

CITY OF METHUEN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2015

CITY OF METHUEN, MASSACHUSETTS

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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, 2015, (except for the Methuen Contributory Retirement System, which is as of and for the year ended December 31, 2014) 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 assess-

ments, 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, 2015, 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, the Schedule of Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, the Schedule of Contributions, the Schedule of Changes in Net Pension Liability, and the Schedules of Net Pension Liability, and Investment Returns be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 18, 2016 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 18, 2016

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, 2015.

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 \$2,152,645 (i.e., net position), a change of \$2,636,864 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances (deficit) of \$(11,659,784), a change of \$9,068,952 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,193,646, a change of \$455,034 in comparison to the prior year.
- Total bonds and loans payable, including unamortized premium at the close of the current fiscal year were \$75,761,959, a change of \$2,060,585 in comparison to the prior year.
- Total notes payable at the close of the current fiscal year were \$23,615,000, a change of \$(6,385,000) 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 \$139,610,928 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 \$9,406,707 represents resources that are subject to external restrictions on how they may be used. The remaining amount is a deficit of \$(146,864,990). The increase in the deficit resulted from the adoption of the Governmental Accounting Standards Board (GASB) Statement No. 68 *Accounting and Reporting for Pensions*. This statement established standards for the measurement, recognition, and presentation of the net pension liability in the City's financial statements. Net pension liability recorded in this implementation

year, the year ended June 30, 2015, totaled \$101,811,204, reported under non-current liabilities on the Statement of Net Position. Beginning net position (July 1, 2014) has been restated accordingly. Prior periods have not been restated, therefore, the accompanying condensed data reflects a significant increase in the long-term liabilities and the resulting increase in deficit.

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	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 29,352	\$ 30,504	\$ 8,953	\$ 9,451	\$ 38,305	\$ 39,955
Capital assets	<u>175,460</u>	<u>173,589</u>	<u>36,395</u>	<u>36,945</u>	<u>211,855</u>	<u>210,534</u>
Total assets	204,812	204,093	45,348	46,396	250,160	250,489
Deferred outflows of resources	84	141	4	-	88	141
Total assets and deferred outflows or resources	<u>\$ 204,896</u>	<u>\$ 204,234</u>	<u>\$ 45,352</u>	<u>\$ 46,396</u>	<u>\$ 250,248</u>	<u>\$ 250,630</u>
Long-term liabilities	\$ 192,236	\$ 85,182	\$ 26,141	\$ 23,290	\$ 218,377	\$ 108,472
Other liabilities	<u>29,199</u>	<u>40,147</u>	<u>519</u>	<u>492</u>	<u>29,718</u>	<u>40,639</u>
Total liabilities	221,435	125,329	26,660	23,782	248,095	149,111
Net position:						
Net investment in capital assets	123,584	117,742	16,027	15,076	139,611	132,818
Restricted	9,227	8,175	180	94	9,407	8,269
Unrestricted	<u>(149,350)</u>	<u>(47,012)</u>	<u>2,485</u>	<u>7,444</u>	<u>(146,865)</u>	<u>(39,568)</u>
Total net position	<u>(16,539)</u>	<u>78,905</u>	<u>18,692</u>	<u>22,614</u>	<u>2,153</u>	<u>101,519</u>
Total liabilities and net position	<u>\$ 204,896</u>	<u>\$ 204,234</u>	<u>\$ 45,352</u>	<u>\$ 46,396</u>	<u>\$ 250,248</u>	<u>\$ 250,630</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	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues						
Charges for services	\$ 10,829	\$ 9,226	\$ 10,855	\$ 10,116	\$ 21,684	\$ 19,342
Operating grants and contributions	59,059	60,994	21	20	59,080	61,014
Capital grants and contributions	3,350	1,930	-	-	3,350	1,930
General revenues						
Property Taxes	75,415	70,822	-	-	75,415	70,822
Excises	5,663	5,253	-	-	5,663	5,253
Local option meals tax	759	727	-	-	759	727
Interest and penalties	402	583	-	-	402	583
Grants and contributions not restricted to specific programs	12,884	36,230	-	-	12,884	36,230
Investment income	31	40	11	13	42	53
Other	436	403	-	-	436	403
Total revenues	168,828	186,208	10,887	10,149	179,715	196,357
Expenses:						
General government	17,245	16,576	-	-	17,245	16,576
Public safety	25,115	23,755	-	-	25,115	23,755
Education	108,185	106,238	-	-	108,185	106,238
Public works	9,924	8,315	-	-	9,924	8,315
Sanitation	2,629	2,502	-	-	2,629	2,502
Health and human services	1,737	1,584	-	-	1,737	1,584
Culture and recreation	1,441	1,680	-	-	1,441	1,680
Interest and costs	1,590	1,438	-	-	1,590	1,438
Enterprise services	-	-	9,212	8,936	9,212	8,936
Total expenses	167,866	162,088	9,212	8,936	177,078	171,024
Change in net position before transfers	962	24,120	1,675	1,213	2,637	25,333
Transfers in (out)	1,354	1,354	(1,354)	(1,354)	-	-
Change in net position	2,316	25,474	321	(141)	2,637	25,333
Beginning net position	(18,855)	53,431	18,371	22,755	(484)	76,186
Ending net position	\$ (16,539)	\$ 78,905	\$ 18,692	\$ 22,614	\$ 2,153	\$ 101,519

Governmental Activities - The City's governmental activities resulted in a change in net position of \$2,315,319. Property tax collections continued to remain strong. The City's revenues decreased by 9.2 percent or \$17,192,172 in comparison to the previous fiscal year. The City is in the last phase of the High School Revitalization project, therefore Methuen High School construction grant

reimbursement from Massachusetts School Business Authority (MSBA) was \$1,378,298 in fiscal year 2015 compared to \$25,360,157 in the prior year. The City's expenses increased by 3.6 percent or \$5,778,100. The increase in the City's OPEB liability of \$5,995,096 contributed to this increase. The cost of all governmental activities this year was \$167,865,462 compared to \$162,087,362 last year. A portion of the cost was paid by:

- Those who directly benefited from the programs, reported as charges for services of \$10,828,758.
- Other governments and organizations that subsidized certain programs with operating and capital grants and contributions in the amount of \$62,409,679.

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 \$75,414,505. Grants and contributions not restricted to specific programs amounted to \$12,883,500.

The City's tax rate decreased from fiscal year 2014 to 2015 for residential properties from \$14.85 to \$14.60 and increased for commercial properties from \$24.81 to \$25.57. Other than MSBA grants, the City's governmental revenues incurred a modest increase, including State Education Aid in the amount of \$40,887,672 comparing to \$40,306,473 in the prior year. About half of the total revenues or 45 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).

Capital assets from current year revenues	\$ 5,233
Revenues over expenditures in revolving and grant funds	1,320
Funding of stabilization from local option meals tax	737
Internal service fund change in net position	477
Increase in net OPEB obligation	(5,995)
Other	<u>543</u>
Total	\$ <u>2,315</u>

Business-type Activities - Business-type activities for the year resulted in a change in net position of \$321,545. Therefore, the City's net position in business-type activities remained virtually unchanged as a result of this year's operations, except for beginning net position restatement for GASB 68.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

At the end of the current fiscal year, the governmental funds reported a combined fund deficit of \$(11,659,784) with a net change in fund balance of \$9,068,952. The governmental funds deficit results from financing the High School Revitalization major fund with a \$20,415,000 bond anticipation note. The deficit was eliminated when permanently financed after year end. See Subsequent Events Note 30 for more information.

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>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>	<u>Balance % of Total General Fund Expenditures</u> <u>6/30/15</u>
Assigned	\$ 554	\$ 378	\$ 176	0.4%
Unassigned*	<u>3,194</u>	<u>2,739</u>	<u>455</u>	<u>2.3%</u>
Total fund balance	<u>\$ 3,748</u>	<u>\$ 3,117</u>	<u>\$ 631</u>	<u>2.7%</u>

*Includes stabilization fund balance of \$1,891,887 at June 30, 2015 and \$1,224,726 at June 30, 2014.

