

CITY OF HAVERHILL, MASSACHUSETTS

***REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS***

YEAR ENDED JUNE 30, 2019

CITY OF HAVERHILL, MASSACHUSETTS

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JUNE 30, 2019

TABLE OF CONTENTS

Independent Auditor’s Report.....1
Management’s Discussion and Analysis3
Basic Financial Statements12
 Statement of net position13
 Statement of activities.....14
 Governmental funds – balance sheet.....16
 Reconciliation of the governmental funds balance sheet total fund balances to the statement of net position17
 Governmental funds – statement of revenues, expenditures and changes in fund balances.....18
 Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds
 to the statement of activities.....19
 Proprietary funds – statement of net position20
 Proprietary funds – statement of revenues, expenses and changes in net position21
 Proprietary funds – statement of cash flows.....22
 Fiduciary funds – statement of fiduciary net position.....23
 Fiduciary funds – statement of changes in fiduciary net position24
Notes to basic financial statements25
Schedule of revenues, expenditures and changes in fund balance – general fund – budget and actual63
Pension Plan Schedules – Retirement System64
 Schedule of changes in the net pension liability and related ratios65
 Schedule of employer contributions66
 Schedule of investment return67
Pension Plan Schedules – City.....68
 Schedule of the City’s proportionate share of the net pension liability69
 Schedule of the City’s contributions70
 Schedule of special funding amounts of the net pension liability.....71
Other postemployment benefit plan schedules.....72
 Schedule of changes in the City’s total OPEB liability and related ratios73
Notes to required supplementary information.....74



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Independent Auditor's Report

To the Honorable Mayor
City of Haverhill, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Haverhill, Massachusetts, as of and for the year ended June 30, 2019 (except for the Haverhill Contributory Retirement System which is as of and for the year ended December 31, 2018), and the related notes to the financial statements, which collectively comprise the City of Haverhill, Massachusetts' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Haverhill, Massachusetts, as of June 30, 2019 (except for the Haverhill Contributory Retirement System which is as of and for the year ended December 31, 2018), and the respective changes in financial position and, where applicable, cash flows thereof 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 the management's discussion and analysis and required supplementary information, as listed in the table of contents, 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 sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2020, on our consideration of the City of Haverhill, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Haverhill, Massachusetts' internal control over financial reporting and compliance.



January 8, 2020

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Haverhill, Massachusetts (City), we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2019. We encourage readers to consider the information presented in this report. All amounts, unless otherwise indicated, are expressed in whole dollars.

The Governmental Accounting Standards Board (GASB) is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

Financial Highlights

- The liabilities and deferred inflows of resources of the City of Haverhill exceeded the assets and deferred outflows of resources at the close of the most recent year by \$298.9 million (net position).
- At the close of the current year, the City's general fund reported an ending fund balance of \$25.7 million. Total fund balance represents 12% of total general fund expenditures.
- The City's total debt (short-term and long-term combined) increased by \$11.0 million during the year.
- The City's total other postemployment benefit (OPEB) liability decreased by \$17.9 million and totaled \$364.2 million at year-end.
- The City's net pension liability (NPL) increased by \$16.4 million and totaled \$185.5 million at year-end.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Haverhill's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The government-wide financial statements provide both long-term and short-term information about the City as a whole. The fund financial statements focus on the individual components of the City government, reporting the City's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the City's accountability. This report also contains other required supplementary information in addition to the basic financial statements themselves.

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

The *statement of net position* presents information on all assets and liabilities and deferred inflows/outflows 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 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 periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, human services, community & economic development, Hale Hospital - OPEB and interest. The business-type activities include the activities of water and sewer operations.

The government-wide financial statements include not only the City of Haverhill itself (known as the *primary government*), but also a legally separate public employee retirement system. Financial information for this *component unit* is reported separately within the fiduciary fund statements.

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 statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the 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*.

The City of Haverhill adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The City maintains two types of proprietary funds.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City accounts for its water and sewer activities as an enterprise fund.

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to active employees' and retirees' health insurance. The City changed to premium based health insurance plans in 2017.

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 the basic 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.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City of Haverhill's liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources by \$298.9 million at the close of 2019.

Net position of \$202 million reflects its net investment in capital assets (e.g., land, land improvements, buildings, vehicles, machinery and equipment, building improvements, and infrastructure) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its 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 the governmental net position, \$3.9 million, represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net position* has a year-end deficit of \$504.8 million. The primary reason for this deficit balance is the recognition of the total other postemployment benefit and net pension liabilities totaling \$364.2 million and \$185.5 million, respectively.

