



**CITY OF
LEOMINSTER, MASSACHUSETTS**

Financial Statements
For the Year Ended June 30, 2018

(With Independent Auditors' Report Thereon)

City of Leominster, Massachusetts

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
City of Leominster, 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 major fund, and the aggregate remaining fund information of the City of Leominster, Massachusetts, as of and for the year ended June 30, 2018 (except for the Leominster Contributory Retirement System which is as of and for the year ended December 31, 2017), and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the City of Leominster, Massachusetts, as of June 30, 2018 (except for the Leominster Contributory Retirement System which is as of and for the year ended December 31, 2017), and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Statement of Revenues and

Other Sources, and Expenditures, and Other Uses - Budget and Actual - Annually Budgeted Special Revenue Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Melanson Heath

April 24, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Leominster, Massachusetts (the City) we offer readers this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018.

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 comprise 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, liabilities, and deferred outflows/inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the 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).

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 fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes internal service funds.

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

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required 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 exceeded liabilities and deferred inflows by \$121,905,401 (i.e., net position), a change of \$1,380,743 in comparison to the prior year.

- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$43,336,830, a change of \$(1,528,545) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$31,210,189 (including the City's general Stabilization fund of \$15,113,865), a change of \$1,883,263 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>NET POSITION</u>	
	Governmental <u>Activities</u>	
	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 66,551	\$ 68,070
Capital assets	<u>270,256</u>	<u>267,973</u>
Total assets	336,807	336,043
Deferred outflows	9,793	165
Long-term liabilities outstanding	185,968	145,347
Other liabilities	<u>17,884</u>	<u>18,490</u>
Total liabilities	203,852	163,837
Deferred inflows	20,843	529
Net investment in capital assets	223,422	218,035
Restricted	12,781	8,266
Unrestricted	<u>(114,298)</u>	<u>(54,459)</u>
Total net position	<u>\$ 121,905</u>	<u>\$ 171,842</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$121,905,401, a change of \$1,380,743 in comparison to the prior year.

The largest portion of net position, \$223,422,295 reflects our investment in capital assets (e.g., infrastructure, land, buildings, machinery and equipment), less any related debt used to acquire those assets that are 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 \$12,781,473, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position reflects a deficit of \$(114,298,367), primarily resulting from unfunded pension and OPEB liabilities.

CHANGES IN NET POSITION

	Governmental <u>Activities</u>	
	<u>2018</u>	<u>2017</u>
Revenues:		
Program revenues:		
Charges for services	\$ 19,925	\$ 19,934
Operating grants and contributions	70,868	70,414
Capital grants and contributions	1,138	3,077
General revenues:		
Property taxes	68,441	65,154
Excises	5,343	4,653
Penalties and interest on taxes	412	473
Grants and contributions not restricted to specific programs	6,221	5,971
Investment income	480	148
Miscellaneous	<u>2,162</u>	<u>2,351</u>
Total revenues	174,990	172,175
Expenses:		
General government	7,904	6,846
Public safety	35,596	29,686
Education	101,350	100,536
Public works	17,373	15,521
Health and human services	2,209	1,794
Culture and recreation	5,248	4,923
Interest on long-term debt	485	699
Intergovernmental	<u>3,445</u>	<u>3,432</u>
Total expenses	<u>173,610</u>	<u>163,437</u>
Change in net position	1,380	8,738
Net position - beginning of year, as restated	<u>120,525</u>	<u>163,104</u>
Net position - end of year	<u>\$ 121,905</u>	<u>\$ 171,842</u>

Fiscal year 2017 amounts were not restated as the City applied GASB 75 prospectively.

Governmental activities. Governmental activities for the year resulted in an increase in net position of \$1,380,743. Key elements of this change are as follows:

General fund operating results	\$ 1,570,359
Nonmajor funds - accrual basis	7,191,610
Internal service fund operating results	(186,822)
Depreciation expense in excess of principal debt service	(2,539,446)
Change in net OPEB liability and related deferred outflows/inflows	(3,099,052)
Change in net pension liability and related deferred outflows/inflows	(1,361,012)
Change in long-term liabilities	(119,011)
Other GAAP accruals	<u>(75,883)</u>
Total	\$ <u><u>1,380,743</u></u>

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.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$43,336,830, a change of \$(1,528,545) in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ 1,570,359
Nonmajor fund operating results	<u>(3,098,904)</u>
Total	\$ <u><u>(1,528,545)</u></u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$31,210,189, while total fund balance was \$36,666,564. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/18</u>	<u>6/30/17</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Restricted fund balance	\$ 1,869	\$ 1,869	\$ -	0.00%
Assigned fund balance	5,454,506	5,767,410	(312,904)	3.96%
Unassigned fund balance				
General operating stabilization	15,113,865	13,636,022	1,477,843	10.97%
General fund	<u>16,096,324</u>	<u>15,690,904</u>	<u>405,420</u>	<u>11.68%</u>
Total unassigned fund balance	<u>31,210,189</u>	<u>29,326,926</u>	<u>1,883,263</u>	<u>22.65%</u>
Total fund balance	\$ <u>36,666,564</u>	\$ <u>35,096,205</u>	\$ <u>1,570,359</u>	<u>26.61%</u>

The total fund balance of the general fund changed by \$1,570,359 during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 6,186,372
Expenditures less than budget	1,766,400
Water/sewer surplus close out	1,477,905
Use of free cash as a funding source	(9,727,357)
Shortfall of tax collection	723,579
Expenditures prior year encumbrances in excess of current year	(312,905)
Change in stabilization	1,477,843
Other	<u>(21,478)</u>
Total	\$ <u>1,570,359</u>

E. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year-end amounted to \$270,255,544 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure.

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

Sewer System Facility Improvement	\$ 29,168,474
Water System Facility Improvement	\$ 1,169,707

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$44,200,500 all of which was backed by the full faith and credit of the government.

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

REQUESTS FOR INFORMATION

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

Mr. John J. Richard
City Comptroller
City of Leominster
25 West Street
Leominster, MA 01453

CITY OF LEOMINSTER, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2018

	<u>Governmental Activities</u>
Assets	
Current:	
Cash and short-term investments	\$ 51,975,743
Investments	4,946,393
Receivables, net of allowance for uncollectibles:	
Property taxes	891,684
Excises	1,016,467
User fees	1,716,283
Departmental and other	3,302,229
Intergovernmental	545,310
Noncurrent:	
Receivables:	
Tax title	1,094,616
Intergovernmental	1,062,363
Other	422
Land and construction in progress	81,620,779
Capital assets, net of accumulated depreciation	188,634,765
Deferred Outflows of Resources	
Related to pensions	150,282
Related to OPEB	<u>9,642,845</u>
Total Assets and Outflows of Resources	346,600,181
Liabilities	
Current:	
Warrants payable	1,623,936
Accrued liabilities	7,076,667
Notes payable	4,060,000
Other current liabilities	84,665
Current portion of long-term liabilities:	
Bonds payable	4,568,506
Other	469,045
Noncurrent:	
Bonds payable, net of current portion	39,631,994
Net pension liability	5,172,474
Net OPEB liability	136,510,217
Other, net of current portion	4,653,858
Deferred Inflows of Resources	
Related to pensions	20,314,051
Related to OPEB	<u>529,367</u>
Total Liabilities and Deferred Inflows of Resources	224,694,780
Net Position	
Net investment in capital assets	223,422,295
Restricted for:	
Grants and other statutory restrictions	9,420,139
Permanent funds:	
Nonexpendable	1,007,673
Expendable	2,353,661
Unrestricted	<u>(114,298,367)</u>
Total Net Position	<u>\$ 121,905,401</u>

