund Expenditures</u>
				<u>6/30/14</u>
Assigned	\$ 378	\$ 544	\$ (166)	0.3%
Unassigned	<u>2,739</u>	<u>2,699</u>	(a) <u>40</u>	<u>1.9%</u>
Total fund balance	<u>\$ 3,117</u>	<u>\$ 3,243</u>	<u>\$ (126)</u>	<u>2.1%</u>

(a) June 30, 2013 Stabilization balance has been reclassified to unassigned

Unassigned fund balance increased by \$39,944. Revenues increased 4.2% over prior year while expenditures increased 4.6%. The increase in revenue was due to local revenues, primarily in the areas of Property Taxes, Motor Vehicle Excise Taxes, and Local Option Meals Taxes. Increase in expenditures was primarily due to Public Safety and Education costs, which increased by 6% and 5%, respectively.

**Proprietary funds.** Proprietary funds include the water and sewer enterprise fund and the health insurance internal service fund. 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 2014 the \$100 million High School Renovation was 99% complete and is projected to be under budget. The High School reopened in September 2014. The \$100 million renovation of Methuen High School represents a major investment in the community that will set the stage for future growth. The High School project was long overdue and a necessary component to a high quality school system necessary to attract employers and their families to the community.

Another significant project that will help bolster the economy is the rerouting of a rotary off of Highway Interstate 93. The rotary project broke ground in the spring and is expected to be completed in 2017. The rotary project will improve traffic flow and capacity and open potential development opportunities that were previously turned away due to access issues. More than 100 acres of developable land area exists west of the rotary and there is a renewed interest in potential development sites. It is anticipated the City of Methuen will see a surge in new commercial growth as the project nears completion.

The City's residential properties account for about 84% of total assessed valuation with commercial and industrial properties accounting for 13%. Once the Rotary project is nearing completion it is anticipated the City of Methuen will see a surge in new commercial growth. We feel that a significant shift will occur between residential and commercial assessed valuations, which will ease the burden of residential taxes from homeowners.

The City's started off FY 2014 with a free cash certification of \$1,255,673 and our Stabilization Fund disclosed a balance of \$1,224,726 at year end. The overall budget increased by 4.31% or \$5,987,176 with a majority of the increase going towards education and public safety. The assessed valuation was set at \$4,311,448,406 an increase of \$50,506,600 in new growth valuation which in turn adds \$920,383 in tax levy growth. Our tax levy used to support the Fiscal Year 2014 budget was \$71,061,039 which is below our actual tax levy governed by Proposition 2 ½ of \$74,648,948. The City of Methuen, after the adoption of the tax rate is \$3,587,909 below the levy limit. The Water and Sewer Enterprise fund was certified by the Department of Revenue with \$3,549,702 in available funds as of 07/01/13.

The City of Methuen's Health Insurance Trust Fund continues to remain healthy. The account is disclosing a balance of \$2,182,774 after reserving \$1,342,245 for incurred but not reported claims. However, health insurance continues to have a significant impact on the operating budget with an appropriation of \$9,822,913 in FY 2014. 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 maintain a Health Insurance plan that works for the employee and the employer as evident by the remarkable turnaround in the Health Insurance Trust Fund.

It appears the trend of annual appropriations from free cash, and draws on available reserves such as the stabilization fund to balance operations has ended. The City Council has made a conscious effort not to allow the use of reserves to balance the budget and their attention is focused on building the City of Methuen reserves with an eye on improving our bond rating.

By the time Fiscal Year 2014 was closed the City was in good working order with an administration that is working with legislative body to instill sound financial policies that will enhance the City's financial condition.

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

**Capital assets.** Total capital assets for governmental and business-type activities at year-end amounted to \$210,534,605 (net of accumulated depreciation), a change of \$35,942,881 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:

City of Methuen's Capital Assets (000s) (net of accumulated depreciation)							
	Governmental Activities		Business-type Activities		Totals		2013
	2014	2013	2014	2013	2014	2013	
Land improvements	\$ 1,775	\$ 2,011	\$ 10	\$ 3	\$ 1,785	\$ 2,014	
Construction	148,482	55,949	25,615	26,324	174,097	82,273	
Infrastructure	8,315	7,918	9,839	9,720	18,154	17,638	
Machinery and equipment	4,117	2,593	961	860	5,078	3,453	
Licensed vehicles	1,690	2,010	268	273	1,958	2,283	
Land, easements, and right of way	9,210	9,210	252	252	9,462	9,462	
Construction in progress	-	57,078	-	-	-	57,078	
Total net capital assets	\$ 173,589	\$ 136,769	\$ 36,945	\$ 37,432	\$ 210,534	\$ 174,201	

Major capital asset acquisitions during the current fiscal year consist of the following (in thousands):

Governmental	
High School renovation	\$ 37,454
School machinery and equipment	1,481
Pleasant Valley Street infrastructure	1,049
Fire communications system	385
Tenney School playground rehab	187
Business-Type:	
Gravity sewer	\$ 60

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

**Long-Term Debt.** At the end of the current fiscal year, total bonded debt including long-term loans outstanding and unamortized premiums was \$50,086,374, all of which was backed by the full faith and credit of the government. Moody's downgraded the rating to A2 in July 2013, but removed the negative outlook.

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

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

As we look to Fiscal Year 2015 with the High School Renovation Project completed and scheduled to open in September the administration is focusing on our Capital Improvement Program. Significant improvements and upgrades are needed in the Department of Public works, Public Safety and some infrastructure needs in various locations throughout the municipality. One way of addressing the Capital Improvement Projects is the City of Methuen and the Merrimack Valley Planning Commission issued a Request for Qualification to Energy Service Companies to provide for Comprehensive Energy Management Services for its member communities. Ameresco submitted a proposal and was subsequently awarded the contract. The program utilizes a multiple step design/development process beginning with a preliminary Energy Audit and followed by a refined and detailed Investment Grade Audit. This audit is a key step in developing a successful energy savings and infrastructure improvement project focusing on the exact needs and desires of the City of Methuen. The purpose of the Investment Grade Audit is to analyze and quantify the feasibility of installing certain improvements or energy conservation measures throughout the City of Methuen. The Investment Grade Audit will form the basis for the subsequent Energy Savings Agreement which will enable the design and construction phase. The Investment Grade Audit quantifies how the City will be able to reduce utility costs nearly \$300,000 annually through the acquisition of just over \$3.7 million dollars in Capital Improvements, net of projected utility company rebates. This investment however will not require any up-front capital by the City. The City will achieve these improvements via a Performance Contract designed to extract inefficiencies in the current utility operating budgets to self-fund the project from future savings. Payments will be made over time utilizing Ameresco guaranteed annual energy savings for security. The initial capital investment does not exceed the available energy cost savings over a 20 year period as stipulated by MGL Chapters 25A governing procurement contract.