At the end of the current year, the City of Haverhill is able to report positive balances in two out of three categories of net position for the City as a whole.

The governmental and business-type activities of the City are presented below.

Governmental Activities

The City of Haverhill's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources for governmental activities by \$321.4 million at the close of 2019.

	2019	2018
Assets:		
Current assets.....	\$ 52,058,802	\$ 59,257,550
Noncurrent assets (excluding capital).....	963,355	1,093,896
Capital assets, non depreciable.....	10,284,232	10,958,504
Capital assets, net of accumulated depreciation....	218,284,693	215,238,769
Total assets.....	281,591,082	286,548,719
Deferred outflows of resources.....	32,508,323	31,084,791
Liabilities:		
Current liabilities (excluding debt).....	9,353,584	8,635,593
Noncurrent liabilities (excluding debt).....	542,588,420	545,422,007
Current debt.....	17,837,067	22,506,741
Noncurrent debt.....	46,399,382	50,041,749
Total liabilities.....	616,178,453	626,606,090
Deferred inflows of resources.....	19,317,796	5,320,062
Net position:		
Net investment in capital assets.....	165,304,902	158,094,104
Restricted.....	3,941,746	3,083,758
Unrestricted.....	(490,643,492)	(475,470,504)
Total net position.....	\$ (321,396,844)	\$ (314,292,642)

	2019	2018
Program Revenues:		
Charges for services..... \$	7,803,438	\$ 7,614,567
Operating grants and contributions.....	90,731,720	89,763,899
Capital grants and contributions.....	714,805	3,339,596
General Revenues:		
Real estate and personal property taxes, net of tax refunds payable.....	102,316,186	98,222,574
Tax liens.....	874,430	1,010,381
Motor vehicle and other excise taxes.....	9,265,488	8,897,886
Penalties and interest on taxes.....	490,899	509,901
Payments in lieu of taxes.....	2,267,951	2,125,485
Grants and contributions not restricted to specific programs.....	11,389,725	14,083,424
Unrestricted investment income.....	1,246,171	425,599
Miscellaneous.....	295,424	6,830
Total revenues.....	227,396,237	226,000,142
Expenses:		
General government.....	7,219,123	7,915,187
Public safety.....	45,343,110	39,907,835
Education.....	152,878,056	153,650,972
Public works.....	17,598,981	16,389,925
Human services.....	6,324,442	5,745,152
Community and economic development.....	3,057,966	2,539,572
Interest.....	2,078,761	2,052,281
Total expenses.....	234,500,439	228,200,924
Change in net position.....	(7,104,202)	(2,200,782)
Net position, beginning of year.....	(314,292,642)	(312,091,860)
Net position, end of year..... \$	(321,396,844)	(314,292,642)

Governmental expenses totaled \$234.5 million of which \$99.2 million (42%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$128.1 million, primarily coming from property taxes, motor vehicle excise taxes, payments in lieu of taxes and non-restricted state aid.

Governmental net position decreased by \$7.1 million during the current year. The primary components of this decrease include a \$15.4 million increase in the net pension liability and a \$19.8 million decrease from the net change in deferred outflows/(inflows) related to other postemployment benefits. These decreases to net position were offset by a decrease in the total other postemployment benefit liability of 18.3 million and a \$7.2 million increase from the net change in deferred outflows/(inflows) related to pension.

Business-type Activities

For the City's business-type activities, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$22.5 million at the close of 2019.

	2019	2018
Assets:		
Current assets.....	\$ 10,468,911	\$ 5,539,171
Noncurrent assets (excluding capital).....	925,790	998,437
Capital assets, non depreciable.....	13,129,341	2,054,570
Capital assets, net of accumulated depreciation....	83,232,054	79,370,976
Total assets.....	107,756,096	87,963,154
Deferred outflows of resources.....	2,198,895	2,207,023
Liabilities:		
Current liabilities (excluding debt).....	4,723,819	3,985,987
Noncurrent liabilities (excluding debt).....	23,405,200	22,100,907
Current debt.....	30,447,644	8,927,534
Noncurrent debt.....	28,015,130	30,375,395
Total liabilities.....	86,591,793	65,389,823
Deferred inflows of resources.....	849,931	458,426
Net position:		
Net investment in capital assets.....	36,685,090	31,324,312
Unrestricted.....	(14,171,823)	(7,002,384)
Total net position.....	\$ 22,513,267	\$ 24,321,928
Program Revenues:		
Charges for services.....	\$ 18,995,219	\$ 18,973,633
Operating grants and contributions.....	241,359	186,241
Total revenues.....	19,236,578	19,159,874
Expenses:		
Water.....	8,020,337	8,157,811
Sewer.....	13,024,902	12,049,264
Total expenses.....	21,045,239	20,207,075
Change in net position.....	(1,808,661)	(1,047,201)
Net position, beginning of year.....	24,321,928	25,369,129
Net position, end of year.....	\$ 22,513,267	\$ 24,321,928