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

CITY OF LEOMINSTER, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities					
General government	\$ 7,904,271	\$ 997,565	\$ 1,875,467	\$ -	\$ (5,031,239)
Public safety	35,595,742	2,999,248	676,658	-	(31,919,836)
Education	101,350,045	3,043,312	67,293,232	-	(31,013,501)
Public works	17,373,271	12,409,056	437,753	1,137,821	(3,388,641)
Health and human services	2,209,265	42,250	376,434	-	(1,790,581)
Culture and recreation	5,247,929	433,377	208,799	-	(4,605,753)
Interest	484,700	-	-	-	(484,700)
Intergovernmental	3,445,102	-	-	-	(3,445,102)
Total Governmental Activities	\$ <u>173,610,325</u>	\$ <u>19,924,808</u>	\$ <u>70,868,343</u>	\$ <u>1,137,821</u>	(81,679,353)
General Revenues					
					68,440,853
					5,343,329
					412,190
					6,221,092
					480,241
					<u>2,162,391</u>
Total general revenues					<u>83,060,096</u>
Change in Net Position					1,380,743
Net Position					
					<u>120,524,658</u>
					\$ <u>121,905,401</u>

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

CITY OF LEOMINSTER, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2018

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Assets			
Cash and short-term investments	\$ 37,112,870	\$ 6,299,133	\$ 43,412,003
Investments	1,744,383	3,202,010	4,946,393
Receivables:			
Property taxes	3,290,185	-	3,290,185
Excises	1,773,763	-	1,773,763
User fees	-	1,901,092	1,901,092
Departmental and other	3,765,934	-	3,765,934
Loans	-	3,298,037	3,298,037
Other	-	422	422
Intergovernmental	-	<u>1,607,673</u>	<u>1,607,673</u>
Total Assets	<u>\$ 47,687,135</u>	<u>\$ 16,308,367</u>	<u>\$ 63,995,502</u>
Liabilities			
Warrants payable	\$ 1,623,936	\$ -	\$ 1,623,936
Accrued payroll and withholdings	860,882	-	860,882
Notes payable	-	4,060,000	4,060,000
Other liabilities	<u>84,665</u>	<u>-</u>	<u>84,665</u>
TOTAL LIABILITIES	2,569,483	4,060,000	6,629,483
Deferred Inflows of Resources			
Unavailable revenues	8,451,088	5,578,101	14,029,189
Fund Balances			
Nonspendable	-	1,007,873	1,007,873
Restricted	1,869	11,995,968	11,997,837
Assigned	5,454,506	-	5,454,506
Unassigned	<u>31,210,189</u>	<u>(6,333,575)</u>	<u>24,876,614</u>
Total Fund Balances	<u>36,666,564</u>	<u>6,670,266</u>	<u>43,336,830</u>
Total Liabilities, Deferred inflows of Resources and Fund balances	<u>\$ 47,687,135</u>	<u>\$ 16,308,367</u>	<u>\$ 63,995,502</u>

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

CITY OF LEOMINSTER, MASSACHUSETTS

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

JUNE 30, 2018

Total governmental fund balances	\$ 43,336,830
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	270,255,544
Revenues are reported on the accrual basis of accounting and are not deferred until collection.	7,456,097
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.	3,336,419
Long-term liabilities, including bonds payable, net pension liability, and net OPEB liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(202,056,385)
Other	<u>(423,104)</u>
Net position of governmental activities	\$ <u><u>121,905,401</u></u>

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

CITY OF LEOMINSTER, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2018

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues			
Property taxes	\$ 68,447,467	\$ -	\$ 68,447,467
Excises	5,370,545	-	5,370,545
Penalties, interest and other taxes	412,190	-	412,190
Charges for services	2,326,226	16,003,111	18,329,337
Intergovernmental	57,813,237	12,341,457	70,154,694
Licenses and permits	1,502,639	-	1,502,639
Fines and forfeitures	260,067	-	260,067
Investment income	482,336	(2,095)	480,241
Miscellaneous	<u>2,052,623</u>	<u>692,303</u>	<u>2,744,926</u>
Total Revenues	138,667,330	29,034,776	167,702,106
Expenditures			
Current:			
General government	4,512,223	3,002,632	7,514,855
Public safety	18,150,938	121,402	18,272,340
Education	78,765,464	12,638,544	91,404,008
Public works	7,463,266	11,827,208	19,290,474
Health and human services	1,166,560	106,628	1,273,188
Culture and recreation	2,783,986	402,673	3,186,659
Employee benefits	18,973,443	-	18,973,443
Debt service	2,516,867	3,353,715	5,870,582
Intergovernmental	<u>3,445,102</u>	<u>-</u>	<u>3,445,102</u>
Total Expenditures	<u>137,777,849</u>	<u>31,452,802</u>	<u>169,230,651</u>
Excess (deficiency) of revenues over expenditures	889,481	(2,418,026)	(1,528,545)
Other Financing Sources (Uses)			
Transfers in	2,867,840	2,196,832	5,064,672
Transfers out	<u>(2,186,962)</u>	<u>(2,877,710)</u>	<u>(5,064,672)</u>
Total Other Financing Sources (Uses)	<u>680,878</u>	<u>(680,878)</u>	<u>-</u>
Change in fund balance	1,570,359	(3,098,904)	(1,528,545)
Fund Balance, at Beginning of Year	<u>35,096,205</u>	<u>9,769,170</u>	<u>44,865,375</u>
Fund Balance, at End of Year	<u>\$ 36,666,564</u>	<u>\$ 6,670,266</u>	<u>\$ 43,336,830</u>

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

CITY OF LEOMINSTER, 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, 2018

Net changes in fund balances - Total governmental funds	\$ (1,528,545)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>	
Capital outlay	10,296,492
Loss on disposal of assets	(5,978)
Depreciation	(8,007,479)
<p>The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position:</p>	
Repayments of debt	5,468,033
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.</p>	
	6,268
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:</p>	
Net pension liability and related deferred outflows and inflows of resources	(1,361,012)
Net OPEB liability and related deferred outflows and inflows of resources	(3,099,052)
<p>Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities.</p>	
	(186,822)
Other differences.	<u>(201,162)</u>
Change in net position of governmental activities	\$ <u><u>1,380,743</u></u>

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

CITY OF LEOMINSTER, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues				
Property taxes	\$ 67,723,888	\$ 67,723,888	\$ 67,723,888	\$ -
Excise	2,750,000	2,750,000	5,370,545	2,620,545
Penalties, interest and other taxes	448,000	448,000	412,190	(35,810)
Charges for services	1,986,000	1,986,000	2,347,704	361,704
Intergovernmental	50,604,610	50,604,610	50,689,411	84,801
Licenses and permits	490,000	490,000	1,502,639	1,012,639
Fines and forfeitures	110,000	110,000	260,067	150,067
Investment income	50,000	50,000	287,803	237,803
Miscellaneous	298,000	298,000	2,052,623	1,754,623
Total Revenues and Other Sources	124,460,498	124,460,498	130,646,870	6,186,372
Expenditures				
General government	4,488,324	4,488,324	4,304,752	183,572
Public safety	18,120,773	18,120,773	17,656,038	464,735
Education	72,541,067	72,541,067	72,075,397	465,670
Public works	7,923,140	7,923,140	7,622,807	300,333
Health and human services	1,165,382	1,165,382	1,081,017	84,365
Culture and recreation	2,999,609	2,999,609	2,979,128	20,481
Employee benefits	18,815,837	18,815,837	18,660,010	155,827
Debt service	2,517,538	2,517,538	2,516,867	671
Intergovernmental	3,535,848	3,535,848	3,445,102	90,746
Total Expenditures and Other Uses	132,107,518	132,107,518	130,341,118	1,766,400
Excess (deficiency) of revenues over expenditures	(7,647,020)	(7,647,020)	305,752	7,952,772
Other Financing Source/Uses				
Transfers in	5,106,625	5,106,625	6,584,530	1,477,905
Transfers out	(7,186,962)	(7,186,962)	(7,186,962)	-
Use of free cash:				
Operating budget	2,604,866	2,604,866	2,604,866	-
Capital budget	2,122,491	2,122,491	2,122,491	-
Transfer to stabilization fund(s)	5,000,000	5,000,000	5,000,000	-
Total Other Financing Sources/Uses	7,647,020	7,647,020	9,124,925	1,477,905
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 9,430,677	\$ 9,430,677