Unassigned fund balance increased by \$455,034. Revenues decreased 0.1% over prior year while expenditures remained unchanged.

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

Unrelenting winter storms in Fiscal Year 2015 would be the cover story in all 351 communities, and in the City of Methuen it would be no different. Winter snow removal strained the municipal budget with a price tag of \$1,759,093. The City had been averaging slightly over a \$1,050,000 in snow removal, but in Fiscal Year 2015 snow removal exceeded the average by \$707,889 or an increase of 67.3%. Little, if any relief came from FEMA in the amount of \$296,800 to offset cost, and supplemental appropriations and transfers from budgetary accounts and free cash in the amount of \$966,125 still left the City with a \$496,168 deficit as of June 30, 2015. The Bureau of Accounts ~ Division of Local Services recognized the tremendous burden snow removal placed on all municipal budgets throughout the Commonwealth and allowed municipalities to amortize their snow and ice deficit over three years with no penalty. Although the deficit is recorded on the balance sheet it will not be credited against the free cash certification.

In Fiscal Year 2015 the \$100 million High School Renovation was completed and was 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 Highway Interstate 93. The rotary project broke ground in the spring and is expected to be completed by 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 16%. 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 2015 with a free cash certification of \$1,049,383 and our Stabilization Fund disclosed a balance of \$1,891,886.52 at year end. The overall budget increased by 3.46% or \$5,018,922 with a majority of the increase going towards education, public safety, and employee benefits~ insurance/pensions. The assessed valuation was set at \$4,628,973,896 an increase of \$70,324,961 in new growth valuation in all classes which in turn adds \$1,283,784 in tax levy growth. Our tax levy used to support the Fiscal Year 2015 budget was \$75,579,556 which is below our actual tax levy governed by Proposition 2½ of \$77,798,856. The City of Methuen, after the adoption of the tax rate, is \$2,219,300 below the levy limit.

The Water and Sewer Enterprise fund was certified by the Department of Revenue with \$3,510,841 in available funds as of 07/01/14.

The City of Methuen's Health Insurance Trust Fund continues to remain healthy. The account is disclosing a balance of \$1,904,637 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 \$10,057,554 in FY 2015. 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 2015 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 \$211,855,035 (net of accumulated depreciation), a change of \$1,320,430 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		
	2015	2014	2015	2014	2015	2014	
Land improvements	\$ 1,553	\$ 1,775	\$ 8	\$ 10	\$ 1,561	\$ 1,785	
Construction	147,635	148,482	24,928	25,615	172,563	174,097	
Infrastructure	10,160	8,315	9,631	9,839	19,791	18,154	
Machinery and equipment	3,850	4,117	1,215	961	5,065	5,078	
Licensed vehicles	1,962	1,690	361	268	2,323	1,958	
Land, easements, and right of way	9,210	9,210	252	252	9,462	9,462	
Construction in progress	1,090	-	-	-	1,090	-	
Total net capital assets	\$ <u>175,460</u>	\$ <u>173,589</u>	\$ <u>36,395</u>	\$ <u>36,945</u>	\$ <u>211,855</u>	\$ <u>210,534</u>	

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

Governmental	
High School renovation	\$ 3,018
Chapter 90 roadwork	\$ 2,530
New turf field	\$ 723
Clubhouse	\$ 308
Heavy duty trucks	\$ 290
Business-Type:	
Water and sewer rehab	\$ 177

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 \$52,146,959, all of which was backed by the full faith and credit of the government. Standard & Poor's rating remains at AA for the City with stable outlook. Last action by Moody's was in July 2013; reflected A2 rating with stable 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 2016 with the High School Renovation Project completed, 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. To address the Capital Improvement Projects, 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 \$3.4 million dollars in Capital Improvements, net of projected utility

company rebates. This investment however will not require any up-front capital from 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 consists 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 2016 BUDGET:

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 \$1,058,334 or 10.52% in Health Insurance costs. Debt Service will see a decrease in the amount of \$55,437, while Pensions costs will see an increase of \$795,305.

Education: Governed by Chapter 70, the Methuen School System is looking for an increase of \$2.345 million and the Greater Lawrence Regional Vocational Technical High School is disclosing a decrease of \$5,919.

There are some significant hurdles to overcome for Fiscal Year 2016 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

	<u>FY 2015</u>	<u>FY 2016</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
City	\$ 65,239 ⁽¹⁾	\$ 68,566 ⁽¹⁾	\$ 3,327	5.10%
School	73,209	75,549	2,340	3.20%
County	1,449	1,655	206	14.22%
Enterprise Fund	9,931 ⁽²⁾	10,445 ⁽²⁾	514	5.18%
Total Budget	<u>\$ 149,828</u>	<u>\$ 156,215</u>	<u>\$ 6,387</u>	<u>4.26%</u>

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

⁽²⁾ Excludes indirect costs.

Tax Levy

	<u>FY 2015</u>	<u>FY 2016</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
General Government	\$ 22,450	\$ 22,945	\$ 495	2.20%
Fixed Costs	20,770	22,313	1,543	7.43%
School	32,039	34,130	2,091	6.53%
Overlay	308	287	(21)	-6.82%
Court Judgment	13	-	(13)	*
Total Levy	<u>\$ 75,580</u>	<u>\$ 79,675</u>	<u>\$ 4,095</u>	<u>5.42%</u>

*Not applicable to 2016

Tax Rate

	<u>FY 2015</u>	<u>FY 2016</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Residential	\$ 14.60	\$ 14.81	\$ 0.21	1.44%
Commercial	\$ 25.57	\$ 26.14	\$ 0.57	2.23%

Valuation by Classification

<u>Classification</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Residential	\$ 3,900,028	\$ 4,052,869	\$ 152,841	3.92%
Commercial	423,671	439,378	15,707	3.71%
Industrial	148,473	151,982	3,509	2.36%
Personal Property	<u>156,802</u>	<u>160,430</u>	<u>3,628</u>	<u>2.31%</u>
	<u>\$ 4,628,974</u>	<u>\$ 4,804,659</u>	<u>\$ 175,685</u>	<u>3.80%</u>

Utility Fund Budget

	<u>FY 2015</u>	<u>FY 2016</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Water & Sewer Enterprise Fund	\$ 11,284	\$ 11,808	\$ 524	4.64%