Business-type net position of \$36.7 million represents the net investment in capital assets. The balance of *unrestricted net position* has a year-end deficit of \$14.2 million. The primary reason for this deficit balance is the recognition of the total other postemployment benefit and net pension liabilities totaling \$12.6 million and \$10.8 million, respectively.

The water enterprise fund net position decreased by \$81,000 in the current year. This decrease is primarily the result of a \$357,000 increase in the net pension liability and a \$330,000 decrease from the net change in deferred outflows/(inflows) related to other postemployment benefits. These decreases were offset by a \$303,000 decrease in the total other postemployment benefit liability and a \$74,000 increase from the net change in deferred outflows/(inflows) related to pensions.

The sewer enterprise fund net position decreased by \$1.7 million in the current year. This decrease is primarily the result of a \$599,000 increase in the net pension liability, a \$652,000 increase in the other postemployment benefits liability and a 332,000 decrease from the net change in deferred outflows/(inflows) related to other postemployment benefits. These decreases were offset by a \$188,000 increase from the net change in deferred outflows/(inflows) related to pensions.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *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 year.

As of the end of the current year, governmental funds reported a combined ending fund balance of \$33.1 million. This was comprised of the general fund totaling \$25.7 million, the Hunking Middle School deficit totaling \$2.6 million and the nonmajor funds totaling \$10.1 million.

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund was \$17.6 million, while total fund balance was \$25.7 million. 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 fund expenditures. Unassigned fund balance represents 8% of the total general fund expenditures, while total fund balance represents 12% of that same amount. Committed fund balance totals \$274,000 and consists of the school stabilization fund totaling \$2,400 and the OPEB stabilization fund totaling \$272,000. Assigned fund balance totals \$7.8 million and includes \$2.7 million of unexpended appropriations that were encumbered to be expended in the subsequent year and \$5.1 million of fund balance that was voted to fund subsequent years' expenditures.

The general fund decreased by \$1.3 million, which is due to a budgetary basis operating deficit of \$1.8 million and a \$219,000 decrease in the stabilization funds which are component of the general fund for GAAP basis reporting. These decreases were offset by an increase from the change in accrued expenditures of \$719,000.

The Hunking Middle School capital project fund decreased by 299,000, which is due to a timing differences between the receipt and expenditure of bond proceeds as well as state grant funds.

General Fund Budgetary Highlights

The \$3.5 million increase between the original budget and the final amended budget was primarily due to the use of free cash to fund capital projects.

Capital Asset and Debt Administration

Capital Assets. In conjunction with the annual operating budget, the City annually prepares a capital budget for the upcoming year and a five-year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

The City's net investment in capital assets for its governmental and business-type activities as of June 30, 2019, amounts to \$324.9 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, land and building improvements, vehicles, equipment and infrastructure.

Current year additions for the governmental investment in capital assets totaled \$12.8 million. \$157,000 relates to land acquisitions, \$4.0 million of additions relate to buildings and building and improvements, \$1.4 million relates to machinery and equipment, \$5.9 million relate to infrastructure, and \$472,000 relates to vehicle acquisition.

The water and sewer additions totaled \$18.7 million, which primarily consist of \$10.8 million for the renovation of the Kenoza Lake water treatment plant. \$3.3 million related to new water infrastructure and \$806,000 for other water assets. \$2.7 million relates to sewer infrastructure and \$1.1 million relates to sewer buildings and improvements.

Debt Administration. The City maintains an AA credit rating with Standard and Poor's Financial Services and continues to maintain strong market access for both note and bond sales.

Outstanding long-term debt of the general government totaled \$55.9 million, of which \$11.3 million relates to Hospital debt, \$31.1 million relates to school construction, \$7.3 million relates to landfill closure and \$6.2 million relates to various other capital projects.

The Commonwealth of Massachusetts administers a school building assistance program. Under this program, the assistance is paid to support construction costs and reduce the total debt service of the City. Through the end of 2019, the City has received \$37,524,803 million of capital grant reimbursements from the MSBA which is equal to 93.97% of approved construction costs incurred to date for the new Hunking Middle School. The project is substantially completed and the City anticipates receiving the final reimbursement once the MSBA has completed its final review for the project costs.