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

CITY OF LEOMINSTER, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF NET POSITION

JUNE 30, 2018

	Internal Service <u>Fund</u>
Assets	
Current:	
Cash and short-term investments	\$ 8,563,740
Intergovernmental receivables	<u>565,360</u>
Total Assets	9,129,100
Liabilities	
Current:	
Accrued claims payable	<u>5,792,681</u>
Total Liabilities	5,792,681
Net Position	
Unrestricted	<u>3,336,419</u>
TOTAL NET POSITION	<u>\$ 3,336,419</u>

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

CITY OF LEOMINSTER, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2018

	Internal Service Fund
Operating Revenues	
Employee and employer contributions	\$ <u>22,561,211</u>
Total Operating Revenues	22,561,211
Operating Expenses	
Salaries and benefits	<u>22,748,033</u>
Total Operating Expenses	<u>22,748,033</u>
Operating (loss)	(186,822)
Net Position at Beginning of Year	<u>3,523,241</u>
Net Position at End of Year	\$ <u><u>3,336,419</u></u>

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

CITY OF LEOMINSTER, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018

	Internal Service Fund
Cash Flows From Operating Activities	
Receipts from employees and employer	\$ 22,138,520
Payments of employee benefits and expenses	<u>(22,748,033)</u>
Net Cash (Used For) Operating Activities	(609,513)
Cash and Short-Term Investments, Beginning of Year	<u>9,173,253</u>
Cash and Short-Term Investments, End of Year	<u><u>\$ 8,563,740</u></u>
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities	
Operating (loss)	\$ (186,822)
Changes in assets and liabilities:	
Accrued liabilities	142,669
Receivables	<u>(565,360)</u>
Net Cash (Used For) Operating Activities	<u><u>\$ (609,513)</u></u>

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

CITY OF LEOMINSTER, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2018

	<u>Pension and OPEB Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and short-term investments	\$ 9,885,993	\$ 953,076
Investments:		
Equity mutual funds	60,918,494	-
External investment pool	163,528,816	-
Accounts receivable	-	78,738
Other assets	-	<u>195,257</u>
Total Assets	<u>234,333,303</u>	<u>1,227,071</u>
Liabilities		
Accounts payable	16,596	-
Guarantee deposits	-	487,082
Other liabilities	-	<u>739,989</u>
Total Liabilities	<u>16,596</u>	<u>\$ 1,227,071</u>
Net Position		
Restricted for pension purposes	207,578,771	
Restricted for OPEB purposes	<u>26,737,936</u>	
Total Net Position	<u>\$ 234,316,707</u>	

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

CITY OF LEOMINSTER, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Pension and OPEB Trust Funds</u>
Additions	
Contributions:	
Employers	\$ 20,473,409
Plan members	2,943,958
Other systems and Commonwealth of Massachusetts	202,664
Other	<u>64,936</u>
Total contributions	23,684,967
Investment Income:	
Change in fair value of investments	33,949,896
Management fees	<u>(1,081,494)</u>
Net investment income	<u>32,868,402</u>
Total additions	56,553,369
Deductions	
Benefit payments to plan members and beneficiaries	16,944,960
Refunds to plan members	278,652
Reimbursements to other systems	343,582
Administrative expenses	<u>182,559</u>
Total deductions	<u>17,749,753</u>
Net increase	38,803,616
Net position restricted for pensions and other purposes	
Beginning of year	<u>195,513,091</u>
End of year	<u>\$ 234,316,707</u>

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

City of Leominster, Massachusetts

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Blended Component Units: – Blended component units are entities that are legally separate, but are so related that they are, in substance, the same as the primary government, providing services entirely or almost entirely for the benefit of the primary government. The following component unit is blended within the primary government:

In the Fiduciary Funds, the Leominster Contributory Retirement System which was established to provide retirement benefits primarily to employees and their beneficiaries. The Contributory Retirement System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the Contributory Retirement System can be obtained by contacting the Contributory Retirement System located at Leominster City Hall, 25 West Street, Leominster, MA 01453.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

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

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

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The City reports the following major governmental fund:

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

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports the following proprietary fund:

- *Internal Service Funds* - To account for goods or services provided by one City department or agency to other City departments or agencies. The City accounts for its self-insured health and workers compensation funds as internal service funds.

The fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

The City reports the following fiduciary funds:

- The *other post-employment benefits (OPEB)* and *pension trust funds* are used to accumulate resources for retiree post-employment benefits.
- The *agency funds* account for fiduciary assets held by the City in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

D. Cash and Short-Term Investments

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

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

E. Investments

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

Investments consist of marketable securities, bonds and short-term money market investments. Investments are carried at fair value, except certificates of deposit which are reported at cost.

F. Property Tax Limitations

Legislation known as "Proposition 2½" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5% (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2018 tax levy reflected an excess capacity of \$5,236,092.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Government as assets with an initial individual cost of more than \$20,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	25
Vehicles	5 - 10
Office equipment	5
Computer equipment	5

H. Compensated Absences

It is the City’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

J. Fund Equity

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

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

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

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, 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 is reported as restricted when there are limitations imposed

on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

K. Use of Estimates

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

2. Stewardship, Compliance and Accountability

A. Budgetary Information

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the City Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at City Council meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the City Council is empowered to transfer funds from the reserve fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the general fund and proprietary funds.

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

The budgetary data for the general fund and certain special revenue 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, water and sewer funds are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources/Uses</u>
GAAP Basis	\$ 138,667,330	\$ 137,777,849	\$ 680,878
Adjust tax revenue to accrual basis	(723,579)	-	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(5,767,410)	-
Add end-of-year appropriation carryforwards from expenditures	-	5,454,505	-
To reverse the effect of non-budgeted State contributions	(7,123,826)	(7,123,826)	-
To remove the effects of non-budgeted stabilization fund	(194,533)	-	(1,283,310)
To record use of free cash	-	-	9,727,357
Other	21,478	-	-
Budgetary Basis	<u>\$ 130,646,870</u>	<u>\$ 130,341,118</u>	<u>\$ 9,124,925</u>

D. Deficit Fund Equity

Certain individual funds reflected deficit balances as of June 30, 2018.

It is anticipated that 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 - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Massachusetts General Law Chapter 44, Section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding 60% of the capital and surplus of such bank or trust

company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess.” Massachusetts General Law Chapter 32, Section 23, limits the System’s deposits “in a bank or trust company to an amount not exceeding 10% of the capital and surplus of such bank or trust company.” The City and the Contributory Retirement System do not have a deposit policy for custodial credit risk.

As of June 30, 2018, \$25,678,933 of the City’s bank balance of \$58,788,711 was exposed to custodial credit risk as uninsured or uncollateralized. \$8,777,281 of the City’s uninsured and uncollateralized amount is on deposit with the Massachusetts Municipal Depository Trust, which is the state investment pool as authorized by Massachusetts General Law, Chapter 29, Section 38A.