The Administration is also interested in upgrading the Methuen High School Athletic and Football complex. The project consist of constructing a new clubhouse facility, remodeling the existing clubhouse facility for use as locker rooms and public bathrooms, various handicap accessibility improvements, constructing two new synthetic turf fields, and re-grading and re-seeding the existing practice field, including the payment of all costs incidental and related thereto. This project is estimated to cost \$4.6 million dollars with an alternative financing plan for the proposed stadium renovation project that will eliminate the impact of the project on general fund revenues and residential property taxes while allowing the entire project to be built as needed. The goal of the plan is to identify dedicated revenue sources associated with the stadium that can offset the debt service costs and commit those funds to the debt service for the life of the bond. The plan also contemplates utilizing existing revenue from the recreation revolving fund, meals tax and existing and proposed billboard revenue. With this plan, there is no impact to residential property taxes. New dedicated revenues, in the form of modest projections from the rental and advertising fees of the new facility, are identified and committed to the debt

service. Each revenue source has a direct or indirect correlation to the proposed project rather than revenue generated from taxpayers who may or may not benefit from the stadium.

#### FISCAL YEAR 2015 BUDGET:

Finally, the municipal operating budget is calling for level funded appropriations from the individual departments. The Administration will have to address contract negotiations with all unions and bargaining units, as they are out of contract in Fiscal Year 2015. At first glance, the major contributing areas of significant increases will be in Education and Fixed costs.

**Fixed Costs:** Preliminary numbers are showing an increase of \$234,000 or 2.38% in Health Insurance costs. Debt Service will see a decrease in the amount of \$276,625, while Pensions costs will see an increase of \$780,000.

**Education:** Governed by Chapter 70 the Methuen School System is looking for an increase of \$2.5 million and the Greater Lawrence Regional Vocation Technical High School is disclosing an increase of \$600,000.

There are some significant hurdles to overcome for Fiscal Year 2015 however additional new growth and a slight shift from residential to commercial should assist the administration in holding any tax increase to a modest level.

#### General Fund Budget

	FY 2014	FY 2015	Increase (Decrease)	% Change
City	\$ 63,540 <sup>(1)</sup>	\$ 65,239 <sup>(1)</sup>	\$ 1,699	2.67%
School	69,477	73,209	3,732	5.37%
County	1,886	1,449	(437)	-23.17%
Enterprise Fund	<u>9,906</u> <sup>(2)</sup>	<u>9,931</u> <sup>(2)</sup>	25	0.25%
 Total Budget	 <u>\$ 144,809</u>	 <u>\$ 149,828</u>	 \$ 5,019	 3.47%

<sup>(1)</sup> Includes reserve for abatements and exemptions and cherry sheet offsets.

<sup>(2)</sup> Excludes indirect costs.

#### Tax Levy

	FY 2014	FY 2015	Increase (Decrease)	% Change
General Government	\$ 21,867	\$ 22,450	\$ 583	2.67%
Fixed Costs	19,576	20,770	1,194	6.10%
School	29,236	32,039	2,803	9.59%
Overlay	382	308	(74)	-19.37%
Court Judgment	-	13	13	100.00%
 Total Levy	 <u>\$ 71,061</u>	 <u>\$ 75,580</u>	 \$ 4,519	 6.36%

**Tax Rate**

	<u>FY 2014</u>	<u>FY 2015</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Residential	\$ 14.85	\$ 14.60	\$ (0.25)	-1.68%
Commercial	\$ 24.81	\$ 25.57	\$ 0.76	3.06%

**Valuation by Classification**

<u>Classification</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Residential	\$ 3,605,020	\$ 3,900,028	\$ 295,008	8.18%
Commercial	404,752	423,671	18,919	4.67%
Industrial	146,594	148,473	1,879	1.28%
Personal Property	155,082	156,802	1,720	1.11%
	<u>\$ 4,311,448</u>	<u>\$ 4,628,974</u>	<u>\$ 317,526</u>	<u>7.36%</u>

**Utility Fund Budget**

	<u>FY 2014</u>	<u>FY 2015</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Water & Sewer Enterprise Fund	\$ 11,260	\$ 11,284	\$ 24	0.21%

**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

This page intentionally left blank

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
Assets:			
Current:			
Cash and short-term investments	\$ 18,410,170	\$ 5,450,490	\$ 23,860,660
Receivables, net of allowance for uncollectibles:			
Property taxes	3,189,430	-	3,189,430
Excises	1,232,435	-	1,232,435
User fees	-	4,000,010	4,000,010
Assessments	275,840	-	275,840
Departmental and other	1,713,285	-	1,713,285
Intergovernmental	1,578,431	-	1,578,431
Loans	<u>3,687,400</u>	<u>-</u>	<u>3,687,400</u>
Total current assets	30,086,991	9,450,500	39,537,491
Noncurrent:			
Property taxes	416,926	-	416,926
Capital assets:			
Nondepreciable capital assets	9,210,451	251,550	9,462,001
Other capital assets, net of accumulated depreciation	<u>164,378,993</u>	<u>36,693,611</u>	<u>201,072,604</u>
Total noncurrent assets	<u>174,006,370</u>	<u>36,945,161</u>	<u>210,951,531</u>
<b>TOTAL ASSETS</b>	<b>204,093,361</b>	<b>46,395,661</b>	<b>250,489,022</b>
Deferred Outflows of Resources	<u>140,597</u>	<u>-</u>	<u>140,597</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 204,233,958</b>	<b>\$ 46,395,661</b>	<b>\$ 250,629,619</b>
<b>LIABILITIES AND NET POSITION</b>			
Liabilities:			
Current:			
Warrants and accounts payable	\$ 6,015,947	\$ 206,641	\$ 6,222,588
Accrued liabilities	1,568,997	285,612	1,854,609
Notes payable	30,000,000	-	30,000,000
Other current liabilities	2,561,634	-	2,561,634
Current portion of long-term liabilities:			
Bonds and loans payable	6,368,424	1,466,597	7,835,021
Other liabilities	<u>1,889,702</u>	<u>55,988</u>	<u>1,945,690</u>
Total current liabilities	48,404,704	2,014,838	50,419,542
Noncurrent:			
Bonds and loans payable, net of current portion	21,854,513	20,396,840	42,251,353
Net OPEB obligation	52,603,123	1,131,721	53,734,844
Other liabilities, net of current portion	<u>2,466,491</u>	<u>238,391</u>	<u>2,704,882</u>
Total noncurrent liabilities	<u>76,924,127</u>	<u>21,766,952</u>	<u>98,691,079</u>
<b>TOTAL LIABILITIES</b>	<b>125,328,831</b>	<b>23,781,790</b>	<b>149,110,621</b>
Net Position:			
Net investment in capital assets	117,741,539	15,075,845	132,817,384
Restricted externally or constitutionally for:			
Loan and grant programs and other restrictions	7,758,063	-	7,758,063
Sewer mitigation	-	94,334	94,334
Permanent fund - nonexpendable	417,056	-	417,056
Unrestricted (deficit)	<u>(47,011,531)</u>	<u>7,443,692</u>	<u>(39,567,839)</u>
<b>TOTAL NET POSITION</b>	<b>78,905,127</b>	<b>22,613,871</b>	<b>101,518,998</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 204,233,958</b>	<b>\$ 46,395,661</b>	<b>\$ 250,629,619</b>