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Methuen's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Assets:			
Current:			
Cash and short-term investments	\$ 16,706,890	\$ 4,466,024	\$ 21,172,914
Receivables, net of allowance for uncollectibles:			
Property taxes	3,445,738	-	3,445,738
Excises	1,190,227	-	1,190,227
User fees	-	4,487,283	4,487,283
Assessments	246,060	-	246,060
Departmental and other	1,545,251	-	1,545,251
Intergovernmental	2,135,978	-	2,135,978
Loans	<u>3,603,195</u>	-	<u>3,603,195</u>
Total current assets	28,873,339	8,953,307	37,826,646
Noncurrent:			
Property taxes	478,480	-	478,480
Capital assets:			
Nondepreciable capital assets	10,300,418	251,550	10,551,968
Other capital assets, net of accumulated depreciation	<u>165,159,699</u>	<u>36,143,368</u>	<u>201,303,067</u>
Total noncurrent assets	<u>175,938,597</u>	<u>36,394,918</u>	<u>212,333,515</u>
TOTAL ASSETS	204,811,936	45,348,225	250,160,161
DEFERRED OUTFLOWS OF RESOURCES	83,504	3,625	87,129
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 204,895,440	\$ 45,351,850	\$ 250,247,290
LIABILITIES AND NET POSITION			
Liabilities:			
Current:			
Warrants and accounts payable	\$ 2,062,441	\$ 246,430	\$ 2,308,871
Accrued liabilities	1,826,069	272,240	2,098,309
Notes payable	23,615,000	-	23,615,000
Other current liabilities	1,695,670	-	1,695,670
Current portion of long-term liabilities:			
Bonds and loans payable	6,408,954	1,432,639	7,841,593
Other liabilities	<u>1,935,036</u>	<u>59,232</u>	<u>1,994,268</u>
Total current liabilities	37,543,170	2,010,541	39,553,711
Noncurrent:			
Bonds and loans payable, net of current portion	25,341,165	18,964,201	44,305,366
Net OPEB obligation	58,598,219	1,266,043	59,864,262
Net pension liability	97,575,858	4,235,346	101,811,204
Other liabilities, net of current portion	<u>2,376,465</u>	<u>183,637</u>	<u>2,560,102</u>
Total noncurrent liabilities	<u>183,891,707</u>	<u>24,649,227</u>	<u>208,540,934</u>
TOTAL LIABILITIES	221,434,877	26,659,768	248,094,645
Net Position:			
Net investment in capital assets	123,584,040	16,026,888	139,610,928
Restricted externally or constitutionally for:			
Loan and grant programs and other restrictions	8,810,027	-	8,810,027
Sewer mitigation	-	179,623	179,623
Permanent fund - nonexpendable	417,057	-	417,057
Unrestricted (deficit)	<u>(149,350,561)</u>	<u>2,485,571</u>	<u>(146,864,990)</u>
TOTAL NET POSITION	<u>(16,539,437)</u>	<u>18,692,082</u>	<u>2,152,645</u>
TOTAL LIABILITIES AND NET POSITION	\$ 204,895,440	\$ 45,351,850	\$ 250,247,290

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

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Expenses</u>	Program Revenues			Net (Expenses) <u>Revenues</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities:					
General government	\$ 17,245,050	\$ 1,527,216	\$ 81,877	\$ -	\$ (15,635,957)
Public safety	25,114,757	4,361,058	619,093	-	(20,134,606)
Education	108,184,789	3,194,598	57,832,116	-	(47,158,075)
Public works	9,923,508	351,012	192,115	3,350,352	(6,030,029)
Sanitation	2,628,606	-	-	-	(2,628,606)
Health and human services	1,737,315	124,268	334,126	-	(1,278,921)
Culture and recreation	1,441,189	1,270,606	-	-	(170,583)
Interest	1,590,248	-	-	-	(1,590,248)
Total Governmental Activities	167,865,462	10,828,758	59,059,327	3,350,352	(94,627,025)
Business-Type Activities:					
Enterprise services	9,211,576	10,855,147	20,777	-	1,664,348
Total	\$ 177,077,038	\$ 21,683,905	\$ 59,080,104	\$ 3,350,352	\$ (92,962,677)

(continued)

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

(continued)

	Governmental <u>Activities</u>	Business- Type <u>Activities</u>	<u>Total</u>
Change in Net Position:			
Net (Expenses) revenue from previous page	\$ (94,627,025)	\$ 1,664,348	\$ (92,962,677)
General Revenues and Transfers:			
Property taxes	75,414,505	-	75,414,505
Excise taxes	5,662,612	-	5,662,612
Local option meals tax	758,508	-	758,508
Interest and penalties	401,529	-	401,529
Grants and contributions not restricted to specific programs	12,883,500	-	12,883,500
Investment income	30,709	11,015	41,724
Other	437,163	-	437,163
Transfers, net	<u>1,353,818</u>	<u>(1,353,818)</u>	<u>-</u>
Total general revenues and transfers	<u>96,942,344</u>	<u>(1,342,803)</u>	<u>95,599,541</u>
Change in Net Position	2,315,319	321,545	2,636,864
Net Position:			
Beginning of year, as restated	<u>(18,854,756)</u>	<u>18,370,537</u>	<u>(484,219)</u>
End of year	<u>\$ (16,539,437)</u>	<u>\$ 18,692,082</u>	<u>\$ 2,152,645</u>

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

CITY OF METHUEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

	<u>General</u>	<u>High School Revitalization</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 6,506,476	\$ 524,399	\$ 6,380,634	\$ 13,411,509
Receivables:				
Property taxes	4,301,243	-	-	4,301,243
Excises	1,513,594	-	-	1,513,594
Assessments	246,060	-	-	246,060
Departmental and other	1,325,872	-	336,532	1,662,404
Intergovernmental	462,322	-	1,673,656	2,135,978
Loans	-	-	3,603,195	3,603,195
TOTAL ASSETS	\$ 14,355,567	\$ 524,399	\$ 11,994,017	\$ 26,873,983

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

Liabilities:				
Warrants and accounts payable	\$ 1,608,295	\$ -	\$ 373,931	\$ 1,982,226
Accrued liabilities	1,039,483	-	176,257	1,215,740
Notes payable	-	20,415,000	3,200,000	23,615,000
Other liabilities	1,108,288	-	-	1,108,288
Total Liabilities	3,756,066	20,415,000	3,750,188	27,921,254
Deferred Inflows of Resources	6,851,877	-	3,760,636	10,612,513
Fund Balances:				
Nonspendable	-	-	417,057	417,057
Restricted	-	-	5,215,004	5,215,004
Assigned	553,978	-	-	553,978
Unassigned	3,193,646	(19,890,601)	(1,148,868)	(17,845,823)
Total Fund Balances (Deficit)	3,747,624	(19,890,601)	4,483,193	(11,659,784)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)	\$ 14,355,567	\$ 524,399	\$ 11,994,017	\$ 26,873,983

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, 2015

Total governmental fund balances (deficit)	\$ (11,659,784)
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	175,460,117
• 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.	83,504
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	9,763,256
• 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.	2,659,501
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(610,329)
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds payable	(31,750,119)
Capital lease payable	(189,340)
Net OPEB obligation	(58,598,219)
Net pension liability	(97,575,858)
Landfill liability	(520,000)
Compensated absences liability	<u>(3,602,166)</u>
Net position of governmental activities	<u>\$ (16,539,437)</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, 2015

	<u>General</u>	<u>High School Revitalization</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 75,183,242	\$ -	\$ -	\$ 75,183,242
Excise taxes	5,704,820	-	-	5,704,820
Local option meals tax	758,508	-	-	758,508
Departmental	2,812,647	-	-	2,812,647
Licenses and permits	1,134,129	-	-	1,134,129
Intergovernmental	52,378,676	1,378,298	13,226,724	66,983,698
Charges for services	63,699	-	6,281,035	6,344,734
Interest and penalties	401,529	-	-	401,529
Investment income	28,830	-	1,880	30,710
Fines and forfeitures	377,081	-	-	377,081
Contributions	-	-	264,365	264,365
Other revenue	<u>72,490</u>	<u>687</u>	<u>70,326</u>	<u>143,503</u>
Total Revenues	<u>138,915,651</u>	<u>1,378,985</u>	<u>19,844,330</u>	<u>160,138,966</u>
Expenditures:				
Current:				
General government	26,346,319	-	118,753	26,465,072
Public safety	20,065,421	-	2,329,916	22,395,337
Education	73,818,160	3,018,250	12,186,447	89,022,857
Public works	7,323,329	-	3,719,957	11,043,286
Sanitation	2,628,606	-	-	2,628,606
Health and human services	1,145,119	-	461,866	1,606,985
Culture and recreation	1,102,580	-	453,502	1,556,082
Debt service:				
Principal	6,335,000	-	-	6,335,000
Interest	<u>1,526,451</u>	<u>-</u>	<u>-</u>	<u>1,526,451</u>
Total Expenditures	<u>140,290,985</u>	<u>3,018,250</u>	<u>19,270,441</u>	<u>162,579,676</u>
Excess (deficiency) of revenues over expenditures	<u>(1,375,334)</u>	<u>(1,639,265)</u>	<u>573,889</u>	<u>(2,440,710)</u>
Other Financing Sources (Uses):				
Bond proceeds	-	9,585,000	-	9,585,000
Bond premium	570,844	-	-	570,844
Transfers in	1,435,227	-	-	1,435,227
Transfers out	-	-	(81,409)	(81,409)
Total Other Financing Sources (Uses)	<u>2,006,071</u>	<u>9,585,000</u>	<u>(81,409)</u>	<u>11,509,662</u>
Net change in fund balances	630,737	7,945,735	492,480	9,068,952
Fund Balances (Deficit), at Beginning of Year	<u>3,116,887</u>	<u>(27,836,336)</u>	<u>3,990,713</u>	<u>(20,728,736)</u>
Fund Balances (Deficit), at End of Year	<u>\$ 3,747,624</u>	<u>\$ (19,890,601)</u>	<u>\$ 4,483,193</u>	<u>\$ (11,659,784)</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, 2015