As of December 31, 2017, none of the Contributory Retirement System's bank balance of \$9,881,648 was exposed to custodial risk as uninsured, uncollateralized, and collateral held by pledging bank's Trust Department not in the Contributory Retirement System's name.

4. Investments

City (Excluding the OPEB and Pension Trust Funds)

The following is a summary of the City’s investments as of June 30, 2018:

<u>Investment Type</u>	<u>Amount</u>
Certificates of deposits	\$ 1,460,514
Corporate bonds	39,352
Equity mutual funds	1,497,980
Federal agency securities	55,640
Fixed income mutual funds	17,605
U.S. Treasury notes	<u>1,875,302</u>
Total investments	<u>\$ 4,946,393</u>

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law employs the prudent person rule whereby investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55,

limits the City's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs). The City does not have formal investment policies related to credit risk.

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

<u>Investment Type</u>	<u>Amount</u>	<u>Rating as of Year End</u>		
		<u>AAA</u>	<u>A-</u>	<u>BBB</u>
Corporate bonds	\$ 39,352	\$ -	\$ 19,497	\$ 19,855
Fixed income mutual funds	<u>17,605</u>	<u>17,605</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 56,957</u>	<u>\$ 17,605</u>	<u>\$ 19,497</u>	<u>\$ 19,855</u>

B. Custodial Credit Risk

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

As of June 30, 2018, \$1,592,972 of the City's total investments were subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the City's brokerage firm, which is also the counterparty to these securities as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Held by Counterparty</u>
Corporate bonds	\$ 39,352	\$ 39,352
Equity mutual funds	1,497,980	1,497,980
Federal agency securities	<u>55,640</u>	<u>55,640</u>
Total	<u>\$ 1,592,972</u>	<u>\$ 1,592,972</u>

C. Concentration of Credit Risk

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

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

As of June 30, 2018, the City does not have an investment in one issuer greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City does not have formal investment policies limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Investment Maturities</u> <u>(in Years)</u>	
		<u>Less Than 1</u>	<u>1-5</u>
Certificates of deposit	\$ 1,460,514	\$ 722,797	\$ 737,717
Corporate bonds	39,352	12,771	26,581
Federal agency securities	55,640	-	55,640
U.S. Treasury notes	<u>1,875,302</u>	<u>1,846,452</u>	<u>28,850</u>
Total	<u>\$ 3,430,808</u>	<u>\$ 2,582,020</u>	<u>\$ 848,788</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City does not have formal investment policies related to foreign currency risk.

F. Fair Value

The City categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

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

- Level 1 – inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.

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

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

The City has the following fair value measurements as of June 30, 2018:

<u>Investment Type</u>	<u>Amount</u>	<u>Fair Value Measurements Using:</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:				
Corporate bonds	\$ 39,352	\$ 39,352	\$ -	\$ -
Equity mutual funds	1,497,980	1,497,980	-	-
Federal agency securities	55,640	55,640	-	-
Fixed income mutual funds	17,605	17,605	-	-
U.S. Treasury notes	<u>1,875,302</u>	1,875,302	-	-
Total	\$ <u>3,485,879</u>			

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

5. Investments - OPEB Trust Fund

The following is a summary of the OPEB Trust Fund's investments as of June 30, 2018:

<u>Investment Type</u>	<u>Amount</u>
External investment pool*	\$ <u>26,656,867</u>
Total investments	\$ <u>26,656,867</u>

**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.

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. State law employs the prudent person rule whereby investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The OPEB Trust Fund does not have formal investment policies related to credit risk.

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 OPEB Trust Fund does not have formal investment policies related to custodial credit risk.

C. Concentration of Credit Risk

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

As of June 30, 2018, the OPEB Trust Fund does not have an investment in one issuer greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The OPEB Trust Fund does not have formal investment policies limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

F. Fair Value

The OPEB Trust Fund categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

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

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

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

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

The OPEB Trust Fund has the following fair value measurements as of June 30, 2018:

<u>Investment Type</u>	<u>Amount</u>	<u>Fair Value Measurements Using:</u>		
		Quoted prices in active markets for identical assets <u>(Level 1)</u>	Significant observable inputs <u>(Level 2)</u>	Significant unobservable inputs <u>(Level 3)</u>
Investments measured at the net asset value (NAV):				
External investment pools	\$ 26,656,867	-	-	-
Total	\$ 26,656,867			

<u>Investment Type</u>	<u>Amount</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
External investment pools	\$ 26,656,867	\$ -	Monthly	30 Days

6. Investments - Pension Trust Fund (The System)

The following is a summary of the System's investments as of December 31, 2017:

<u>Investment Type</u>	<u>Amount</u>
Equity mutual funds	\$ 60,918,494
External investment pool*	<u>136,871,949</u>
Total investments	<u>\$ 197,790,443</u>

**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.*

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

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's investments of \$197,790,443 are held in the State investment pool (PRIT) and in equity mutual funds which are exempt from the custodial risk disclosure.

Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

C. Concentration of Credit Risk

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

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

As of December 31, 2017, the System did not have any investments subject to concentration of credit risk disclosure as any investment classifications exceeding 5% are exempt.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The System does not have formal investment policies limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The System does not have formal investment policies related to foreign currency risk.

F. Fair Value

The System categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

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

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

The System has the following fair value measurements as of December 31, 2017:

<u>Investment Type</u>	<u>Amount</u>	<u>Fair Value Measurements Using:</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:				
Equity mutual funds	\$ 60,918,494	\$ 60,918,494	\$ -	\$ -
Investments measured at the net asset value (NAV):				
External investment pools	<u>136,871,949</u>	-	-	-
Total	<u>\$ 197,790,443</u>			

<u>Investment Type</u>	<u>Amount</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
External investment pools	\$ 136,871,949	\$ -	Monthly	30 Days

7. Taxes and Excises Receivable

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

estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

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

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles annually calculates the value of all registered motor vehicles for the purpose of excise assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25 per \$1,000 of value.

Taxes and excises receivables at June 30, 2018 consist of the following:

	Gross Amount	Allowance for Doubtful Accounts	Current Portion	Long-Term Portion
Real estate taxes	\$ 748,775	\$ (39,158)	\$ 709,617	\$ -
Personal property taxes	352,178	(170,111)	182,067	-
Tax liens	<u>2,189,232</u>	<u>(1,094,616)</u>	<u>-</u>	<u>1,094,616</u>
Total property taxes	<u>\$ 3,290,185</u>	<u>\$ (1,303,885)</u>	<u>\$ 891,684</u>	<u>\$ 1,094,616</u>
Motor vehicle excise	\$ <u>1,773,763</u>	\$ <u>(757,296)</u>	\$ <u>1,016,467</u>	\$ <u>-</u>
Total excises	<u>\$ 1,773,763</u>	<u>\$ (757,296)</u>	<u>\$ 1,016,467</u>	<u>\$ -</u>
Departmental	\$ <u>3,765,934</u>	\$ <u>(463,705)</u>	\$ <u>3,302,229</u>	\$ <u>-</u>
Total departmental	<u>\$ 3,765,934</u>	<u>\$ (463,705)</u>	<u>\$ 3,302,229</u>	<u>\$ -</u>

8. User Fee Receivables

Receivables for user charges and betterments at June 30, 2018 consist of the following:

	Gross Amount	Allowance for Doubtful Accounts	Net Amount
Water	\$ 920,259	\$ (89,582)	\$ 830,677
Sewer	<u>980,833</u>	<u>(95,227)</u>	<u>885,606</u>
Total	<u>\$ 1,901,092</u>	<u>\$ (184,809)</u>	<u>\$ 1,716,283</u>

9. Loans Receivable

The loans receivable balance reported on the balance sheet represents loans issued to individuals for home improvements/rehabilitation projects. The loans were issued through the City’s Community Development Block Grant and are forgivable over time if certain criteria are met. Consequently, no balance is reported on the statement of net position as it is completely offset by an allowance for uncollectible of equal value.

10. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2018.

11. Interfund Fund Accounts

Transfers

The City reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. The following is an analysis of major interfund transfers.

<u>Governmental Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,867,840	\$ 2,186,962
Nonmajor Funds:		
Special Revenue Funds	2,196,832	2,790,409
Trust Funds:		
Expendable - Perpetual Care	-	87,301
Subtotal Nonmajor Funds	<u>2,196,832</u>	<u>2,877,710</u>
Grand Total	<u>\$ 5,064,672</u>	<u>\$ 5,064,672</u>

12. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows (in thousands):

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Governmental Activities				
Capital assets, being depreciated:				
Buildings and land improvements	\$ 152,725	\$ 32,862	\$ -	\$ 185,587
Machinery, equipment, and furnishings	44,474	1,262	(32)	45,704
Infrastructure	<u>66,509</u>	<u>6,414</u>	<u>-</u>	<u>72,923</u>
Total capital assets, being depreciated	263,708	40,538	(32)	304,214
Less accumulated depreciation for:				
Buildings and land improvements	(58,389)	(3,769)	-	(62,158)
Machinery, equipment, and furnishings	(30,194)	(2,023)	26	(32,191)
Infrastructure	<u>(19,014)</u>	<u>(2,216)</u>	<u>-</u>	<u>(21,230)</u>
Total accumulated depreciation	<u>(107,597)</u>	<u>(8,008)</u>	<u>26</u>	<u>(115,579)</u>
Total capital assets, being depreciated, net	156,111	32,530	(6)	188,635
Capital assets, not being depreciated:				
Land	79,374	-	-	79,374
Construction in progress	<u>32,488</u>	<u>1,436</u>	<u>(31,677)</u>	<u>2,247</u>
Total capital assets, not being depreciated	<u>111,862</u>	<u>1,436</u>	<u>(31,677)</u>	<u>81,621</u>
Governmental activities capital assets, net	<u>\$ 267,973</u>	<u>\$ 33,966</u>	<u>\$ (31,683)</u>	<u>\$ 270,256</u>

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

Governmental Activities	
General government	\$ 231
Public safety	646
Education	3,202
Public works	3,031
Health and human services	235
Culture and recreation	<u>663</u>
Total governmental activities	<u>\$ 8,008</u>

13. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the City that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions and OPEB, in accordance with GASB Statements No. 68 and 75, are more fully discussed in the corresponding pension and OPEB notes.

14. Accrued Liabilities

Accrued liabilities represent 2018 expenditures paid in 2019.

15. Warrants and Accounts Payable

Warrants payable represent 2018 expenditures paid by July 15, 2018. Accounts payable represent additional 2018 expenditures paid after July 15, 2018.

16. Notes Payable

The City had the following loans and notes outstanding at June 30, 2018:

	Interest Rate	Date of Issue	Date of Maturity	Balance End of Year
School Construction	1.95%	5/30/18	5/30/19	\$ 1,560,000
LED streetlight project	2.10%	6/28/18	5/30/19	1,000,000
MWPAT	0.00%	2/15/18	2/14/19	<u>1,500,000</u>
Total				<u>\$ 4,060,000</u>

The following summarizes activity in loans and notes payable during fiscal year 2018:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
School Construction	\$ 1,300,000	\$ 260,000	\$ -	\$ 1,560,000
LED streetlight project	-	1,000,000	-	1,000,000
MWPAT	-	<u>1,500,000</u>	-	<u>1,500,000</u>
Total	<u>\$ 1,300,000</u>	<u>\$ 2,760,000</u>	<u>\$ -</u>	<u>\$ 4,060,000</u>

17. Long-Term Debt

A. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/18</u>
Sewer inflow/infiltration (MWPAT)	08/01/18	1.5	\$ 590,000
Sewer inflow/infiltration (MWPAT)	08/01/18	1.5	19,200
Sewer inflow/infiltration (MWPAT)	08/01/19	1.5	63,600
Harvard Street sewer (MWPAT)	08/01/19	1.5	300,000
Harvard Street sewer (MWPAT)	08/01/19	1.5	198,213
Water (MWPAT)	08/01/19	1.5	160,000
School remodel & reconstruction	11/01/21	2.0 - 3.0	4,200,000
School remodel & reconstruction	12/15/21	2.0 - 3.0	1,320,000
Water improvements	05/01/25	3.50 - 5	1,295,000
Watershed land purchase	10/24/28	3.75 - 5	230,000
Water system improvement # 2	10/24/28	3.75 - 5	555,000
Water (MWPAT)	07/15/30	2.0	4,900,896
Water (MWPAT)	07/15/30	2.0	5,303,212
Sewer (MWPAT)	07/15/30	0.0	4,041,858
Water (MWPAT)	07/15/32	2.0	1,656,672
Sewer (MWPAT)	07/15/32	2.25-4.0	525,000
Water (MWPAT)	07/15/32	0.0	9,335,546
MCWT CW-10-41	01/15/36	0.0	7,210,756
MCWT CW-10-41A	01/15/36	0.0	2,295,547
Total Governmental Activities			<u>\$ 44,200,500</u>

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2018 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 4,568,506	\$ 530,566	\$ 5,099,072
2020	4,524,608	430,355	4,954,963
2021	3,930,960	354,196	4,285,156
2022	3,928,570	293,013	4,221,583
2023	2,616,957	245,045	2,862,002
2024 - 2028	12,583,820	762,031	13,345,851
2029 - 2033	10,384,902	195,955	10,580,857
2034 - 2037	<u>1,662,177</u>	<u>17,999</u>	<u>1,680,176</u>
Total	<u>\$ 44,200,500</u>	<u>\$ 2,829,160</u>	<u>\$ 47,029,660</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2018, the following changes occurred in long-term liabilities (in thousands):

	<u>Beginning</u>			<u>Ending</u>	<u>Less</u>	<u>Equals</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Current</u>	<u>Long-Term</u>
					<u>Portion</u>	<u>Portion</u>
Governmental Activities						
Bonds payable	\$ 49,669	\$ -	\$ (5,468)	\$ 44,201	\$ (4,569)	\$ 39,632
Net pension liability	23,611	-	(18,439)	5,172	-	5,172
Net OPEB liability	124,298	12,212	-	136,510	-	136,510
Other:						
Landfill closure	1,358	-	(84)	1,274	(85)	1,189
Compensated absences	<u>3,646</u>	<u>203</u>	<u>-</u>	<u>3,849</u>	<u>(384)</u>	<u>3,465</u>
Subtotal - other	<u>5,004</u>	<u>203</u>	<u>(84)</u>	<u>5,123</u>	<u>(469)</u>	<u>4,654</u>
Totals	<u>\$ 202,582</u>	<u>\$ 12,415</u>	<u>\$ (23,991)</u>	<u>\$ 191,006</u>	<u>\$ (5,038)</u>	<u>\$ 185,968</u>

D. Long-Term Debt Supporting Governmental Activities

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

18. Landfill Closure and Post-Closure Care Costs

State and Federal laws and regulations require the City to perform certain maintenance and monitoring functions at the landfill site for thirty years after closure.

The \$1,273,950 reported as landfill postclosure care liability at June 30, 2018 represents the remaining estimated postclosure maintenance costs. These amounts are based on what it would cost to perform all postclosure care in 2018. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

19. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the City that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Deferred inflows of resources related to pension and OPEB will be recognized as expense in future years and is more fully described in the corresponding pension and OPEB notes. *Unavailable revenues* are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

20. Governmental Funds - Balances

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

The City has implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2018:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Council resolution, special purpose stabilization funds, and various special revenue funds.