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

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Expenses</u>	Program Revenues		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental Activities:</b>				
General government	\$ 16,576,480	\$ 1,709,011	\$ 68,984	\$ -
Public safety	23,754,856	2,585,634	407,130	-
Education	106,237,522	3,191,802	60,399,128	-
Public works	8,314,985	415,833	-	1,929,684
Sanitation	2,501,622	-	-	-
Health and human services	1,584,133	126,948	118,843	-
Culture and recreation	1,679,971	1,196,939	-	-
Interest	1,437,793	-	-	-
Total Governmental Activities	162,087,362	9,226,167	60,994,085	1,929,684
<b>Business-Type Activities:</b>				
Enterprise services	8,935,798	10,115,530	19,899	-
Total	\$ 171,023,160	\$ 19,341,697	\$ 61,013,984	\$ 1,929,684

**General Revenues and Transfers:**

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

Total general revenues and transfers

Change in Net Position

**Net Position:**

Beginning of year

End of year

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

Net (Expenses) Revenues and Changes in Net Position			
Business-			
Governmental <u>Activities</u>	Type <u>Activities</u>	<u>Total</u>	
\$ (14,798,485)	\$ -	\$ (14,798,485)	
(20,762,092)	-	(20,762,092)	
(42,646,592)	-	(42,646,592)	
(5,969,468)	-	(5,969,468)	
(2,501,622)	-	(2,501,622)	
(1,338,342)	-	(1,338,342)	
(483,032)	-	(483,032)	
(1,437,793)	-	(1,437,793)	
(89,937,426)	-	(89,937,426)	
	1,199,631	1,199,631	
	1,199,631		
		(88,737,795)	
70,822,159	-	70,822,159	
5,252,779	-	5,252,779	
726,942	-	726,942	
582,975	-	582,975	
36,229,534	-	36,229,534	
40,554	12,816	53,370	
402,678	-	402,678	
1,353,818	(1,353,818)		-
115,411,439	(1,341,002)	114,070,437	
25,474,013	(141,371)	25,332,642	
53,431,114	22,755,242	76,186,356	
\$ 78,905,127	\$ 22,613,871	\$ 101,518,998	

CITY OF METHUEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	General	High School Revitalization	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and short-term investments	\$ 5,957,889	\$ 5,436,450	\$ 3,450,627	\$ 14,844,966
Receivables:				
Property taxes	3,963,182	-	-	3,963,182
Excises	1,544,628	-	-	1,544,628
Assessments	275,840	-	-	275,840
Departmental and other	2,157,875	-	348,239	2,506,114
Intergovernmental	104,204	481,598	992,629	1,578,431
Loans	-	-	3,687,400	3,687,400
<b>TOTAL ASSETS</b>	<b>\$ 14,003,618</b>	<b>\$ 5,918,048</b>	<b>\$ 8,478,895</b>	<b>\$ 28,400,561</b>

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)**

Liabilities:				
Warrants and accounts payable	\$ 1,641,064	\$ 1,850,148	\$ 549,931	\$ 4,041,143
Accrued liabilities	911,308	-	111,157	1,022,465
Retainage payable	-	1,904,236	-	1,904,236
Notes payable	-	30,000,000	-	30,000,000
Other liabilities	1,213,637	-	5,752	1,219,389
<b>Total Liabilities</b>	<b>3,766,009</b>	<b>33,754,384</b>	<b>666,840</b>	<b>38,187,233</b>
Deferred Inflows of Resources	7,120,722	-	3,821,342	10,942,064
Fund Balances:				
Nonspendable	-	-	417,056	417,056
Restricted	-	-	4,205,980	4,205,980
Assigned	378,275	-	-	378,275
Unassigned	2,738,612	(27,836,336)	(632,323)	(25,730,047)
<b>Total Fund Balances (Deficit)</b>	<b>3,116,887</b>	<b>(27,836,336)</b>	<b>3,990,713</b>	<b>(20,728,736)</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)</b>	<b>\$ 14,003,618</b>	<b>\$ 5,918,048</b>	<b>\$ 8,478,895</b>	<b>\$ 28,400,561</b>

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

CITY OF METHUEN, MASSACHUSETTS

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

JUNE 30, 2014

<b>Total governmental fund balances (deficit)</b>	\$ (20,728,736)
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	173,589,444
• Deferred debt expense for refunding is net of amortization on the statement of net position, whereas all debt expense is reported when paid in the governmental funds.	140,597
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	9,449,834
• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.	2,182,774
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(546,533)
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds payable	(28,222,937)
Capital lease payable	(281,890)
Net OPEB obligation	(52,603,123)
Landfill liability	(560,000)
Compensated absences liability	<u>(3,514,303)</u>
<b>Net position of governmental activities</b>	<u>\$ 78,905,127</u>

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

CITY OF METHUEN, MASSACHUSETTS  
 GOVERNMENTAL FUNDS  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>General</u>	<u>High School Revitalization</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 71,108,736	\$ -	\$ -	\$ 71,108,736
Excise taxes	5,269,812	-	-	5,269,812
Local option meals tax	726,942	-	-	726,942
Departmental	2,448,899	-	-	2,448,899
Licenses and permits	1,218,955	-	-	1,218,955
Intergovernmental	62,975,284	25,360,157	10,049,319	98,384,760
Charges for services	70,448	-	5,696,410	5,766,858
Interest and penalties	582,975	-	-	582,975
Investment income	38,777	-	1,778	40,555
Fines and forfeitures	375,548	-	-	375,548
Contributions	-	-	231,194	231,194
Other revenue	<u>127,554</u>	<u>567</u>	<u>241,137</u>	<u>369,258</u>
Total Revenues	144,943,930	25,360,724	16,219,838	186,524,492
<b>Expenditures:</b>				
Current:				
General government	25,396,226	-	93,194	25,489,420
Public safety	19,320,049	-	1,798,212	21,118,261
Education	82,857,539	37,453,825	11,698,806	132,010,170
Public works	6,401,111	-	1,513,801	7,914,912
Sanitation	2,503,547	-	5,811	2,509,358
Health and human services	1,199,914	-	430,212	1,630,126
Culture and recreation	1,091,089	-	602,231	1,693,320
Debt service:				
Principal	6,574,000	-	-	6,574,000
Interest	<u>1,413,119</u>	<u>-</u>	<u>-</u>	<u>1,413,119</u>
Total Expenditures	<u>146,756,594</u>	<u>37,453,825</u>	<u>16,142,267</u>	<u>200,352,686</u>
Excess (deficiency) of revenues over expenditures	(1,812,664)	(12,093,101)	77,571	(13,828,194)
<b>Other Financing Sources (Uses):</b>				
Transfers in (see note 22)	1,903,818	-	-	1,903,818
Transfers out	<u>(216,425)</u>	<u>-</u>	<u>(333,575)</u>	<u>(550,000)</u>
Total Other Financing Sources (Uses)	<u>1,687,393</u>	<u>-</u>	<u>(333,575)</u>	<u>1,353,818</u>
Net change in fund balances	(125,271)	(12,093,101)	(256,004)	(12,474,376)
Fund Balances (Deficit), at Beginning of Year	3,242,158	(15,743,235)	4,246,717	(8,254,360)
Fund Balances (Deficit), at End of Year	<u>\$ 3,116,887</u>	<u>\$ (27,836,336)</u>	<u>\$ 3,990,713</u>	<u>\$ (20,728,736)</u>