The water enterprise fund has \$3.1 million of outstanding long-term debt, which is fully supported by rates and does not rely on a general fund subsidy.

The sewer enterprise fund has \$27.2 million of outstanding long-term debt, which is fully supported by rates and does not rely on a general fund subsidy.

Short-term debt outstanding at year-end for the general government totaled \$6.3 million of which \$2.9 million is for Hunking Middle School, \$1.0 million is for street resurfacing, \$1.2 million is for police station repairs, \$500,000 is for the City Hall boiler and \$765,000 is for replacing street lights.

The water enterprise fund outstanding short-term debt totaled \$27.3 million and was used to finance the renovation of the water treatment plant and other water infrastructure improvements.

The sewer enterprise fund outstanding short-term debt totaled \$792,000 and was used to finance sewer infrastructure improvements.

Please refer to the notes to the financial statements for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the City of Haverhill'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 the Finance Director, City Hall, 4 Summer Street, Haverhill, Massachusetts 01830.

Basic Financial Statements

STATEMENT OF NET POSITION

JUNE 30, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 35,411,019	\$ 6,306,316	\$ 41,717,335
Investments.....	6,298,277	-	6,298,277
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,991,469	-	1,991,469
Tax liens.....	2,474,956	-	2,474,956
Motor vehicle and other excise taxes.....	1,194,268	-	1,194,268
User charges.....	-	4,089,947	4,089,947
Departmental and other.....	113,668	55,112	168,780
Intergovernmental.....	3,719,185	17,536	3,736,721
Tax foreclosures.....	855,960	-	855,960
Total current assets.....	<u>52,058,802</u>	<u>10,468,911</u>	<u>62,527,713</u>
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	883,683	482,924	1,366,607
Intergovernmental.....	79,672	442,866	522,538
Capital assets, nondepreciable.....	10,284,232	13,129,341	23,413,573
Capital assets, net of accumulated depreciation.....	<u>218,284,693</u>	<u>83,232,054</u>	<u>301,516,747</u>
Total noncurrent assets.....	<u>229,532,280</u>	<u>97,287,185</u>	<u>326,819,465</u>
TOTAL ASSETS.....	<u>281,591,082</u>	<u>107,756,096</u>	<u>389,347,178</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions.....	23,797,510	1,868,323	25,665,833
Deferred outflows related to other postemployment benefits.....	8,710,813	330,572	9,041,385
TOTAL DEFERRED OUTFLOWS OF RESOURCES.....	<u>32,508,323</u>	<u>2,198,895</u>	<u>34,707,218</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	4,575,386	4,246,318	8,821,704
Longevity liability.....	994,275	-	994,275
Tax refunds payable.....	226,215	-	226,215
Accrued interest.....	442,956	351,501	794,457
Other liabilities.....	1,540,752	-	1,540,752
Capital lease obligations.....	148,213	-	148,213
Landfill closure.....	71,000	-	71,000
Compensated absences.....	1,434,000	126,000	1,560,000
Workers' compensation.....	69,000	-	69,000
Notes payable.....	6,292,200	28,136,247	34,428,447
Bonds payable.....	11,396,654	2,311,397	13,708,051
Total current liabilities.....	<u>27,190,651</u>	<u>35,171,463</u>	<u>62,362,114</u>
NONCURRENT:			
Capital lease obligations.....	1,930,893	-	1,930,893
Landfill closure.....	15,089,000	-	15,089,000
Compensated absences.....	836,000	-	836,000
Workers' compensation.....	389,000	-	389,000
Net pension liability.....	174,634,032	10,824,149	185,458,181
Total other postemployment benefits liability.....	351,640,388	12,581,051	364,221,439
Bonds payable.....	44,468,489	28,015,130	72,483,619
Total noncurrent liabilities.....	<u>588,987,802</u>	<u>51,420,330</u>	<u>640,408,132</u>
TOTAL LIABILITIES.....	<u>616,178,453</u>	<u>86,591,793</u>	<u>702,770,246</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions.....	723,833	184,673	908,506
Deferred inflows related to other postemployment benefits.....	18,593,963	665,258	19,259,221
TOTAL DEFERRED INFLOWS OF RESOURCES.....	<u>19,317,796</u>	<u>849,931</u>	<u>20,167,727</u>
NET POSITION			
Net investment in capital assets.....	165,304,902	36,685,090	201,989,992
Restricted for:			
Gifts and grants.....	3,941,746	-	3,941,746
Unrestricted.....	(490,643,492)	(14,171,823)	(504,815,315)
TOTAL NET POSITION.....	<u>\$ (321,396,844)</u>	<u>\$ 22,513,267</u>	<u>\$ (298,883,577)</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 7,219,123	\$ 1,638,939	\$ 732,397	\$ -	\$ (4,847,787)
Public safety.....	45,343,110	1,201,811	1,523,118	-	(42,618,181)
Education.....	152,878,056	2,118,533	86,942,786	-	(63,816,737)
Public works.....	17,598,981	137,113	27,536	302,902	(17,131,430)
Human services.....	6,324,442	525,559	467,576	-	(5,331,307)
Community and economic development.....	3,057,966	2,181,483	989,765	411,903	525,185
Interest.....	2,078,761	-	48,542	-	(2,030,219)
Total Governmental Activities.....	234,500,439	7,803,438	90,731,720	714,805	(135,250,476)
<i>Business-Type Activities:</i>					
Water.....	8,020,337	7,939,501	-	-	(80,836)
Sewer.....	13,024,902	11,055,718	241,359	-	(1,727,825)
Total Business-Type Activities.....	21,045,239	18,995,219	241,359	-	(1,808,661)
Total Primary Government.....	\$ 255,545,678	\$ 26,798,657	\$ 90,973,079	\$ 714,805	\$ (137,059,137)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (continued)