Assigned - Represents amounts that are constrained by the City's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various City departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned – Represents amounts that are available to be spent in future periods, general stabilization fund, and deficit funds.

Following is a breakdown of the City's fund balances at June 30, 2018:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Nonspendable			
Nonexpendable permanent funds	\$ -	\$ 1,007,873	\$ 1,007,873
Total Nonexpendable	-	1,007,873	1,007,873
Restricted			
Reserve for petty cash	1,869	-	1,869
Bonded projects	-	223,584	223,584
Other special revenue funds	-	9,420,175	9,420,175
Expendable permanent funds	-	2,352,209	2,352,209
Total Restricted	1,869	11,995,968	11,997,837
Assigned			
Encumbrances			
General government	1,263,772	-	1,263,772
Public safety	476,348	-	476,348
Education	968,034	-	968,034
Public works	1,651,233	-	1,651,233
Health and human services	8,776	-	8,776
Culture and recreation	998,936	-	998,936
Employee benefits	87,407	-	87,407
Total Assigned	5,454,506	-	5,454,506
Unassigned			
General fund	16,096,324	-	16,096,324
General operating stabilization	15,113,865	-	15,113,865
Unassigned	-	(6,333,575)	(6,333,575)
Total Unassigned	31,210,189	(6,333,575)	24,876,614
Total Fund Balance	\$ 36,666,564	\$ 6,670,266	\$ 43,336,830

21. Retirement System

The City follows the provisions of 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

Substantially all employees of the City (except teachers and administrators under contract employed by the School Department) are members of the Leominster 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 Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at 25 West Street, Leominster, Massachusetts 01453.

Participant Contributions

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

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

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

Participant Retirement Benefits

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest 5-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for

members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100%, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

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

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

A retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left City employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4 have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

Methods of Payment

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

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the members death.
- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member,

provided however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

Employer Contributions

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

The City's contribution to the System for the year ended June 30, 2018 was \$8,417,688, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

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

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

At June 30, 2018, the reported a liability of \$5,172,474 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation dated January 1, 2017 and rolled forward to December 31, 2017. 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 2018, the City's proportion was 93.73%.

For the year ended June 30, 2018, the City recognized pension expense of \$9,948,235. In addition, the City reported deferred outflows of resources and deferred (inflows) of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred (Inflows) of <u>Resources</u>
Differences between expected and actual experience	\$ -	\$ (2,748,641)
Changes of assumptions	-	(893,061)
Net difference between projected and actual earnings on pension plan investments	-	(15,974,055)
Changes in proportion and differences between contributions and proportionate share of contributions	<u>150,282</u>	<u>(698,294)</u>
Total	<u>\$ 150,282</u>	<u>\$ (20,314,051)</u>

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

Year ended June 30:	
2019	\$ (4,523,951)
2020	(4,277,116)
2021	(5,942,997)
2022	(4,737,730)
2023	<u>(681,975)</u>
Total	<u>\$ (20,163,769)</u>

D. Actuarial Assumptions

The total pension liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary increases	4%
Investment rate of return	5.50%

Mortality rates were based on the RP-2014 table adjusted to 2006 and projected generationally with MP-2016.

E. 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 geometric real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
US Equity	24.83%	4.47%
International Equities	26.30%	4.66%
Emerging Equities	6.66%	6.12%
Core Bonds	3.46%	0.73%
20+ Year Treasuries	1.38%	0.49%
TIPS	3.46%	0.73%
Value Added Fixed Income	6.92%	3.50%
Private Equity	8.30%	6.31%
Real Estate	6.92%	3.59%
Timberland	2.77%	3.17%
Portfolio Completion (PCS)	<u>9.00%</u>	3.44%
Total	<u>100.00%</u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 5.50%. 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.

G. 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 (asset) calculated using the discount rate of 5.50%, 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 one percentage-point lower or one percentage-point higher than the current rate:

	Current Discount Rate	
1% Decrease <u>(4.5%)</u>	<u>(5.5%)</u>	1% Increase <u>(6.5%)</u>
\$ 29,227,096	\$ 5,172,474	\$ (14,093,672)

H. Pension Plan Fiduciary Net Position

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

22. Massachusetts Teachers' Retirement System (MTRS)

A. Plan Description

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

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

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establish uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last 5 years or any 5 consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after 10 years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of creditable service or upon reaching the age of 55 with 10 years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

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

C. Contributions

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

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

D. Actuarial Assumptions

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. This valuation used the following assumptions:

- (a) 7.50% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.00% to 7.50% depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
- Mortality rates were as follows:
 - Pre-retirement – reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct).
 - Post-retirement – reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct).
 - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 set forward 4 years.

E. Target Allocations

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.00%	5.00%
Core fixed income	12.00%	1.10%
Private equity	11.00%	6.60%
Real estate	10.00%	3.60%
Value added fixed income	10.00%	3.80%
Hedge funds	0.00%	3.60%
Portfolio completion strategies	13.00%	3.60%
Timber/natural resources	4.00%	3.20%
Total	<u>100.00%</u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Sensitivity Analysis

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

1% Decrease to <u>6.50%</u>	Current Discount Rate <u>7.50%</u>	1% Increase to <u>8.50%</u>
\$ 28,424,300	\$ 22,885,391	\$ 18,193,400

H. Special Funding Situation

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

I. City Proportions

In fiscal year 2017 (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 \$131,954,319 and \$13,772,456 respectively, based on a proportionate share of 0.576588%. As required by GASB 68, the City has recognized its portion of the collective pension expense as both a revenue and expenditure in the general fund.

23. Other Post-Employment Benefits (GASB 74 and GASB 75)

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, replaces the requirements of *Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. In fiscal year 2012, the City established an OPEB Trust Fund to provide funding for future employee health care costs.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of *Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

All the following OPEB disclosures are based on a measurement date of June 30, 2018.

A. General Information about the OPEB Plan

Plan Description

The City provides post-employment healthcare benefits for retired employees through the City's plan. The City provides health insurance coverage through BlueCross BlueShield. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

Benefits Provided

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

Funding Policy

The City's funding policy includes financing the implicit subsidy on a pay-as-you-go basis, as required by statute. Additional contributions are based on annual budget limitations/authorizations.

Plan Membership

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	824
Active employees	<u>1,211</u>
Total	<u><u>2,035</u></u>

B. Investments

The OPEB trust fund assets consist of investments in the external investment pool.

Rate of return. For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 9.50%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Actuarial Assumptions and Other Inputs

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

Inflation	not explicitly stated
Salary increases	4%, average, including inflation
Investment rate of return	7.5%, net of OPEB plan investment expense
Municipal bond rate	3.87%
Discount rate	7.50%
Healthcare cost trend rates	8.5% for 2018, fluctuating 3.5% to an ultimate rate of 5% as of 2025 and later years
Participation rate	90% of the active City employees eligible for post-employment medical benefits

Mortality rates were based on the RP-2014 Mortality Tables adjusted to 2006 and projected generationally using MP-2016.