Net changes in fund balances - Total governmental funds	\$ 9,068,952
• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Capital outlay purchases, net of disposals	7,709,568
Depreciation	(5,838,895)
• 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.	313,422
• 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:	
Issuance of debt	(9,585,000)
Repayments of debt	6,335,000
Deferred debt amortization	(140,596)
Change in unamortized bond premium	(277,182)
Payments of capital leases	92,550
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(63,797)
• Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.	
Compensated absences change	(87,863)
Landfill liability change	40,000
Net OPEB obligation change	(5,995,096)
Net pension liability change	267,529
• 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.	<u>476,727</u>
Change in net position of governmental activities	<u>\$ 2,315,319</u>

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, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues:				
Property tax	\$ 75,104,703	\$ 75,104,703	\$ 75,104,703	\$ -
Local revenue	10,636,500	10,636,500	11,595,246	958,746
Cherry sheet	51,234,622	51,234,622	51,264,079	29,457
Local option meals tax	-	758,508	758,508	-
Other	<u>300,000</u>	<u>596,800</u>	<u>596,807</u>	<u>7</u>
Total Revenues	137,275,825	138,331,133	139,319,343	988,210
Expenditures:				
Current:				
General government	26,571,559	26,627,532	26,627,532	-
Intergovernmental	1,449,216	1,501,095	1,501,095	-
Public safety	20,265,333	20,067,014	20,067,014	-
Education	73,209,097	73,208,772	73,208,772	-
Public works	5,284,094	6,225,669	6,721,838	(496,169)
Sanitation	2,560,000	2,628,606	2,628,606	-
Library	1,421,567	1,423,058	1,423,058	-
Health and human services	1,077,911	1,049,394	1,049,394	-
Debt service	<u>7,433,651</u>	<u>7,433,650</u>	<u>7,433,650</u>	<u>-</u>
Total Expenditures	<u>139,272,428</u>	<u>140,164,790</u>	<u>140,660,959</u>	<u>(496,169)</u>
Excess (deficiency) of revenues over expenditures	(1,996,603)	(1,833,657)	(1,341,616)	492,041
Other Financing Sources (Uses):				
Use of free cash	-	549,383	549,383	-
Transfers in	2,042,782	2,088,961	2,088,961	-
Transfers out	<u>(46,179)</u>	<u>(804,687)</u>	<u>(804,687)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>1,996,603</u>	<u>1,833,657</u>	<u>1,833,657</u>	<u>-</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u> -</u>	\$ <u> -</u>	\$ <u>492,041</u>	\$ <u>492,041</u>

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

CITY OF METHUEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2015

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
ASSETS		
Current:		
Cash and short-term investments	\$ 4,466,024	\$ 3,295,380
User fees receivable	4,487,283	-
Other receivable	-	<u>31,712</u>
Total current assets	8,953,307	3,327,092
Noncurrent:		
Capital assets:		
Nondepreciable capital assets	251,550	-
Other capital assets, net of accumulated depreciation	<u>36,143,368</u>	<u>-</u>
Total noncurrent assets	<u>36,394,918</u>	<u>-</u>
TOTAL ASSETS	45,348,225	-
DEFERRED OUTFLOWS OF RESOURCES	<u>3,625</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 45,351,850</u>	<u>\$ 3,327,092</u>
LIABILITIES		
Current:		
Accounts payable	\$ 246,430	\$ 80,209
Accrued liabilities	272,240	-
Other current liabilities	-	587,382
Current portion of long-term liabilities:		
Bonds and loans payable	1,432,639	-
Other liabilities	<u>59,232</u>	<u>-</u>
Total current liabilities	2,010,541	667,591
Noncurrent:		
Bonds and loans payable, net of current portion	18,964,201	-
Net OPEB obligation	1,266,043	-
Net pension liability	4,235,346	-
Other liabilities, net of current portion	<u>183,637</u>	<u>-</u>
Total noncurrent liabilities	<u>24,649,227</u>	<u>-</u>
TOTAL LIABILITIES	26,659,768	667,591
NET POSITION		
Net investment in capital assets	16,026,888	-
Restricted	179,623	-
Unrestricted	<u>2,485,571</u>	<u>2,659,501</u>
TOTAL NET POSITION	<u>18,692,082</u>	<u>2,659,501</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 45,351,850</u>	<u>\$ 3,327,092</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, 2015

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
Operating Revenues:		
Charges for services	\$ 10,717,845	\$ -
Contributions	-	16,987,781
Permits and fees	<u>137,302</u>	<u>-</u>
Total Operating Revenues	10,855,147	16,987,781
Operating Expenses:		
Personal services	2,429,660	-
Materials	1,957,560	-
Depreciation	1,114,883	-
Sanitary district assessment	3,239,588	-
Employee benefits	<u>-</u>	<u>16,511,054</u>
Total Operating Expenses	<u>8,741,691</u>	<u>16,511,054</u>
Operating Income	2,113,456	476,727
Nonoperating Revenues (Expenses):		
Intergovernmental revenue	20,777	-
Investment income	11,015	-
Interest expense	<u>(469,885)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(438,093)</u>	<u>-</u>
Income Before Transfers	1,675,363	476,727
Transfers out	<u>(1,353,818)</u>	<u>-</u>
Change in Net Position	321,545	476,727
Net Position at Beginning of Year	<u>18,370,537</u>	<u>2,182,774</u>
Net Position at End of Year	<u>\$ 18,692,082</u>	<u>\$ 2,659,501</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, 2015

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers and users	\$ 10,367,873	\$ -
Employer contributions and stop loss reimbursements	- -	10,920,853
Employee contributions	- -	6,065,598
Payments of employee salaries, benefits, and related expenses	(2,299,020)	(17,256,276)
Payments to vendors	(1,917,769)	- -
Payments to other governments	<u>(3,239,588)</u>	<u>- -</u>
Net Cash Provided By Operating Activities	2,911,496	(269,825)
<u>Cash Flows From Noncapital Financing Activities:</u>		
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>
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Acquisition and construction of capital assets	(564,641)	- -
Proceeds from notes (MWPAT reimbursements)	20,777	- -
Principal payments on bonds and loans	(1,466,597)	- -
Principal payments on capital leases	(55,989)	- -
Interest expense	<u>(486,709)</u>	<u>- -</u>
Net Cash (Used For) Capital and Related Financing Activities	<u>(2,553,159)</u>	<u>- -</u>
<u>Cash Flows From Investing Activities:</u>		
Investment income	<u>11,015</u>	<u>- -</u>
Net Cash Provided By Investing Activities	<u>11,015</u>	<u>- -</u>
Net Change in Cash and Short-Term Investments	<u>(984,466)</u>	<u>(269,825)</u>
Cash and Short-Term Investments, Beginning of Year	<u>5,450,490</u>	<u>3,565,205</u>
Cash and Short-Term Investments, End of Year	<u>\$ 4,466,024</u>	<u>\$ 3,295,380</u>
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u>		
Operating income (loss)	\$ 2,113,456	\$ 476,727
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,114,883	- -
Changes in assets, deferred outflows and liabilities:		
User fees	(487,273)	- -
Other receivables	- -	(1,330)
Accounts payable	39,790	9,642
Accrued liabilities	3,452	- -
Other liabilities	- -	(754,864)
Compensated absences	4,479	- -
OPEB liability	134,322	- -
Net pension liability, net of related deferred outflows	<u>(11,613)</u>	<u>- -</u>
Net Cash Provided By Operating Activities	<u>\$ 2,911,496</u>	<u>\$ (269,825)</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, 2015