YEAR ENDED JUNE 30, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page..... \$	(135,250,476)	(1,808,661)	(137,059,137)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	102,316,186	-	102,316,186
Tax liens.....	874,430	-	874,430
Motor vehicle and other excise taxes.....	9,265,488	-	9,265,488
Penalties and interest on taxes.....	490,899	-	490,899
Payments in lieu of taxes.....	2,267,951	-	2,267,951
Grants and contributions not restricted to specific programs.....	11,389,725	-	11,389,725
Unrestricted investment income.....	1,246,171	-	1,246,171
Miscellaneous.....	295,424	-	295,424
Total general revenues and transfers.....	128,146,274	-	128,146,274
Change in net position.....	(7,104,202)	(1,808,661)	(8,912,863)
<i>Net position:</i>			
Beginning of year.....	(314,292,642)	24,321,928	(289,970,714)
End of year..... \$	(321,396,844)	22,513,267	(298,883,577)

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2019

	General	Hunking Middle School	Chapter 90 Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents.....	\$ 20,034,275	\$ 231,530	\$ 500,675	\$ 14,644,539	\$ 35,411,019
Investments.....	6,298,277	-	-	-	6,298,277
Receivables, net of uncollectibles:					
Real estate and personal property taxes.....	1,991,469	-	-	-	1,991,469
Tax liens.....	2,474,956	-	-	-	2,474,956
Motor vehicle and other excise taxes.....	1,194,268	-	-	-	1,194,268
Departmental and other.....	997,351	-	-	-	997,351
Intergovernmental.....	2,186,487	-	1,612,370	-	3,798,857
Tax foreclosures.....	855,960	-	-	-	855,960
TOTAL ASSETS.....	\$ 36,033,043	\$ 231,530	\$ 2,113,045	\$ 14,644,539	\$ 53,022,157
LIABILITIES					
Warrants payable.....	\$ 1,405,681	\$ 1,164	\$ 1,033,657	\$ 2,134,884	\$ 4,575,386
Tax refunds payable.....	226,215	-	-	-	226,215
Other liabilities.....	1,540,752	-	-	-	1,540,752
Notes payable.....	-	2,854,575	1,000,000	2,437,625	6,292,200
TOTAL LIABILITIES.....	3,172,648	2,855,739	2,033,657	4,572,509	12,634,553
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue.....	7,187,149	-	79,388	-	7,266,537
FUND BALANCES					
Restricted.....	-	-	-	12,766,695	12,766,695
Committed.....	274,038	-	-	-	274,038
Assigned.....	7,792,282	-	-	-	7,792,282
Unassigned.....	17,606,926	(2,624,209)	-	(2,694,665)	12,288,052
TOTAL FUND BALANCES.....	25,673,246	(2,624,209)	-	10,072,030	33,121,067
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....	\$ 36,033,043	\$ 231,530	\$ 2,113,045	\$ 14,644,539	\$ 53,022,157