The accompanying notes are an integral part of these 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, 2014

<b>Net changes in fund balances - Total governmental funds</b>	<b>\$ (12,474,376)</b>
<ul style="list-style-type: none"> <li>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</li> </ul>	
Capital outlay purchases, net of disposals	40,663,870
Depreciation	(3,843,973)
<ul style="list-style-type: none"> <li>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.</li> </ul>	
	(350,359)
<ul style="list-style-type: none"> <li>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 position:</li> </ul>	
Repayments of debt	6,574,000
Deferred debt amortization	(140,596)
Bond premium amortization	33,424
Payments of capital leases	152,186
<ul style="list-style-type: none"> <li>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li> </ul>	
	(24,675)
<ul style="list-style-type: none"> <li>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.</li> </ul>	
Compensated absences	(85,715)
Landfill	40,000
Net OPEB obligation	(5,816,997)
<ul style="list-style-type: none"> <li>Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities.</li> </ul>	
	747,224
<b>Change in net position of governmental activities</b>	<b>\$ 25,474,013</b>

The accompanying notes are an integral part of these 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, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
<b>Revenues:</b>				
Property tax	\$ 70,463,138	\$ 70,463,138	\$ 70,463,138	\$ -
Local revenue	10,360,000	10,360,000	10,650,117	290,117
Cherry sheet	50,505,799	50,505,799	50,592,206	86,407
Local option meals tax	-	726,942	726,942	-
Other	730,000	785,113	627,785	(157,328)
<b>Total Revenues</b>	<b>132,058,937</b>	<b>132,840,992</b>	<b>133,060,188</b>	<b>219,196</b>
<b>Expenditures:</b>				
Current:				
General government	25,146,944	25,619,120	25,619,120	-
Intergovernmental	1,885,478	1,898,912	1,898,912	-
Public safety	19,819,896	19,310,228	19,310,228	-
Education	69,477,226	69,597,807	69,597,807	-
Public works	5,154,631	6,003,425	6,003,425	-
Sanitation	2,510,000	2,483,547	2,483,547	-
Library	1,423,417	1,423,417	1,423,417	-
Health and human services	1,089,887	1,106,196	1,106,196	-
Debt service	7,710,276	7,654,792	7,654,792	-
<b>Total Expenditures</b>	<b>134,217,755</b>	<b>135,097,444</b>	<b>135,097,444</b>	<b>-</b>
Excess (deficiency) of revenues over expenditures	(2,158,818)	(2,256,452)	(2,037,256)	219,196
<b>Other Financing Sources (Uses):</b>				
Use of free cash	255,000	1,073,576	1,073,576	-
Use of overlay surplus	-	6,000	6,000	-
Transfers in	1,903,818	1,903,818	1,903,818	-
Transfers out	-	(726,942)	(726,942)	-
<b>Total Other Financing Sources (Uses)</b>	<b>2,158,818</b>	<b>2,256,452</b>	<b>2,256,452</b>	<b>-</b>
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 219,196	\$ 219,196

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

## CITY OF METHUEN, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF NET POSITION

JUNE 30, 2014

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
<b>ASSETS</b>		
Current:		
Cash and short-term investments	\$ 5,450,490	\$ 3,565,205
User fees receivable	4,000,010	-
Other receivable	<u>-</u>	<u>30,382</u>
Total current assets	9,450,500	3,595,587
Noncurrent:		
Capital assets:		
Nondepreciable capital assets	251,550	-
Other capital assets, net of accumulated depreciation	<u>36,693,611</u>	<u>-</u>
Total noncurrent assets	<u>36,945,161</u>	<u>-</u>
<b>TOTAL ASSETS</b>	46,395,661	3,595,587
<b>LIABILITIES</b>		
Current:		
Accounts payable	206,641	70,567
Accrued liabilities	285,612	-
Other current liabilities	<u>-</u>	1,342,246
Current portion of long-term liabilities:		
Bonds and loans payable	1,466,597	-
Other liabilities	<u>55,988</u>	<u>-</u>
Total current liabilities	2,014,838	1,412,813
Noncurrent:		
Bonds and loans payable, net of current portion	20,396,840	-
Net OPEB obligation	1,131,721	-
Other liabilities, net of current portion	<u>238,391</u>	<u>-</u>
Total noncurrent liabilities	<u>21,766,952</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	23,781,790	1,412,813
<b>NET POSITION</b>		
Net investment in capital assets	15,075,845	-
Restricted	94,334	-
Unrestricted	<u>7,443,692</u>	<u>2,182,774</u>
<b>TOTAL NET POSITION</b>	<u>\$ 22,613,871</u>	<u>\$ 2,182,774</u>

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

## CITY OF METHUEN, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	<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	\$ 9,929,632	\$ -
Contributions	-	16,692,821
Permits and fees	<u>185,898</u>	<u>-</u>
Total Operating Revenues	10,115,530	16,692,821
<b>Operating Expenses:</b>		
Personal services	2,375,369	-
Materials	2,060,118	-
Depreciation	1,101,153	-
Sanitary district assessment	2,896,176	-
Employee benefits	<u>-</u>	<u>15,945,597</u>
Total Operating Expenses	<u>8,432,816</u>	<u>15,945,597</u>
Operating Income	1,682,714	747,224
<b>Nonoperating Revenues (Expenses):</b>		
Intergovernmental revenue	19,899	-
Investment income	12,816	-
Interest expense	<u>(502,982)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(470,267)</u>	<u>-</u>
Income Before Transfers	1,212,447	747,224
Transfers out	<u>(1,353,818)</u>	<u>-</u>
Change in Net Position	(141,371)	747,224
Net Position at Beginning of Year	<u>22,755,242</u>	<u>1,435,550</u>
Net Position at End of Year	<u>\$ 22,613,871</u>	<u>\$ 2,182,774</u>