	Pension Trust Fund (As of <u>December 31, 2014</u>)	Private Purpose Trust Fund	Agency Fund
ASSETS			
Non-pooled cash and short-term investments	\$ 823,852	\$ 428,971	\$ 126,767
Investments, at fair value:			
Pooled alternative investments	1,640,195	-	-
Pooled real estate funds	2,337,576	-	-
PRIT Fund	110,241,269	-	-
Receivables	<u>114,385</u>	<u>-</u>	<u>-</u>
Total Assets	115,157,277	428,971	126,767
LIABILITIES AND NET POSITION			
Other liabilities	<u>70,055</u>	<u>150</u>	<u>126,767</u>
Total Liabilities	<u>70,055</u>	<u>150</u>	<u>126,767</u>
NET POSITION			
Total net position held in trust for pension benefits and other purposes	<u>\$ 115,087,222</u>	<u>\$ 428,821</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, 2015

	Pension Trust Fund (For the Year Ended <u>December 31, 2014</u>)	Private Purpose Trust Fund
Additions:		
Contributions:		
Employers	\$ 9,810,315	\$ -
Other systems and Commonwealth of Massachusetts	3,482,062	-
Plan members	300,183	-
Other	<u>47,070</u>	<u>-</u>
Total contributions	13,639,630	-
Investment Income:		
Change in fair value of investments	8,940,326	82,617
Less: management fees	<u>(604,602)</u>	<u>-</u>
Net investment income	<u>8,335,724</u>	<u>82,617</u>
Total additions	21,975,354	82,617
Deductions:		
Benefit payments to plan members and beneficiaries	11,369,716	-
Refunds to plan members	227,541	-
Transfers to other systems	440,604	-
Administrative expenses	159,876	-
Other	<u>-</u>	<u>25,950</u>
Total deductions	<u>12,197,737</u>	<u>25,950</u>
Net increase	9,777,617	56,667
Net position:		
Beginning of year	<u>105,309,605</u>	<u>372,154</u>
End of year	<u>\$ 115,087,222</u>	<u>\$ 428,821</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 adopted by the Governmental Accounting Standards Board (GASB).

For the year ended June 30, 2015, the City implemented the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 67 requires additional disclosure for pension plans as well as required supplementary information and separately issued Best Practice Schedules for the Methuen Contributory Retirement System (the System). GASB Statement No. 68 establishes standards for measuring and recognizing net pension (assets and) liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans.

The following is a summary of the more significant policies:

A. Reporting Entity

The City is a municipal corporation governed by an elected City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. 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. The System does not issue a stand-alone audited financial report. Additional financial information of the System can be obtained by contacting the System located at 41 Pleasant Street, Methuen, Massachusetts 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 contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds 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 City considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and other long-term liabilities, are recorded only when payment is due.

The City reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *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.

Fiduciary funds are aggregated and reported by fund type.

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 accounting policies of the System conform to generally accepted accounting principles for public employee retirement systems (PERS). Plan member contributions

are recognized as revenue in the period in which the members provide services to the employer. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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, 2015. 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 2015 tax levy reflected an excess capacity of approximately \$2,200,000.

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. Deferred Outflows and Inflows of Resources

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent the consumption of net assets by

the City that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred inflows of resources represent an acquisition of fund balance that applies to future periods and will be recognized as revenue in future periods. Deferred inflows of resources have a negative effect on fund balance, similar to liabilities.

I. Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

J. Compensated Absences

The City'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.

K. 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.

L. 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.

M. 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)	\$ 138,915,651	\$ 140,290,985
Other financing sources/uses (GAAP Basis)	<u>2,006,071</u>	<u>-</u>
Subtotal (GAAP Basis)	140,921,722	140,290,985
To adjust property tax revenue to the budgetary basis	154,786	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(378,275)
To book current year appropriation carryforwards	-	553,978
To record use of free cash	549,383	-
To gross up employee benefits grant allocations	300,000	300,000
To remove bond premium activity	(107,323)	(107,323)
To remove nonbudgeted funds	<u>139,119</u>	<u>806,281</u>
Budgetary Basis	<u>\$ 141,957,687</u>	<u>\$ 141,465,646</u>

D. Deficit Fund Equity

The following funds or projects within the funds had deficits as of June 30, 2015:

Major Funds:

Methuen High School Revitalization	\$ (19,890,601)
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Nonmajor Governmental Funds:

Stadium Improvement Project	\$ (746,630)
Police Outside Detail	\$ (137,597)
School Lunch	\$ (53,756)
Conservation Composting/PW Recycling	\$ (33,862)
HOME Program Income	\$ (82,525)
MA CDBG	\$ (94,497)

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, 2015, \$4,563,644 of the City's bank balances of \$23,524,551 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 \$3,982,158, 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, SIF 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, 2015 were deposited in MMDT and bank accounts (checking, savings, and money market accounts).

As of December 31, 2014, \$550,088 of the System's bank balances of \$806,482 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 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, 2014, the System's investments consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>
State Investment Pool*	\$ 110,241,269
Pooled Alternative Funds	1,640,195
Pooled Real Estate Funds	<u>2,337,576</u>
Total investments	\$ <u>114,219,040</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 \$114,219,040 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. Of the System's total exposure, \$110,241,269 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, 2015.

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, 2015 consist of the following (in thousands):

Real Estate			
2015		\$ 1,590	
Personal Property			
2012 - 2015	56		
Prior	<u>263</u>		
		319	
Tax Liens		<u>2,392</u>	
Total		\$ <u>4,301</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	\$ 377
Excises	\$ 323

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, 2015 consist of the following:

	Fire	Police	Outside	Veterans	Other*	Total
	Ambulance	Detail	Benefits			
Gross	\$ 834,996	\$ 157,441	\$ 376,791	\$ 324,888	\$ 1,694,116	
Less: Allowance for doubtful accounts	<u>(125,249)</u>	<u>(23,616)</u>	<u>-</u>	<u>-</u>	<u>(148,865)</u>	
Total	\$ <u>709,747</u>	\$ <u>133,825</u>	\$ <u>376,791</u>	\$ <u>324,888</u>	\$ <u>1,545,251</u>	

*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 2015 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, 2015 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 7,191	\$ -	\$ -	\$ 7,191
Construction	202,628	3,123	-	205,751
Infrastructure	27,395	2,531	-	29,926
Machinery and equipment	11,849	325	(599)	11,575
Licenses and vehicles	11,323	655	-	11,978
Total capital assets, being depreciated	260,386	6,634	(599)	266,421
Less accumulated depreciation for:				
Land improvements	(5,416)	(222)	-	(5,638)
Construction	(54,146)	(3,970)	-	(58,116)
Infrastructure	(19,080)	(686)	-	(19,766)
Machinery and equipment	(7,732)	(587)	594	(7,725)
Licenses and vehicles	(9,633)	(383)	-	(10,016)
Total accumulated depreciation	(96,007)	(5,848)	594	(101,261)
Total capital assets, being depreciated, net	164,379	786	(5)	165,160
Capital assets, not being depreciated:				
Land, easements and right of way	9,210	-	-	9,210
Construction in progress	-	1,090	-	1,090
Total capital assets, not being depreciated	9,210	1,090	-	10,300
Governmental activities capital assets, net	\$ 173,589	\$ 1,876	\$ (5)	\$ 175,460

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 227	\$ -	-	\$ 227
Construction	34,064	22	-	34,086
Infrastructure	26,699	61	-	26,760
Machinery and equipment	2,760	330	(8)	3,082
Licenses and vehicles	679	153	-	832
Total capital assets, being depreciated	64,429	566	(8)	64,987
Less accumulated depreciation for:				
Land improvements	(217)	(2)	-	(219)
Construction	(8,449)	(709)	-	(9,158)
Infrastructure	(16,860)	(269)	-	(17,129)
Machinery and equipment	(1,799)	(76)	8	(1,867)
Licenses and vehicles	(411)	(60)	-	(471)
Total accumulated depreciation	(27,736)	(1,116)	8	(28,844)
Total capital assets, being depreciated, net	36,693	(550)	-	36,143
Capital assets, not being depreciated:				
Land, easements & right of way	252	-	-	252
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	252	-	-	252
Business-type activities capital assets, net	\$ 36,945	\$ (550)	\$ -	\$ 36,395

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

Governmental Activities:

General government	\$ 120
Public safety	323
Education	4,341
Public works	1,047
Health and human services	9
Culture and recreation	8
Total depreciation expense - governmental activities	\$ 5,848

Business-Type Activities:

Enterprise	\$ <u>1,116</u>
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12. Deferred Outflows of Resources

Deferred outflows of resources at June 30, 2015 represent the net differences between projected and actual pension investment earnings.