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION**

JUNE 30, 2019

Total governmental fund balances.....		\$ 33,121,067
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		228,568,925
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		7,266,537
The statement of net position includes certain deferred inflows of resources and deferred outflows of resources that will be amortized over future periods. In governmental funds, these amounts are not deferred.....		13,190,527
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(442,956)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds payable.....	(55,865,143)	
Net pension liability.....	(174,634,032)	
Total other postemployment benefits liability.....	(351,640,388)	
Landfill closure.....	(15,160,000)	
Longevity liability.....	(994,275)	
Capital lease obligations.....	(2,079,106)	
Workers' compensation.....	(458,000)	
Compensated absences.....	(2,270,000)	
Net effect of reporting long-term liabilities.....		<u>(603,100,944)</u>
Net position of governmental activities.....		<u>\$ (321,396,844)</u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2019

	General	Hunking Middle School	Chapter 90 Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 102,295,477	\$ -	\$ -	\$ -	\$ 102,295,477
Tax liens.....	613,603	-	-	-	613,603
Motor vehicle and other excise taxes.....	9,192,666	-	-	-	9,192,666
Charges for services.....	-	-	-	2,542,839	2,542,839
Penalties and interest on taxes.....	490,899	-	-	-	490,899
Fees and rentals.....	1,429,211	-	-	-	1,429,211
Payments in lieu of taxes.....	2,267,951	-	-	-	2,267,951
Licenses and permits.....	2,687,036	-	-	-	2,687,036
Fines and forfeitures.....	687,573	-	-	-	687,573
Intergovernmental - School Building Authority.....	-	-	-	-	-
Intergovernmental - Teachers Retirement.....	17,117,970	-	-	-	17,117,970
Intergovernmental.....	67,477,888	-	3,490,639	16,715,005	87,683,532
Departmental and other.....	1,637,735	-	-	831,817	2,469,552
Contributions and donations.....	-	-	-	87,993	87,993
Investment income.....	1,246,171	-	-	-	1,246,171
Miscellaneous.....	388,372	-	-	-	388,372
TOTAL REVENUES.....	207,532,552	-	3,490,639	20,177,654	231,200,845
EXPENDITURES:					
Current:					
General government.....	3,512,376	-	-	1,199,424	4,711,800
Public safety.....	23,166,770	-	-	4,642,625	27,809,395
Education.....	93,238,409	676,387	-	15,589,129	109,503,925
Public works.....	10,265,258	-	3,490,639	2,133,600	15,889,497
Human services.....	3,000,971	-	-	861,109	3,862,080
Community and economic development.....	1,049,407	-	-	1,569,733	2,619,140
Pension benefits.....	16,031,221	-	-	-	16,031,221
Pension benefits - Teachers Retirement.....	17,117,970	-	-	-	17,117,970
Property and liability insurance.....	608,048	-	-	-	608,048
Employee benefits.....	21,142,551	-	-	-	21,142,551
State and county charges.....	5,948,668	-	-	-	5,948,668
Debt service:					
Principal.....	14,617,569	-	-	-	14,617,569
Interest.....	2,282,443	-	-	-	2,282,443
TOTAL EXPENDITURES.....	211,981,661	676,387	3,490,639	25,995,620	242,144,307
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(4,449,109)	(676,387)	-	(5,817,966)	(10,943,462)
OTHER FINANCING SOURCES (USES):					
Issuance of hospital deficit bonds.....	7,902,500	-	-	-	7,902,500
Transfers in.....	4,581	377,224	-	4,769,320	5,151,125
Transfers out.....	(4,769,320)	-	-	(381,805)	(5,151,125)
TOTAL OTHER FINANCING SOURCES (USES).....	3,137,761	377,224	-	4,387,515	7,902,500
NET CHANGE IN FUND BALANCES.....	(1,311,348)	(299,163)	-	(1,430,451)	(3,040,962)
FUND BALANCES AT BEGINNING OF YEAR.....	26,984,594	(2,325,046)	-	11,502,481	36,162,029
FUND BALANCES AT END OF YEAR.....	\$ 25,673,246	\$ (2,624,209)	\$ -	\$ 10,072,030	\$ 33,121,067