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

CITY OF METHUEN, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2014

	<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	\$ 10,605,334	\$ -
Employer contributions and stop loss reimbursements	- -	11,104,647
Employee contributions	- -	5,586,018
Payments of employee salaries, benefits, and related expenses	(2,278,521)	(15,784,366)
Payments to vendors	(2,092,749)	- -
Payments to other governments	<u>(2,896,176)</u>	<u>- -</u>
Net Cash Provided By Operating Activities	3,337,888	906,299
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>		
Transfers to other funds	<u>(1,353,818)</u>	<u>- -</u>
Net Cash (Used For) Noncapital Financing Activities	<u>(1,353,818)</u>	<u>- -</u>
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>		
Acquisition and construction of capital assets	(238,802)	- -
Proceeds from notes (MWPAT reimbursements)	71,512	- -
Principal payments on bonds and loans	(1,459,364)	- -
Principal payments on capital leases	(93,778)	- -
Interest expense	<u>(515,720)</u>	<u>- -</u>
Net Cash (Used For) Capital and Related Financing Activities	<u>(2,236,152)</u>	<u>- -</u>
<b><u>Cash Flows From Investing Activities:</u></b>		
Investment income	<u>12,816</u>	<u>- -</u>
Net Cash Provided By Investing Activities	<u>12,816</u>	<u>- -</u>
Net Change in Cash and Short-Term Investments	<u>(239,266)</u>	<u>906,299</u>
Cash and Short-Term Investments, Beginning of Year	<u>5,689,756</u>	<u>2,658,906</u>
Cash and Short-Term Investments, End of Year	<u>\$ 5,450,490</u>	<u>\$ 3,565,205</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u></b>		
Operating income (loss)	\$ 1,682,714	\$ 747,224
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,101,153	- -
Loss on disposal of capital assets	14,666	- -
Changes in assets and liabilities:		
User fees	489,806	- -
Other receivables	- -	(2,155)
Accounts payable	(47,297)	70,567
Accrued liabilities	6,510	- -
Other liabilities	- -	90,663
Compensated absences	4,370	- -
OPEB liability	<u>85,966</u>	<u>- -</u>
Net Cash Provided By Operating Activities	<u>\$ 3,337,888</u>	<u>\$ 906,299</u>

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

CITY OF METHUEN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

	Pension Trust Fund (As of <u>December 31, 2013</u> )	Private Purpose Trust Fund	Agency Fund
<b>ASSETS</b>			
Non-pooled cash and short-term investments	\$ 397,291	\$ 372,154	\$ 120,461
Investments, at fair value:			
Pooled alternative investments	1,888,685	-	-
Pooled real estate funds	2,721,225	-	-
PRIT Fund	100,210,722	-	-
Receivables	<u>115,743</u>	-	-
Total Assets	105,333,666	372,154	120,461
<b>LIABILITIES AND NET POSITION</b>			
Other liabilities	<u>24,061</u>	-	120,461
Total Liabilities	<u>24,061</u>	-	120,461
<b>NET POSITION</b>			
Total net position held in trust for pension benefits and other purposes	<u>\$ 105,309,605</u>	<u>\$ 372,154</u>	<u>\$ -</u>

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

CITY OF METHUEN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Pension Trust Fund (For the Year Ended <u>December 31, 2013</u> )	Private Purpose Trust Fund
<b>Additions:</b>		
Contributions:		
Employers	\$ 9,010,375	\$ -
Other systems and Commonwealth of Massachusetts	317,446	-
Plan members	3,193,436	-
Other	<u>28,650</u>	<u>2,752</u>
Total contributions	12,549,907	2,752
Investment Income:		
Change in fair value of investments	14,184,872	580
Less: management fees	<u>(570,888)</u>	<u>-</u>
Net investment income	13,613,984	580
Total additions	26,163,891	3,332
<b>Deductions:</b>		
Benefit payments to plan members and beneficiaries	11,194,410	-
Refunds to plan members	282,874	-
Transfers to other systems	17,636	-
Administrative expenses	194,964	-
Other	<u>-</u>	<u>350</u>
Total deductions	11,689,884	350
Net increase	14,474,007	2,982
<b>Net position:</b>		
Beginning of year	<u>90,835,598</u>	<u>369,172</u>
End of year	<u>\$ 105,309,605</u>	<u>\$ 372,154</u>

The accompanying notes are an integral part of these 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. In fiscal year 2014, the following entity met the required GASB 14 (as amended) criteria of component units.

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 Position and the Statement of Changes in Net Position) 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 contribu-

tions 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.

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, 2014. 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 2014 tax levy reflected an excess capacity of approximately \$3,588,000.

*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.

Capital assets are 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 Position.

*J. Fund Equity*

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

*Fund Balance* - Generally, fund balance represents the difference between the current assets 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 – 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.
- 2) 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.
- 3) 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, the City Council.
- 4) Assigned – represents amounts that are constrained by the City's intent to use these resources for a specific purpose as established by management. The City follows order number 5161 (City Resolution 2014-17) that permits management to assign fund balance amounts to a specific purpose.
- 5) Unassigned – represents amounts available to be spent in future periods.

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

Net Position - Net position represents the difference between assets/ deferred outflows and liabilities/ deferred inflows. Net investment capital assets, 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 position 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 position is reported as unrestricted.

#### **K. Use of Estimates**

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

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

### ***A. Budgetary Information***

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 intradepartmental 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)	\$ 144,943,930	\$ 146,756,594
Other financing sources/uses (GAAP Basis)	<u>1,903,818</u>	<u>216,425</u>
Subtotal (GAAP Basis)	146,847,748	146,973,019
To adjust property tax revenue to the budgetary basis	(386,905)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(543,488)
To book current year appropriation carryforwards	-	378,275
To reverse GASB 24 MTRS	(11,811,146)	(11,811,146)
To record use of free cash	1,073,576	-
To record use of overlay surplus	6,000	-
To gross up employee benefits grant allocations	317,209	317,209
To remove nonbudgeted funds	<u>(2,900)</u>	<u>510,517</u>
Budgetary Basis	<u>\$ 136,043,582</u>	<u>\$ 135,824,386</u>

*D. Deficit Fund Equity*

The following funds or projects within the funds had deficits as of June 30, 2014:

Major Funds:

Methuen High School Revitalization	\$ (27,836,336)
------------------------------------	-----------------

Nonmajor Governmental Funds:

Police Outside Detail	\$ (114,243)
Chapter 90 Highway Grant	(63,680)
JAG Byrne Grant	(14,375)
Perkins Grant	(5,552)
Title I Grant	(320,463)
Title II A Grant	(96,874)
HOME Program	(1,771)
MA CDBG	(15,365)

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 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, 2014, \$7,133,583 of the City's bank balances of \$26,082,071 was exposed to custodial credit risk as uninsured, and collateral held by pledging bank's trust department not in the City's name. The exposed balance included \$4,066,196, which 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, 2014 were deposited in MMDT and bank accounts (checking, savings, and money market accounts).

As of December 31, 2013, \$124,732 of the System's bank balances of \$374,757 was exposed to custodial credit risk as uninsured, and collateral held by pledging bank's trust department not in the System's name. The System's total exposed balance 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.

At December 31, 2013, the System's investments consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>
State Investment Pool*	\$ 100,210,722
Pooled Alternative Funds	1,888,685
Pooled Real Estate Funds	<u>2,721,225</u>
Total investments	\$ <u>104,820,632</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 \$104,967,904 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, \$100,210,722 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, 2014.