13. Warrants and Accounts Payable

Warrants payable represent 2015 expenditures paid by July 15, 2015 as permitted by law. Accounts payable represent additional 2015 expenditures paid after July 15, 2015.

14. Accrued Liabilities

The City had the following accrued liabilities as of June 30, 2015:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Salaries and wages	\$ 1,166,847	\$ 60,930
Debt interest	610,329	207,775
Tailings	<u>48,893</u>	<u>3,535</u>
Total accrued liabilities	<u>\$ 1,826,069</u>	<u>\$ 272,240</u>

15. Anticipation Notes Payable

The City had the following notes outstanding at June 30, 2015:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/15</u>
Methuen High School Revitalization	0.035 - 2.00%	08/08/14	08/07/15	\$ 20,415,000 *
Athletic Facilities Project	0.75%	06/05/15	06/03/16	\$ 3,200,000
				<u>\$ 23,615,000</u>

*See Note 30.

The following summarizes activity in notes payable during fiscal year 2015:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
High School Revitalization	\$ 30,000,000	\$ 20,415,000	\$ (30,000,000)	\$ 20,415,000
Athletic Facilities Project	<u>-</u>	<u>3,200,000</u>	<u>-</u>	<u>3,200,000</u>
	<u>\$ 30,000,000</u>	<u>\$ 23,615,000</u>	<u>\$ (30,000,000)</u>	<u>\$ 23,615,000</u>

16. Other Current Liabilities

Other current liabilities as of June 30, 2015 consist of the following:

	<u>Governmental Activities</u>
IBNR (see note 28)	\$ 587,382
Guaranteed deposits	1,011,247
Employee withholdings and other	<u>97,041</u>
Total other current liabilities	<u>\$ 1,695,670</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, 2015:

	<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2016	\$ 96,834	\$ 62,664	
2017	<u>96,834</u>		-
Total minimum lease payments	<u>193,668</u>		<u>62,664</u>
Less amount representing interest	<u>(4,328)</u>		<u>(3,432)</u>
Present Value of Minimum Lease Payments	<u>\$ 189,340</u>		<u>\$ 59,232</u>

The following is an analysis for the leased assets included in capital assets at June 30, 2015:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Machinery, vehicles and equipment	\$ 1,856,961	\$ 474,875
Less: accumulated depreciation	<u>(1,102,683)</u>	<u>(220,808)</u>
Equipment under capital leases, net	<u>\$ 754,278</u>	<u>\$ 254,067</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 govern-

mental and business-type activities and are repaid with general and enterprise fund revenues. Compensated absences are paid from the fund responsible for the employee's compensation with significant liabilities paid from general fund and the rest from enterprise fund. Landfill closure costs are paid from general fund, and capital lease payments are made from general and enterprise funds.

B. General Obligation Bonds and Other Long-Term Debt

General obligation bonds and loans currently outstanding are as follows:

<u>Governmental Activities:</u>	Original Issue <u>Amount</u>	Serial Maturities <u>Through</u>	Interest Rate(s)%	Amount Outstanding as of 6/30/15
Marsh School Expansion	\$ 17,399,400 *	11/01/16	4.80%	\$ 975,000
Timony School Expansion	21,190,000 *	11/01/16	5.01%	3,270,000
Landfill Closure	3,500,000 *	11/01/16	5.01%	360,000
Tenney School Expansion	22,850,000 *	05/15/17	4.79%	3,550,000
Additional School Expansion	6,500,000 *	10/15/19	5.00%	1,120,000
Library	4,800,000 *	10/15/19	5.00%	1,275,000
Road and Surface Drains	5,630,000	09/01/21	3.27%	125,000
Landfill Closure	85,000	09/01/21	3.91%	35,000
Road and Surface Drains	3,500,000	08/15/16	4.30%	315,000
High School	18,085,000	09/01/41	variable	17,720,000
Departmental Equipment	2,300,000	09/01/22	variable	1,725,000
Dileo Judgment	594,000	09/01/29	variable	535,000
Total Governmental Activities				\$ 31,005,000

*Partially refunded, original amount shown

<u>Business-Type Activities:</u>	Original Issue <u>Amount</u>	Serial Maturities <u>Through</u>	Interest Rate(s)%	Amount Outstanding as of 6/30/15
Sewer (MWPAT)	\$ 395,100 *	08/01/18	variable	\$ 133,000
Storm Water Management (MWPAT)	468,063 *	08/01/23	variable	250,000
Water Distribution System (MWPAT)	5,786,500 *	07/15/25	2.00%	3,480,474
Water Distribution System	700,000	08/15/27	4.16%	525,000
Water Treatment Plant	1,250,000	08/15/27	4.16%	935,000
Water Distribution System (MWPAT)	18,550,000 *	07/15/27	2.00%	12,901,328
Storm Water Management (MWPAT)	200,000 *	07/15/27	2.00%	129,311
Water Tank (MWPAT)	750,000 *	07/15/27	2.00%	340,476
Sewer Rehabilitation and Replacement (MWPAT)	1,117,204 *	07/15/28	2.00%	785,201
Storm Water Management (MWPAT)	12,243	07/15/27	2.00%	9,725
Water Treatment Plant Improvement (MWPAT)	650,000	07/15/30	2.00%	519,612
Sewer Rehabilitation (MWPAT)	452,604	07/15/32	2.00%	387,713
Total Business-Type Activities				\$ 20,396,840

*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, 2015 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 6,360,000	\$ 998,296	\$ 7,358,296
2017	5,450,000	768,278	6,218,278
2018	1,115,000	650,545	1,765,545
2019	1,135,000	617,656	1,752,656
2020	1,165,000	577,606	1,742,606
2021 - 2025	4,145,000	2,354,756	6,499,756
2026 - 2030	4,120,000	1,725,888	5,845,888
2031 - 2035	4,625,000	1,017,394	5,642,394
2036 - 2040	1,980,000	386,400	2,366,400
2041 - 2042	<u>910,000</u>	<u>36,800</u>	<u>946,800</u>
Total	<u>\$ 31,005,000</u>	<u>\$ 9,133,619</u>	<u>\$ 40,138,619</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,528,462	313,757	1,842,219
2021 - 2025	8,128,112	1,025,349	9,153,461
2026 - 2030	4,687,146	178,894	4,866,040
2031 - 2033	<u>113,024</u>	<u>2,861</u>	<u>115,885</u>
Total	<u>\$ 20,396,840</u>	<u>\$ 3,121,205</u>	<u>\$ 23,518,045</u>

D. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2015 are as follows:

<u>Authorized</u>	<u>Date</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	23,462,826
11/03/10		Sewer System Rehab Projects	146,795
10/02/14		Energy Efficiency Improvements	3,738,819
04/01/15		Athletic Facilities Project	<u>4,624,310</u>
	Total		\$ <u>32,176,227</u>