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2019

Net change in fund balances - total governmental funds.....		\$ (3,040,962)
<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.....	11,940,364	
Depreciation expense.....	<u>(9,568,712)</u>	
Net effect of reporting capital assets.....		2,371,652
<p>Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. This amount represents the net change in unavailable revenue.....</p>		
		(3,779,608)
<p>The issuance of long-term debt 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 has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are unavailable and amortized in the Statement of Activities.</p>		
Principal payments on capital leases.....	144,183	
Issuance of hospital deficit bonds.....	(7,902,500)	
Net amortization of premium from issuance of bonds.....	72,512	
Debt service principal payments.....	<u>14,617,569</u>	
Net effect of reporting long-term debt.....		6,931,764
<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 change in compensated absences accrual.....	(27,000)	
Net change in accrued interest on long-term debt.....	131,170	
Net change in deferred outflow/(inflow) of resources related to pensions.....	7,208,496	
Net change in net pension liability.....	(15,399,811)	
Net change in deferred outflow/(inflow) of resources related to other postemployment benefits...	(19,782,698)	
Net change in total other postemployment benefits liability.....	18,251,398	
Net change in landfill closure.....	(320,000)	
Net change in longevity liability.....	21,397	
Net change in workers' compensation liability.....	<u>330,000</u>	
Net effect of recording long-term liabilities.....		<u>(9,587,048)</u>
Change in net position of governmental activities.....		\$ <u><u>(7,104,202)</u></u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2019

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 3,576,046	\$ 2,730,270	\$ 6,306,316
Receivables, net of allowance for uncollectibles:			
User charges.....	1,693,286	2,396,661	4,089,947
Departmental and other.....	-	55,112	55,112
Intergovernmental.....	-	17,536	17,536
Total current assets.....	<u>5,269,332</u>	<u>5,199,579</u>	<u>10,468,911</u>
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	-	482,924	482,924
Intergovernmental.....	-	442,866	442,866
Capital assets, non depreciable.....	12,038,597	1,090,744	13,129,341
Capital assets, net of accumulated depreciation.....	<u>42,773,390</u>	<u>40,458,664</u>	<u>83,232,054</u>
Total noncurrent assets.....	<u>54,811,987</u>	<u>42,475,198</u>	<u>97,287,185</u>
TOTAL ASSETS.....	<u>60,081,319</u>	<u>47,674,777</u>	<u>107,756,096</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions.....	756,918	1,111,405	1,868,323
Deferred outflows related to other postemployment benefits.....	<u>145,550</u>	<u>185,022</u>	<u>330,572</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES.....	<u>902,468</u>	<u>1,296,427</u>	<u>2,198,895</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	2,867,881	1,378,437	4,246,318
Accrued interest.....	24,589	326,912	351,501
Compensated absences.....	102,000	24,000	126,000
Notes payable.....	27,343,885	792,362	28,136,247
Bonds payable.....	<u>565,645</u>	<u>1,745,752</u>	<u>2,311,397</u>
Total current liabilities.....	<u>30,904,000</u>	<u>4,267,463</u>	<u>35,171,463</u>
NONCURRENT:			
Net pension liability.....	4,038,570	6,785,579	10,824,149
Net other postemployment benefits liability.....	5,871,157	6,709,894	12,581,051
Bonds payable.....	<u>2,538,165</u>	<u>25,476,965</u>	<u>28,015,130</u>
Total noncurrent liabilities.....	<u>12,447,892</u>	<u>38,972,438</u>	<u>51,420,330</u>
TOTAL LIABILITIES.....	<u>43,351,892</u>	<u>43,239,901</u>	<u>86,591,793</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions.....	70,042	114,631	184,673
Deferred inflows related to other postemployment benefits.....	<u>310,454</u>	<u>354,804</u>	<u>665,258</u>
TOTAL DEFERRED INFLOWS OF RESOURCES.....	<u>380,496</u>	<u>469,435</u>	<u>849,931</u>
NET POSITION			
Net investment in capital assets.....	20,157,699	16,527,391	36,685,090
Unrestricted.....	<u>(2,906,300)</u>	<u>(11,265,523)</u>	<u>(14,171,823)</u>
TOTAL NET POSITION.....	<u>\$ 17,251,399</u>	<u>\$ 5,261,868</u>	<u>\$ 22,513,267</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2019

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
OPERATING REVENUES:			
Charges for services.....	\$ 7,939,501	\$ 11,055,718	18,995,219
OPERATING EXPENSES:			
Cost of services and administration.....	6,352,036	9,847,100	16,199,136
Depreciation.....	1,498,623	2,302,267	3,800,890
TOTAL OPERATING EXPENSES.....	7,850,659	12,149,367	20,000,026
OPERATING INCOME (LOSS).....	88,842	(1,093,649)	(1,004,807)
NONOPERATING REVENUES (EXPENSES):			
Interest expense.....	(169,678)	(875,535)	(1,045,213)
Intergovernmental.....	-	241,359	241,359
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(169,678)	(634,176)	(803,854)
CHANGE IN NET POSITION.....	(80,836)	(1,727,825)	(1,808,661)
NET POSITION AT BEGINNING OF YEAR.....	17,332,235	6,989,693	24,321,928
NET POSITION AT END OF YEAR.....	\$ 17,251,399	\$ 5,261,868	\$ 22,513,267