D. Target Allocations

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of

return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2018 are summarized in the following table.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
US Equity	17.50%	4.47%
International Equities	15.50%	4.66%
Emerging Equities	6.00%	6.12%
Core Bonds	5.00%	0.73%
20+ Year Treasury STRIPS	2.00%	0.49%
TIPS	5.00%	0.73%
Value-Added Fixed Income	10.00%	3.50%
Private Equity	12.00%	6.31%
Real Estate	10.00%	3.59%
Timberland	4.00%	3.16%
Portfolio Completion (PCS)	<u>13.00%</u>	3.44%
Total	<u><u>100.00%</u></u>	

E. Discount Rate

The discount rate used to measure the net OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

Based on those assumptions, the OPEB plan fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

F. Net OPEB Liability

The components of the net OPEB liability, measured as of June 30, 2018, were as follows:

Total OPEB liability	\$ 163,248,153
Plan fiduciary net position	<u>26,737,936</u>
Net OPEB liability	<u>\$ 136,510,217</u>
Plan fiduciary net position as a percentage of the total OPEB liability	16.38%

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

G. Changes in the Net OPEB Liability

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

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances, beginning of year	\$ 144,086,154	\$ 19,788,467	\$ 124,297,687
Changes for the year:			
Service cost	3,501,702	-	3,501,702
Interest	10,816,088	-	10,816,088
Contributions - employer	-	11,376,686	(11,376,686)
Net investment income	-	2,319,469	(2,319,469)
Differences between expected and actual experience	2,631,392	-	2,631,392
Changes in assumptions or other inputs	8,959,503	-	8,959,503
Benefit payments	<u>(6,746,686)</u>	<u>(6,746,686)</u>	<u>-</u>
Net Changes	<u>19,161,999</u>	<u>6,949,469</u>	<u>12,212,530</u>
Balances, end of year	<u>\$ 163,248,153</u>	<u>\$ 26,737,936</u>	<u>\$ 136,510,217</u>

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

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

1% <u>Decrease</u>	Current Discount Rate	1% <u>Increase</u>
\$ 157,913,351	\$ 136,510,217	\$ 118,911,089

I. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it as calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

1% <u>Decrease</u>	Current Healthcare Cost Trend Rates	1% <u>Increase</u>
\$ 116,806,402	\$ 136,510,217	\$ 160,963,385

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

For the year ended June 30, 2018, the City recognized an OPEB expense of \$14,475,738. At June 30, 2018, the City reported deferred outflows and (inflows) of resources related to OPEB from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred (Inflows) of <u>Resources</u>
Difference between expected and actual experience	\$ 2,189,141	\$ -
Change in assumptions	7,453,704	-
Net difference between projected and actual OPEB investment earnings	<u>-</u>	<u>(529,367)</u>
Total	<u>\$ 9,642,845</u>	<u>\$ (529,367)</u>

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

<u>Year Ended June 30:</u>	
2019	\$ 1,815,708
2020	1,815,708
2021	1,815,708
2022	1,815,708
2023	<u>1,850,646</u>
Total	<u>\$ 9,113,478</u>

24. Consolidation of Pension and OPEB Trust Funds

The Leominster Contributory Retirement System and the Leominster OPEB Trust Fund are presented in a single column in the accompanying fiduciary fund financial statements. Details of the financial position and changes in net position are as follows:

	Pension Trust Fund (December 31, 2017)	Other Post-Employment Benefits Trust Fund	Pension and OPEB Trust Funds
Assets			
Cash and short-term investments	\$ 9,804,924	\$ 81,069	\$ 9,885,993
Investments	<u>197,790,443</u>	<u>26,656,867</u>	<u>224,447,310</u>
Total Assets	207,595,367	26,737,936	234,333,303
Liabilities			
Accounts payable	<u>16,596</u>	<u>-</u>	<u>16,596</u>
Total Liabilities	16,596	-	16,596
Net Position			
Restricted for pensions	207,578,771	-	207,578,771
Restricted for OPEB purposes	<u>-</u>	<u>26,737,936</u>	<u>26,737,936</u>
Total Net Position	<u>\$ 207,578,771</u>	<u>\$ 26,737,936</u>	<u>\$ 234,316,707</u>
	Pension Trust Fund (year ended December 31, 2017)	Other Post-Employment Benefits Trust Fund	Pension and OPEB Trust Funds
Additions			
Contributions:			
Employers	\$ 9,096,723	\$ 11,376,686	\$ 20,473,409
Plan members	2,943,958	-	2,943,958
Other systems and Commonwealth of Massachusetts	202,664	-	202,664
Other	<u>64,936</u>	<u>-</u>	<u>64,936</u>
Total contributions	12,308,281	11,376,686	23,684,967
Investment Income (Loss):			
Increase in fair value of investments	31,489,203	2,460,693	33,949,896
Less: management fees	<u>(1,081,494)</u>	<u>-</u>	<u>(1,081,494)</u>
Net investment income	<u>30,407,709</u>	<u>2,460,693</u>	<u>32,868,402</u>
Total additions	42,715,990	13,837,379	56,553,369
Deductions			
Benefit payments to plan members and beneficiaries	10,057,050	6,887,910	16,944,960
Refunds to plan members	278,652	-	278,652
Transfers to other systems	343,582	-	343,582
Administrative expenses	<u>182,559</u>	<u>-</u>	<u>182,559</u>
Total deductions	<u>10,861,843</u>	<u>6,887,910</u>	<u>17,749,753</u>
Net increase	31,854,147	6,949,469	38,803,616
Net position restricted for pensions and OPEB purposes			
Beginning of year	<u>175,724,624</u>	<u>19,788,467</u>	<u>195,513,091</u>
End of year	<u>\$ 207,578,771</u>	<u>\$ 26,737,936</u>	<u>\$ 234,316,707</u>

25. Self-Insurance

The City self-insures against claims for workers compensation, dental and health insurance coverage. Annual estimated requirements for claims are provided in the City's annual operating budget.

Workers Compensation

The City contracts with an insurance consultant for claims processing of the City's workers compensation policy. Under the terms of its insurance coverage, the City is liable for an aggregate liability of \$1,000,000, with a maximum of \$2,000,000. At June 30, 2018, there was no liability for unpaid claims as the City estimates the amount, if any, to be immaterial.

Health Insurance

The City contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing of its dental and health insurance plans. Under the terms of its insurance coverage, the City is liable for dental costs incurred up to \$1,000 per enrollee per year and medical claims up to \$200,000 per enrollee. The City's health insurance plans are retrospectively rated (i.e., level monthly payment amounts are adjusted quarterly to reflect actual claims paid). The claims liability at June 30, 2018 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, 2018 are as follows:

Claims liability, beginning of year	\$ 5,650,012
Claims incurred/recognized in fiscal year 2018	22,748,033
Claims paid in fiscal year 2018	<u>(22,605,364)</u>
Claims liability, end of year	<u>\$ 5,792,681</u>

26. Subsequent Events

Debt

Subsequent to June 30, 2018, the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond anticipation note	\$ 2,241,000	2.25%	05/30/19	05/29/20

27. Commitments and Contingencies

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Sewer Infiltration/Inflow Project - The City of Leominster is still operating under the June 2002 Administrative Consent Order. An inflow and Infiltration evaluation has begun that will be finished in December 2018. The Leominster DPW has continued to address collection system issues on an annual basis. The Infiltration/Inflow program initiated a monitoring program in the spring of 2017 to determine the areas the City should prioritize for rehabilitation. This will be a two-year process to identify and repair the sub-systems that contribute the most improper flow. Extensive work on the collection system continues on a yearly basis and the Crawford Street connection will begin as soon as the MBTA provides its approval and easement. This should be completed in the summer of 2018.

Wastewater Treatment Facility Upgrades - The City of Leominster Wastewater Facility is in compliance with its most recent NPDES permit. The wastewater facility has two upgrades remaining to be fully upgraded. The aeration system and the clarification system will be upgraded in 2019 – 2020. This will complete the upgrades to the entire facility. The City plans to use new SRF loans to fund these upgrades. The new loan debt service will be offset by maturing debt to minimize new debt requirements. All pump station facilities were upgraded with new pumps and generators as of the spring of 2017 with the completion of the Day Street Pump Station.