E. Changes in General Long-Term Liabilities

During the year ended June 30, 2015, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/14	Additions	Reductions	Total Balance 6/30/15	Less Current Portion	Equals Long-Term Portion 6/30/15
Governmental Activities						
General obligation debt	\$ 27,755	\$ 9,585	\$ (6,335)	\$ 31,005	\$ (6,360)	\$ 24,645
Unamortized bond premium	468	311	(33)	746	(49)	697
Subtotal	28,223	9,896	(6,368)	31,751	(6,409)	25,342
Net OPEB obligation	52,602	5,996	-	58,598	-	58,598
Net pension liability	97,760	-	(184)	97,576	-	97,576
Other:						
Capital leases	282	-	(93)	189	(95)	94
Landfill closure	560	-	(40)	520	(40)	480
Accrued employee benefits	3,515	87	-	3,602	(1,800)	1,802
Subtotal	4,357	87	(133)	4,311	(1,935)	2,376
Totals	\$ 182,942	\$ 15,979	\$ (6,685)	\$ 192,236	\$ (8,344)	\$ 183,892

	Total Balance 7/1/14	Additions	Reductions	Total Balance 6/30/15	Less Current Portion	Equals Long-Term Portion 6/30/15
Business-Type Activities						
General obligation debt and MWPAT loans	\$ 21,864	\$ -	\$ (1,467)	\$ 20,397	\$ (1,433)	\$ 18,964
Net OPEB obligation	1,132	134	-	1,266	-	1,266
Net pension liability	4,243	-	(8)	4,235	-	4,235
Other:						
Capital leases	115	-	(56)	59	(59)	-
Accrued employee benefits	179	5	-	184	-	184
Subtotal	294	5	(56)	243	(59)	184
Totals	\$ 27,533	\$ 139	\$ (1,531)	\$ 26,141	\$ (1,492)	\$ 24,649

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, 2015 is \$1,000,000.

19. Landfill 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 \$520,000 is reported as landfill postclosure care liability at June 30, 2015. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

20. Deferred Inflows of Resources

Deferred inflows of resources at June 30, 2015 reported on governmental funds balance sheet represent unavailable revenues.

21. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of fund balances are reported at June 30, 2015:

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, 2015:

	<u>General Fund</u>	<u>High School Revitalization</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable				
Nonexpendable perpetual care permanent fund	\$ -	\$ -	\$ 417,057	\$ 417,057
Total Nonspendable	-	-	417,057	417,057
Restricted				
Bonded projects	-	-	165,613	165,613
Special revenue funds:				
Revolving fund - MCTV/Verizon	-	-	888,740	888,740
Revolving fund - MPS before and after school program	-	-	744,148	744,148
Revolving fund - MCTV	-	-	470,104	470,104
Revolving fund - state SPED reimbursement	-	-	398,721	398,721
Revolving fund - MGEП	-	-	367,234	367,234
Revolving fund - City/Verizon CIP	-	-	266,747	266,747
Revolving fund - building safety task force	-	-	193,600	193,600
Federal grant fund - Title I	-	-	289,037	289,037
Federal grant fund - HOME program income	-	-	136,170	136,170
Other revolving funds	-	-	474,891	474,891
State grants	-	-	161,562	161,562
Other Federal grants	-	-	120,390	120,390
Other funds	-	-	183,271	183,271
Expendable trust	-	-	258,732	258,732
Other trusts	<u>-</u>	<u>-</u>	<u>96,044</u>	<u>96,044</u>
Total Restricted	-	-	5,215,004	5,215,004
Assigned				
General government	18,800	-	-	18,800
Education	355,770	-	-	355,770
Public works	127,653	-	-	127,653
Health and human services	<u>51,755</u>	<u>-</u>	<u>-</u>	<u>51,755</u>
Total Assigned	553,978	-	-	553,978
Unassigned	<u>3,193,646</u>	<u>(19,890,601)</u>	<u>(1,148,868)</u>	<u>(17,845,823)</u>
Total Unassigned	<u>3,193,646</u>	<u>(19,890,601)</u>	<u>(1,148,868)</u>	<u>(17,845,823)</u>
Total Fund Balance	\$ 3,747,624	\$ (19,890,601)	\$ 4,483,193	\$ (11,659,784)

22. 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.

23. Interfund Transfers

The government reports interfund transfers between several funds. The general fund transfer in from the enterprise water sewer fund covers indirect costs and other transfers are done to reimburse costs.

The following is an analysis of interfund transfers made in fiscal year 2015:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 1,435,227	\$ -
Nonmajor Funds:		
Special Revenue Funds:		
Revolving funds	8,715	-
State grants	-	25,002
Other special revenue funds	-	37,511
Expendable trust funds	-	28,846
Other trust funds	2,795	-
Permanent Funds:		
Perpetual care funds	-	1,560
Subtotal Nonmajor Funds	11,510	92,919
<u>Business-Type Funds:</u>		
Water and Sewer Fund	-	1,353,818
Total	-	1,353,818
<u>Grand Total</u>	<u>\$ 1,446,737</u>	<u>\$ 1,446,737</u>

24. 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.

25. 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 2015 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, 2015, 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)	\$ 10,550,662
Interest on net OPEB obligation	2,149,394
Adjustment to ARC	<u>(2,053,340)</u>
Annual OPEB cost	10,646,716
Contributions made	<u>4,517,298</u>
Increase in net OPEB obligation	6,129,418
Net OPEB obligation - beginning of year	<u>53,734,844</u>
Net OPEB obligation - end of year	\$ <u>59,864,262</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	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 10,646,716	42.4%	\$ 59,864,262
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

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%.

26. Retirement System

The City follows the provisions of GASB Statement No. 67 *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

A. Plan Description

The System is a member of the Methuen Contributory Retirement Systems and is governed by Chapter 32 of the Massachusetts General Laws. Because of the significance of its operational and financial relationship with the City, the System is included as a pension trust fund in the City's basic financial systems.

Substantially all employees of the City (except teachers and administrators under contract employed by the School Department) and Methuen Housing Authority are members of the Methuen Contributory Retirement System (the System), a cost sharing, multiple employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid.

The System is governed by a five-member board. The five members include two appointed by the City, two elected by the members and retirees, and a fifth member chosen by the other four members with the approval of the Public Employee Retirement Administration Commission. The System Retirement Board does not have the authority to amend benefit provisions.

Membership of each plan consisted of the following at June 30, 2015:

Retirees and beneficiaries receiving benefits	420
Terminated plan members entitled to but not yet receiving benefits	70
Active plan members	<u>616</u>
Total	<u>1,106</u>
Number of participating employers	2

B. Benefits Provided

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular

compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining 20 years of service. The plan also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the City payroll on January 1, 1978, (3) voluntarily left City employment on or after that date, and (4) left accumulated annuity deductions in the fund. A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive zero, fifty, or one hundred percent of the regular interest which has accrued upon those deductions. However, effective July 1, 2010, members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3% and do not forfeit any interest previously earned on contributions.

C. Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

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

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The City's contribution to the System for the year ended June 30, 2015 was \$8,804,157, which was equal to its annual required contribution.

D. Investments

System assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 7.45%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

E. Net Pension Liability of Participating Employers

The components of the net pension liability of the participating employers at June 30, 2015 were as follows (in thousands):

Net Pension Liability of Employers

Total pension liability	\$ 220,253
Plan fiduciary net position	<u>115,087</u>
Employers' net pension liability	<u>\$ 105,166</u>
Plan fiduciary net position as a percentage of total pension liability	52.3%

Actuarial Assumptions

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

Valuation Date	1/1/14 rolled forward to 12/31/14
Actuarial cost method	Entry Age
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.25-4.75%
Inflation rate	not explicitly assumed
Post-retirement cost-of-living adjustment	3% of first \$14,000

Actuarial valuation of the ongoing Systems involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the December 31, 2014 valuation were based on the results of the most recent actuarial experience study, which was for the period January 1, 2012 through December 31, 2013.