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, 2014 consist of the following (in thousands):

Real Estate		
2014		\$ 1,546
Personal Property		
2011 - 2014	43	
Prior	<u>289</u>	
		332
Tax Liens		<u>2,085</u>
Total		\$ <u>3,963</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	\$ 357
Excises	\$ 312

## **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, 2014 consist of the following:

	Fire <u>Ambulance</u>	Outside <u>Detail</u>	Police <u>Veterans Benefits</u>	Other (1)	Total
Gross	\$ 1,258,688	\$ 133,942	\$ 412,592	\$ 731,274	\$ 2,536,496
Less: Allowance for doubtful accounts	<u>(803,120)</u>	<u>(20,091)</u>	<u>-</u>	<u>-</u>	<u>(823,211)</u>
Total	<u>\$ 455,568</u>	<u>\$ 113,851</u>	<u>\$ 412,592</u>	<u>\$ 731,274</u>	<u>\$ 1,713,285</u>

(1) Includes receivable in the Internal Service Fund.

## **9. Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2014 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, 2014 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Land improvements	\$ 7,191	\$ -	\$ -	\$ 7,191
Construction	107,981	94,647	-	202,628
Infrastructure	26,346	1,049	-	27,395
Machinery and equipment	11,193	1,936	(1,280)	11,849
Licenses and vehicles	<u>11,200</u>	<u>123</u>	<u>-</u>	<u>11,323</u>
Total capital assets, being depreciated	163,911	97,755	(1,280)	260,386
Less accumulated depreciation for:				
Land improvements	(5,180)	(236)	-	(5,416)
Construction	(52,032)	(2,114)	-	(54,146)
Infrastructure	(18,428)	(652)	-	(19,080)
Machinery and equipment	(8,600)	(399)	1,267	(7,732)
Licenses and vehicles	<u>(9,190)</u>	<u>(443)</u>	<u>-</u>	<u>(9,633)</u>
Total accumulated depreciation	<u>(93,430)</u>	<u>(3,844)</u>	<u>1,267</u>	<u>(96,007)</u>
Total capital assets, being depreciated, net	70,481	93,911	(13)	164,379
Capital assets, not being depreciated:				
Land, easements and right of way	9,210	-	-	9,210
Construction in progress	<u>57,078</u>	<u>-</u>	<u>(57,078)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>66,288</u>	<u>-</u>	<u>(57,078)</u>	<u>9,210</u>
Governmental activities capital assets, net	<u>\$ 136,769</u>	<u>\$ 93,911</u>	<u>\$ (57,091)</u>	<u>\$ 173,589</u>
	<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	\$ 9	\$ -	\$ 227
Construction	34,064	-	-	34,064
Infrastructure	26,308	391	-	26,699
Machinery and equipment	2,613	187	(40)	2,760
Licenses and vehicles	<u>637</u>	<u>42</u>	<u>-</u>	<u>679</u>
Total capital assets, being depreciated	63,840	629	(40)	64,429
Less accumulated depreciation for:				
Land improvements	(215)	(2)	-	(217)
Construction	(7,740)	(709)	-	(8,449)
Infrastructure	(16,588)	(272)	-	(16,860)
Machinery and equipment	(1,753)	(71)	25	(1,799)
Licenses and vehicles	<u>(364)</u>	<u>(47)</u>	<u>-</u>	<u>(411)</u>
Total accumulated depreciation	<u>(26,660)</u>	<u>(1,101)</u>	<u>25</u>	<u>(27,736)</u>
Total capital assets, being depreciated, net	37,180	(472)	(15)	36,693
Capital assets, not being depreciated:				
Land, easements & right of way	252	-	-	252
Construction in progress	<u>391</u>	<u>-</u>	<u>(391)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>643</u>	<u>-</u>	<u>(391)</u>	<u>252</u>
Business-type activities capital assets, net	<u>\$ 37,823</u>	<u>\$ (472)</u>	<u>\$ (406)</u>	<u>\$ 36,945</u>

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

Governmental Activities:

General government	\$ 134
Public safety	257
Education	2,328
Public works	1,118
Culture and recreation	<u>7</u>
Total depreciation expense - governmental activities	\$ <u>3,844</u>

Business-Type Activities:

Enterprise	\$ <u>1,101</u>
------------	-----------------

## **12. Deferred Outflows/Inflows of Resources**

Deferred outflows of resources represent the consumption of net position by the City that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. At June 30, 2014, deferred outflows of resources reported on the statement of net position represent deferred debt expense for the deferred amount on refunding.

Deferred inflows of resources are the acquisition of net position by the City that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Deferred inflow of resources balances as of June 30, 2014 reported on governmental funds balance sheet represent unavailable revenues.

## **13. Warrants and Accounts Payable**

Warrants payable represent 2014 expenditures paid by July 15, 2014 as permitted by law. Accounts payable represent additional 2014 expenditures paid after July 15, 2014.

## **14. Accrued Liabilities**

The City had the following accrued liabilities as of June 30, 2014:

	Governmental Activities	Business-Type Activities
Salaries and wages	\$ 998,494	\$ 57,478
Debt interest	546,532	222,184
Tailings	<u>23,971</u>	<u>5,950</u>
Total accrued liabilities	\$ <u>1,568,997</u>	\$ <u>285,612</u>

## 15. Loan and Anticipation Notes Payable

The City had the following notes outstanding at June 30, 2014:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity (1)</u>	<u>Balance at 6/30/14</u>
Methuen High School Revitalization	1.50%	08/09/13	08/08/14	\$ <u>30,000,000</u>

(1) See Note 28.

The following summarizes activity in notes payable during fiscal year 2014:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
High School Revitalization	\$ <u>15,000,000</u>	\$ <u>30,000,000</u>	\$ <u>(15,000,000)</u>	\$ <u>30,000,000</u>

## 16. Other Current Liabilities

Other current liabilities as of June 30, 2014 consist of the following:

	<u>Governmental Activities</u>
IBNR (see note 26)	\$ 1,342,246
Guaranteed deposits	1,091,840
Employee withholdings and other	<u>127,548</u>
Total other current liabilities	\$ <u>2,561,634</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, 2014:

<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2015	\$ 96,834	\$ 62,664
2016	96,834	62,664
2017	<u>96,834</u>	-
Total minimum lease payments	290,502	125,328
Less amount representing interest	<u>(8,612)</u>	<u>(10,107)</u>
Present Value of Minimum Lease Payments	\$ <u>281.890</u>	\$ <u>115.221</u>