Encumbrances – At year-end the City’s general fund has \$5,454,506 in encumbrances that will be honored in the next fiscal year.

28. Beginning Net Position Restatement

The beginning (July 1, 2017) net position of the City has been restated as follows:

Government-Wide Financial Statements:

	Governmental <u>Activities</u>
As previously reported	\$ 171,842,098
GASB 75 implementation	<u>(51,317,440)</u>
As restated	<u>\$ 120,524,658</u>

29. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 84, *Fiduciary Activities*, effective for the City beginning with its fiscal year ending June 30, 2021. This statement establishes guidance on how to address the categorization of fiduciary activities for financial reporting and how fiduciary activities are to be reported, and may require reclassification of certain funds.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 87, *Leases*, effective for the City beginning with its fiscal year ending June 30, 2022. This statement establishes new reporting and disclosure requirements, including the recording of various operating leases in the financial statements.

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

JUNE 30, 2018
(Unaudited)

Leominster Contributory Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2018	December 31, 2017	93.73%	\$ 5,172,474	\$ 28,865,643	17.92%	97.41%
June 30, 2017	December 31, 2016	96.32%	\$ 23,610,891	\$ 28,830,053	81.90%	81.90%
June 30, 2016	December 31, 2015	96.22%	\$ 34,479,776	\$ 28,662,007	120.30%	81.53%
June 30, 2015	December 31, 2014	96.42%	\$ 31,033,652	\$ 26,349,116	117.78%	82.90%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the City</u>	<u>Total Net Pension Liability Associated with the City</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2018	June 30, 2017	0.5766%	\$ -	\$ 131,954,319	\$ 131,954,319	\$ 39,153,024	-	54.25%
June 30, 2017	June 30, 2016	0.5729%	\$ -	\$ 128,079,658	\$ 128,079,658	\$ 37,680,754	-	52.73%
June 30, 2016	June 30, 2015	0.5896%	\$ -	\$ 120,812,035	\$ 120,812,035	\$ 37,375,668	-	55.38%
June 30, 2015	June 30, 2014	0.6022%	\$ -	\$ 95,722,448	\$ 95,722,448	\$ 36,921,772	-	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 LEOMINSTER, MASSACHUSETTS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

JUNE 30, 2018
 (Unaudited)

Leominster Contributory Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	December 31, 2017	\$ 8,417,688	\$ 8,417,688	\$ -	\$ 28,865,643	29.16%
June 30, 2017	December 31, 2016	\$ 8,563,366	\$ 8,563,366	\$ -	\$ 28,830,053	29.70%
June 30, 2016	December 31, 2015	\$ 8,455,032	\$ 8,455,032	\$ -	\$ 28,662,007	29.50%
June 30, 2015	December 31, 2014	\$ 8,376,557	\$ 8,376,557	\$ -	\$ 26,349,116	31.79%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution Provided by Commonwealth</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	June 30, 2017	\$ 7,123,826	\$ 7,123,826	\$ -	\$ 39,153,024	18.19%
June 30, 2017	June 30, 2016	\$ 6,442,288	\$ 6,442,288	\$ -	\$ 37,680,754	17.10%
June 30, 2016	June 30, 2015	\$ 6,025,554	\$ 6,025,554	\$ -	\$ 37,375,668	16.12%
June 30, 2015	June 30, 2014	\$ 5,644,580	\$ 5,644,580	\$ -	\$ 36,921,772	15.29%

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See Independent Auditors' Report.

CITY OF LEOMINSTER, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY (GASB 74 AND 75)

(Unaudited)
(Amounts expressed in thousands)

	<u>2018</u>	<u>2017</u>
Total OPEB Liability		
Service cost	\$ 3,502	\$ 3,367
Interest on unfunded liability - time value of money	10,816	10,286
Differences between expected and actual experience	2,631	-
Changes of assumptions	8,960	-
Benefit payments, including refunds of member contributions	<u>(6,747)</u>	<u>(6,582)</u>
Net change in total OPEB liability	19,162	7,071
Total OPEB liability - beginning	<u>144,086</u>	<u>137,015</u>
Total OPEB liability - ending (a)	163,248	144,086
Plan Fiduciary Net Position		
Contributions - employer	11,377	10,082
Net investment income	2,320	2,176
Benefit payments, including refunds of member contributions	<u>(6,747)</u>	<u>(6,582)</u>
Net change in plan fiduciary net position	6,950	5,676
Plan fiduciary net position - beginning	<u>19,788</u>	<u>14,112</u>
Plan fiduciary net position - ending (b)	<u>26,738</u>	<u>19,788</u>
Net OPEB liability (asset) - ending (a-b)	<u>\$ 136,510</u>	<u>\$ 124,298</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 LEOMINSTER, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF NET OPEB LIABILITY, CONTRIBUTIONS, AND INVESTMENT RETURNS (GASB 74 AND 75)

(Unaudited)
(Amounts expressed in thousands)

	<u>2018</u>	<u>2017</u>
Schedule of Net OPEB Liability		
Total OPEB liability	\$ 163,248	\$ 144,086
Plan fiduciary net position	<u>26,738</u>	<u>19,788</u>
Net OPEB liability (asset)	<u>\$ 136,510</u>	<u>\$ 124,298</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 16.38%	 13.73%

	<u>2018</u>	<u>2017</u>
Schedule of Contributions		
Actuarially determined contribution	\$ 9,438	\$ 11,995
Contributions in relation to the actuarially determined contribution	<u>6,150</u>	<u>10,082</u>
Contribution deficiency (excess)	<u>\$ 3,288</u>	<u>\$ 1,913</u>

	<u>2018</u>	<u>2017</u>
Schedule of Investment Returns		
Annual money weighted rate of return, net of investment expense	9.50%	12.36%

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

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

See Independent Auditors' Report.

CITY OF LEOMINSTER, MASSACHUSETTS

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

ANNUALLY BUDGETED SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<u>WATER</u>				
Revenues and Other Sources:				
Charges for services	\$ 5,717,031	\$ 5,717,030	\$ 6,270,425	\$ 553,395
Transfers in	<u>1,176,706</u>	<u>1,176,706</u>	<u>1,176,706</u>	<u>-</u>
Total Revenues and Other Sources	6,893,737	6,893,736	7,447,131	553,395
Expenditures and Other Uses:				
Public works	5,296,300	5,296,299	4,997,129	299,170
Debt service	1,597,437	1,597,437	1,597,437	-
Transfers out	<u>-</u>	<u>-</u>	<u>852,565</u>	<u>(852,565)</u>
Total Expenditures and Other Uses	<u>6,893,737</u>	<u>6,893,736</u>	<u>7,447,131</u>	<u>(553,395)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
<u>SEWER</u>				
Revenues and Other Sources:				
Charges for services	\$ 5,578,201	\$ 5,578,202	\$ 6,043,748	\$ 465,546
Transfers in	<u>915,656</u>	<u>915,656</u>	<u>915,656</u>	<u>-</u>
Total Revenues and Other Sources	6,493,857	6,493,858	6,959,404	465,546
Expenditures and Other Uses:				
Public works	4,737,579	4,737,580	4,577,786	159,794
Debt service	1,756,278	1,756,278	1,756,278	-
Transfers out	<u>-</u>	<u>-</u>	<u>625,340</u>	<u>(625,340)</u>
Total Expenditures and Other Uses	<u>6,493,857</u>	<u>6,493,858</u>	<u>6,959,404</u>	<u>(465,546)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

See Independent Auditors' Report.