Mortality rates were based on pre-retirement rates that reflect the RP-2000 Employees table projected 20 years with Scale AA (gender distinct). Post retirement rates reflect the RP-2000 Healthy Annuitant table projected 17 years with Scale AA (gender distinct). For disabled retirees, this table is set forward 3 years for males.

Target Allocations

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	40.00%	6.9%
Core fixed income	13.00%	2.5%
Value-added fixed income	10.00%	5.8%
Private equity	10.00%	8.5%
Real estate	10.00%	6.5%
Timberland	4.00%	6.6%
Hedge funds	9.00%	5.8%
Portfolio completion strategies	<u>4.00%</u>	5.5%
Total	<u><u>100.00%</u></u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate: The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.75%) or 1 percentage-point higher (8.75%) than the current rate (in thousands):

Year Ended	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
December 31, 2014	\$ 129,246	\$ 105,166	\$ 84,383

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

At June 30, 2015, the City reported a liability of \$ 101,811,204 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the City's proportion was 96.81 percent.

For the year ended June 30, 2015, the City recognized pension expense of approximately \$9,412,000. In addition, the City reported deferred outflows of resources related to pension from net difference between projected and actual pension investment earnings.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ended June 30:	
2016	\$ 22
2017	22
2018	22
2019	<u>21</u>
Total	<u>\$ 87</u>

27. Massachusetts Teachers' Retirement System (MTRS)

A. Plan Description

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in

terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

C. Contributions

Member contributions for MTRS vary depending on the most recent date of membership:

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

D. Actuarial Assumptions

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of January 1, 2014, rolled back to June 30, 2013. This valuation used the following assumptions:

- (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.

- Mortality rates were as follows:
 - Pre-retirement - reflects RP-2000 Employees table adjusted for “white-collar” employment projected 22 years with Scale AA (gender distinct)
 - Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct)
 - Disability – reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) set forward 3 years for males.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund’s target asset allocation as of June 30, 2014 and 2013 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	Long-Term Expected Real Rate of Return	
		<u>2014</u>	<u>2013</u>
Global equity	43.0%	7.2%	7.70%
Core fixed income	13.0%	2.5%	2.00%
Hedge funds	10.0%	5.5%	4.75%
Private equity	10.0%	8.8%	9.00%
Real estate	10.0%	6.3%	6.00%
Value added fixed income	10.0%	6.3%	6.30%
Timber/natural resources	4.0%	5.0%	5.00%
Total	<u>100.0%</u>		

E. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth’s contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return

on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (amounts in thousands):

Fiscal Year Ended	1% Decrease to 7%	Current Discount Rate 8%	1% Increase to 9%
June 30, 2013	\$ 21,426,000	\$ 17,233,698	\$ 13,672,000
June 30, 2014	\$ 20,247,000	\$ 15,896,354	\$ 12,200,000

G. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

H. City Proportions

In fiscal year 2014 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense that is associated with the City was \$116,314,384 and \$8,080,918 respectively, based on a proportionate share of 0.731705%. As required by GASB 68, the City has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities.

28. 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, 2015 are as follows:

	<u>Year Ended June 30, 2015</u>	<u>Year Ended June 30, 2014</u>
Unpaid claims, beginning of fiscal year	\$ 1,342,246	\$ 1,251,582
Claims incurred (including IBNRs)	16,511,054	15,945,597
Claims paid	<u>(17,265,918)</u>	<u>(15,854,933)</u>
Unpaid claims, end of fiscal year	<u>\$ 587,382</u> *	<u>\$ 1,342,246</u>

* This liability is considered to be all current.

The 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.

29. 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.

30. Subsequent Events

On July 23, 2015, the City issued \$15,000,000 general obligation state qualified school bonds maturing on September 1, 2038 with interest rates ranging from 3 to 5 percent.

On July 23, 2015, the City issued \$5,415,000 general obligation bond anticipation note maturing on August 5, 2016 with interest rates ranging from 0.55 to 2 percent.

The above two transactions essentially refinance the \$20,415,000 bond anticipation note for the High School Revitalization project which matured on August 7, 2015.

31. Beginning Net Position Restatement for Change in Accounting Principle

The beginning (July 1, 2014) net position of the City has been restated as follows:

	Business- Type Activities	Governmental Activities	Enterprise Fund
As previously reported for June 30, 2014		\$ 78,905,127	\$ 22,613,871
GASB 68 implementation for net pension liability		<u>(97,759,883)</u>	<u>(4,243,334)</u>
As restated for July 1, 2014		<u>\$ (18,854,756)</u>	<u>\$ 18,370,537</u>

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

June 30, 2015

(Unaudited)

Other Post-Employment Benefits							
Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <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>	
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.

CITY OF METHUEN, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2015
(Unaudited)

<u>Methuen Contributory Retirement System:</u>	<u>2015</u>
Proportion of the net pension liability for the most recent measurement date	96.81%
Proportionate share of the net pension liability for the most recent measurement date (in thousands)	\$ 101,811
Covered-employee payroll for the most recent measurement date (in thousands)	\$ 40,441
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0%
Plan fiduciary net position as a percentage of the total pension liability	52.25%
<u>Massachusetts Teachers Retirement System:</u>	
Proportion of the net pension liability for the most recent measurement date	0.73%
The City's proportionate share of the net pension liability for the most recent measurement date	\$ -
Commonwealth of Massachusetts' proportionate share of the net pension liability that is associated with the City (in thousands)	<u>116,314</u>
Total net pension liability associated with the City (in thousands)	<u>\$ 116,314</u>
Covered-employee payroll for the most recent measurement date	\$ 50,065
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0%
Plan fiduciary net position as a percentage of the total pension liability	61.64%

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

See Independent Auditors' Report.

CITY OF METHUEN, MASSACHUSETTS

**SCHEDULE OF CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2015
(Unaudited)**

<u>Methuen Contributory Retirement System:</u>	<u>2015</u>
Contractually required contribution for the current fiscal year	\$ 8,804,157
Contributions in relation to the contractually required contribution	<u>8,804,157</u>
Contribution deficiency (excess)	\$ <u> - </u>
Covered-employee payroll for the current fiscal year	\$ 40,441,418
Contributions as a percentage of covered-employee payroll	22%

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

See Independent Auditors' Report.

**CITY OF METHUEN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

Schedule of Changes in the Net Pension Liability (in thousands)

(Unaudited)

	<u>2015</u>
Total pension liability	
Service cost	\$ 4,595
Interest on unfunded liability	16,248
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of member contributions	<u>(11,297)</u>
Net change in total pension liability	9,546
Total pension liability - beginning	<u>210,707</u>
Total pension liability - ending (a)	<u>\$ 220,253</u>
 Plan fiduciary net position	
Contributions - employer	\$ 9,834
Contributions - member	3,041
Net investment income	8,330
Benefit payments, including refunds of member contributions	<u>(11,297)</u>
Administrative expense	(160)
Other	<u>29</u>
Net change in plan fiduciary net position	9,777
Plan fiduciary net position - beginning	<u>105,310</u>
Plan fiduciary net position - ending (b)	<u>\$ 115,087</u>
 Net pension liability (asset) - ending (a-b)	<u>\$ 105,166</u>

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

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

See Independent Auditors' Report.

**CITY OF METHUEN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

Schedules of Net Pension Liability and Investment Returns

For the Year Ended December 31, 2014

(in thousands)
(Unaudited)

Schedule of Net Pension Liability

Total pension liability	\$ 220,253
Plan fiduciary net position	<u>115,087</u>
Net pension liability (asset)	<u>\$ 105,166</u>
Plan fiduciary net position as a percentage of the total pension liability	52%
Covered employee payroll	\$ 40,441
Participating employer net pension liability (asset) as a percentage of covered employee payroll	260%

Schedule of Investment Returns

Annual money weighted rate of return, net of investment expense	7.45%
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*Schedules are intended to show information for 10 years.
Additional years will be displayed as they become available.*

See Independent Auditors' Report.