The following is an analysis for the leased assets included in capital assets at June 30, 2014:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Machinery, vehicles and equipment	\$ 1,856,961	\$ 474,875
Less: accumulated depreciation	<u>(970,938)</u>	<u>(167,001)</u>
Equipment under capital leases, net	<u><u>\$ 886,023</u></u>	<u><u>\$ 307,874</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>	<u>Original Issue Amount</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of 6/30/14</u>
Marsh School Expansion	\$ 17,399,400	* 11/01/16	4.80%	\$ 2,220,000
Timony School Expansion	21,190,000	* 11/01/16	5.01%	4,800,000
Landfill Closure	3,500,000	* 11/01/16	5.01%	540,000
Tenney School Expansion	22,850,000	* 05/15/17	4.79%	5,205,000
Additional School Expansion	6,500,000	* 10/15/19	5.00%	1,650,000
Library	4,800,000	* 10/15/19	5.00%	1,540,000
Road and Surface Drains	5,630,000	09/01/21	3.27%	500,000
Landfill Closure	85,000	09/01/21	3.91%	40,000
Road and Surface Drains	3,500,000	08/15/16	4.30%	360,000
High School	8,500,000	09/01/41	variable	8,320,000
Departmental Equipment	2,300,000	09/01/22	variable	2,015,000
Dileo Judgment	594,000	09/01/29	variable	565,000
Total Governmental Activities				<u><u>\$ 27,755,000</u></u>

\*Partially refunded, original amount shown

<u>Business-Type Activities:</u>	Original Issue Amount	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of 6/30/14
Sewer (MWPAT)	\$ 821,670	* 02/01/15	variable	\$ 65,445
Sewer (MWPAT)	395,100	* 08/01/18	variable	163,900
Storm Water Management (MWPAT)	468,063	* 08/01/23	variable	275,000
Water Distribution System (MWPAT)	5,786,500	* 07/15/25	2.00%	3,760,540
Water Distribution System	700,000	08/15/27	4.16%	555,000
Water Treatment Plant	1,250,000	08/15/27	4.16%	985,000
Water Distribution System (MWPAT)	18,550,000	* 07/15/27	2.00%	13,761,673
Storm Water Management (MWPAT)	200,000	* 07/15/27	2.00%	137,934
Water Tank (MWPAT)	750,000	* 07/15/27	2.00%	363,181
Sewer Rehabilitation and Replacement (MWPAT)	1,117,204	* 07/15/28	2.00%	833,318
Storm Water Management (MWPAT)	12,243	07/15/27	2.00%	10,373
Water Treatment Plant Improvement (MWPAT)	650,000	07/15/30	2.00%	546,909
Sewer Rehabilitation (MWPAT)	452,604	07/15/32	2.00%	<u>405,164</u>
Total Business-Type Activities				\$ <u>21,863,437</u>

\*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, 2014 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 6,335,000	\$ 957,006	\$ 7,292,006
2016	5,995,000	708,284	6,703,284
2017	5,075,000	485,615	5,560,615
2018	735,000	371,658	1,106,658
2019	750,000	344,519	1,094,519
2020 - 2024	2,455,000	1,322,200	3,777,200
2025 - 2029	1,590,000	1,017,288	2,607,288
2030 - 2034	1,580,000	784,275	2,364,275
2035 - 2039	1,900,000	464,000	2,364,000
2040 - 2042	<u>1,340,000</u>	<u>81,800</u>	<u>1,421,800</u>
Total	\$ <u>27,755,000</u>	\$ <u>6,536,645</u>	\$ <u>34,291,645</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,466,597	\$ 484,294	\$ 1,950,891
2016	1,432,639	451,158	1,883,797
2017	1,474,740	417,523	1,892,263
2018	1,502,274	383,069	1,885,343
2019	1,530,443	348,594	1,879,037
2020 - 2024	7,985,879	1,208,563	9,194,442
2025 - 2029	6,296,932	306,352	6,603,284
2030 - 2033	<u>173,933</u>	<u>5,946</u>	<u>179,879</u>
Total	<u>\$ 21,863,437</u>	<u>\$ 3,605,499</u>	<u>\$ 25,468,936</u>

#### *D. Bond Authorizations*

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2014 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	34,907,722
11/03/10	Sewer System Rehab Projects	<u>146,795</u>
Total		<u>\$ 35,257,994</u>

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

During the year ended June 30, 2014, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/13	Additions	Reductions	Total Balance 6/30/14	Less Current Portion	Long-Term Portion 6/30/14
<b>Governmental Activities</b>						
General obligation debt	\$ 34,329	\$ -	\$ (6,574)	\$ 27,755	\$ (6,335)	\$ 21,420
Unamortized bond premium	502	-	(34)	468	(33)	435
Subtotal	<u>34,831</u>	<u>-</u>	<u>(6,608)</u>	<u>28,223</u>	<u>(6,368)</u>	<u>21,855</u>
Net OPEB obligation	46,785	10,006	(4,189)	52,602	-	52,602
Other:						
Capital leases	434	-	(152)	282	(93)	189
Landfill closure	600	-	(40)	560	(40)	520
Accrued employee benefits	3,429	86	-	3,515	(1,757)	1,758
Subtotal	<u>4,463</u>	<u>86</u>	<u>(192)</u>	<u>4,357</u>	<u>(1,890)</u>	<u>2,467</u>
Totals	<u>\$ 86,079</u>	<u>\$ 10,092</u>	<u>\$ (10,989)</u>	<u>\$ 85,182</u>	<u>\$ (8,258)</u>	<u>\$ 76,924</u>

	Total Balance 7/1/13	Additions	Reductions	Total Balance 6/30/14	Less Current Portion	Equals Long-Term Portion 6/30/14
<b>Business-Type Activities</b>						
General obligation debt and MWPAT loans	\$ 23,323	\$ -	\$ (1,459)	\$ 21,864	\$ (1,467)	\$ 20,397
Net OPEB obligation	1,046	185	(99)	1,132	-	1,132
Other:						
Capital leases	209	-	(94)	115	(56)	59
Accrued employee benefits	174	5	-	179	-	179
Subtotal	<u>383</u>	<u>5</u>	<u>(94)</u>	<u>294</u>	<u>(56)</u>	<u>238</u>
Totals	<u><u>\$ 24,752</u></u>	<u><u>\$ 190</u></u>	<u><u>\$ (1,652)</u></u>	<u><u>\$ 23,290</u></u>	<u><u>\$ (1,523)</u></u>	<u><u>\$ 21,767</u></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, 2014 is \$2,250,000.

### **19. 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 \$560,000 is reported as landfill postclosure care liability at June 30, 2014. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

## **20. 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 following types of fund balances are reported at June 30, 2014:

Nonspendable - This fund balance classification includes nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - This fund balance classification includes general fund encumbrances, various special revenue funds, the income portion of permanent trust funds, and capital project unspent proceeds from bond issuances.

Committed - This fund balance classification includes general fund stabilization set aside by City Council vote for future capital acquisitions and improvements.

Assigned - 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. These funds have been assigned for specific goods and services ordered but not yet paid for.

Unassigned – This fund balance is the residual classification for the general fund and deficits in other funds.

Following is a breakdown of the City's fund balances at June 30, 2014:

	<u>General Fund</u>	<u>High School Revitalization</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Nonspendable</b>				
Nonexpendable perpetual care permanent fund	\$ <u>      -</u>	\$ <u>      -</u>	\$ <u>417,056</u>	\$ <u>417,056</u>
<b>Total Nonspendable</b>	<b>-</b>	<b>-</b>	<b>417,056</b>	<b>417,056</b>
<b>Restricted</b>				
Bonded projects	-	-	269,259	269,259
Special revenue funds:				
Community development	-	-	170,213	170,213
School lunch	-	-	56,175	56,175
Revolving fund - building safety task force	-	-	149,823	149,823
Revolving fund - MPS before and after school program	-	-	559,715	559,715
Revolving fund - state SPED reimbursement	-	-	415,710	415,710
Revolving fund - MCTV	-	-	250,543	250,543
Revolving fund - MGEP	-	-	252,934	252,934
Revolving fund - MCTV/Comcast CIP	-	-	130,923	130,923
Revolving fund - City/Verizon CIP	-	-	186,609	186,609
Revolving fund - MCTV/Verizon	-	-	638,118	638,118
Other revolving funds	-	-	491,327	491,327
State grants	-	-	112,065	112,065
Federal grants	-	-	37,842	37,842
Other funds	-	-	199,720	199,720
Law enforcement trust	-	-	7,654	7,654
Expendable trust	-	-	210,389	210,389
Other trusts	<u>-</u>	<u>-</u>	<u>66,961</u>	<u>66,961</u>
<b>Total Restricted</b>	<b>-</b>	<b>-</b>	<b>4,205,980</b>	<b>4,205,980</b>
<b>Assigned</b>				
General government	17,562	-	-	17,562
Education	147,143	-	-	147,143
Public works	210,770	-	-	210,770
Health and human services	<u>2,800</u>	<u>-</u>	<u>-</u>	<u>2,800</u>
<b>Total Assigned</b>	<b>378,275</b>	<b>-</b>	<b>-</b>	<b>378,275</b>
<b>Unassigned</b>	<u>2,738,612</u>	<u>(27,836,336)</u>	<u>(632,323)</u>	<u>(25,730,047)</u>
<b>Total Unassigned</b>	<b><u>2,738,612</u></b>	<b><u>(27,836,336)</u></b>	<b><u>(632,323)</u></b>	<b><u>(25,730,047)</u></b>
<b>Total Fund Balance</b>	<b>\$ <u>3,116,887</u></b>	<b>\$ <u>(27,836,336)</u></b>	<b>\$ <u>3,990,713</u></b>	<b>\$ <u>(20,728,736)</u></b>

## **21. Restricted Net Position**

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

Permanent fund restricted net position is 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.

## **22. Interfund Transfers**

The government reports interfund transfers between several funds. The general fund transfer in of \$1,903,818 includes \$1,353,818 from the enterprise water sewer fund to cover indirect costs and \$550,000 from special revenue funds to reimburse costs. The general fund transfer out of \$216,425 covers deficits in the FY2014 911 Support and Incentive and Training and EMD special revenue funds.

## **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.

Abatements - There are several cases pending before the Appellate Tax Board in regard to alleged discrepancies in property assessments. According to the City's counsel, the probable outcome of these cases at the present time is indeterminable.

## **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 Position 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 December 31, 2013, the actuarial valuation date, approximately 780 retirees and 710 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 2014 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, 2014, 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, 2013.

Annual Required Contribution (ARC)	\$ 10,105,306
Interest on net OPEB obligation	1,913,275
Adjustment to ARC	<u>(1,827,773)</u>
Annual OPEB cost	10,190,808
Contributions made	<u>4,287,845</u>
Increase in net OPEB obligation	5,902,963
Net OPEB obligation - beginning of year	<u>47,831,881</u>
Net OPEB obligation - end of year	\$ <u>53,734,844</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 Cost Contributed			Net OPEB Obligation
	Annual OPEB Cost	Contributed	Cost	
2014	\$ 10,190,808	30.6%	\$ 53,734,844	
2013	\$ 14,025,803	31.6%	\$ 47,831,881	
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, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 142,302,752
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>142,302,752</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>72,921,861</u>
UAAL as a percentage of covered payroll	<u>195.14%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of

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

#### ***F. Actuarial Methods and Assumptions***

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

In the December 31, 2013 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, 2013:

Retirees and beneficiaries receiving benefits	420
Terminated plan members entitled to but not yet receiving benefits	16
Active plan members	<u>616</u>
Total	<u>1,052</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>
2014	\$ 9,010,375	100%
2013	8,201,418	100%
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%

*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 Date	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age			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>
01/01/14	\$ 98,229,012	\$ 210,707,439		\$ 112,478,427	46.6%	\$ 32,255,564		348.7%

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 \$112 million was calculated. The actuarial assumptions included (a) 7.75% investment rate of return and (b) a projected salary increase of 4.25 – 4.75% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first \$14,000 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 (7.75%) 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, 2013, 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 2014, the Commonwealth of Massachusetts contributed \$11,811,146 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, 2014 are as follows:

	Year Ended <u>June 30, 2014</u>	Year Ended <u>June 30, 2013</u>
Unpaid claims, beginning of fiscal year	\$ 1,251,582	\$ 1,239,692
Claims incurred (including IBNRs)	15,945,597	16,847,336
Claims paid	<u>(15,854,933)</u>	<u>(16,835,446)</u>
Unpaid claims, end of fiscal year	<u>\$ 1,342,246</u>	* <u>\$ 1,251,582</u>

\* This liability is considered to be all current.

The \$1,342,246 estimated liability for claims incurred but not reported is based on the percentage of total claims, which the City believes is a reasonable methodology to estimate known loss events expected to later be presented as claims and unknown loss events expected to become claims and expected future developments on claims already reported. 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. Subsequent Events**

On July 16, 2014, the City issued \$9,585,000 general obligation state qualified school project loan maturing on September 1, 2034 with interest rates ranging from 1 to 4 percent.

On August 8, 2014, the City issued \$20,415,000 general obligation bond anticipation note maturing on August 7, 2015 with interest rates ranging from 0.35 to 2 percent.

The above two transactions essentially refinance the \$30,000,000 bond anticipation note for the High School Revitalization project that matured on August 8, 2014.

## **29. 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 Methuen Contributory Retirement System's actuarially accrued liability.

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

June 30, 2014

(Unaudited)

**Employees' Retirement System**

Actuarial Valuation	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
<u>Date</u>	<u>(a)</u>	<u>(b)</u>	<u>(b-a)</u>	<u>(a/b)</u>	<u>(c)</u>	
01/01/14	\$ 98,229,012	\$ 210,707,439	\$ 112,478,427	46.6%	\$ 32,255,564	348.7%
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%

**Other Post-Employment Benefits**

Actuarial Valuation	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
<u>Date</u>	<u>(a)</u>	<u>(b)</u>	<u>(b-a)</u>	<u>(a/b)</u>	<u>(c)</u>	
12/31/13	\$ -	\$ 142,302,752	\$ 142,302,752	0.0%	\$ 72,921,861	195.1%
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.