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2019

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Receipts from customers and users.....	\$ 8,033,046	\$ 11,134,680	\$ 19,167,726
Payments to vendors.....	(3,097,018)	(5,843,793)	(8,940,811)
Payments to employees.....	(2,557,136)	(2,319,009)	(4,876,145)
NET CASH FROM OPERATING ACTIVITIES.....	2,378,892	2,971,878	5,350,770
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>			
Advances to/from other funds.....	(3,073,903)	3,073,903	-
Departmental and other.....	-	54,020	54,020
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(3,073,903)	3,127,923	54,020
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>			
Proceeds from the issuance of bonds and notes.....	27,343,885	792,362	28,136,247
Acquisition and construction of capital assets.....	(15,706,803)	(2,941,480)	(18,648,283)
Principal payments on bonds and notes.....	(7,191,036)	(1,785,366)	(8,976,402)
Interest expense.....	(174,989)	(634,386)	(809,375)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	4,271,057	(4,568,870)	(297,813)
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	3,576,046	1,530,931	5,106,977
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	-	1,199,339	1,199,339
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 3,576,046	\$ 2,730,270	\$ 6,306,316
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</u>			
<u>FROM OPERATING ACTIVITIES:</u>			
Operating income (loss).....	\$ 88,842	\$ (1,093,649)	\$ (1,004,807)
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation.....	1,498,623	2,302,267	3,800,890
Deferred (outflows)/inflows related to pensions.....	(74,066)	(188,373)	(262,439)
Deferred (outflows)/inflows related to other postemployment benefits.....	330,156	331,916	662,072
Changes in assets and liabilities:			
User charges.....	93,545	78,962	172,507
Warrants payable.....	356,342	280,912	637,254
Compensated absences.....	32,000	9,000	41,000
Net pension liability.....	356,865	599,019	955,884
Other postemployment benefits.....	(303,415)	651,824	348,409
Total adjustments.....	2,290,050	4,065,527	6,355,577
NET CASH FROM OPERATING ACTIVITIES.....	\$ 2,378,892	\$ 2,971,878	\$ 5,350,770
<u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u>			
Intergovernmental subsidy.....	\$ -	\$ 241,359	\$ 241,359

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2019

	Pension Trust Fund (as of December 31, 2018)	Private Purpose Trust Funds	Agency Funds
ASSETS			
Cash and cash equivalents.....	\$ 19,726,652	\$ 207,774	\$ 2,033,504
Investments:			
U.S. treasury bonds.....	-	1,122,892	-
Government sponsored enterprises.....	-	1,089,805	-
Corporate bonds.....	-	1,047,182	-
Equity securities.....	17,843,080	987,878	-
Bond mutual funds.....	-	133,292	-
Certificates of deposit.....	-	863,250	-
Investments in Pension Reserve Investment Trust.....	117,529,863	-	-
Pooled domestic fixed income funds.....	12,763,595	-	-
Pooled alternative investments.....	3,861,535	-	-
Pooled real estate funds.....	19,380,822	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	84,152	-	408,539
Interest and dividends.....	16,337	-	-
TOTAL ASSETS.....	191,206,036	5,452,073	2,442,043
LIABILITIES			
Warrants payable.....	96,338	250	17,913
Liabilities due depositors.....	-	-	2,424,130
TOTAL LIABILITIES.....	96,338	250	2,442,043
NET POSITION			
Restricted for pensions.....	191,109,698	-	-
Held in trust for other purposes.....	-	5,451,823	-
TOTAL NET POSITION.....	\$ 191,109,698	\$ 5,451,823	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2019

	Pension Trust Fund (as of December 31, 2018)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer contributions.....	\$ 17,878,483	\$ -
Member contributions.....	4,152,768	-
Retirement benefits - transfers from other systems.....	608,629	-
Retirement benefits - 3(8)c contributions from other systems.....	348,173	-
Retirement benefits - member makeup payments and redeposits.....	94,022	-
Retirement benefits - Intergovernmental.....	167,976	-
Private donations.....	-	340,195
	<u>23,250,051</u>	<u>340,195</u>
Total contributions.....		
	23,250,051	340,195
Net investment income (loss):		
Investment income (loss).....	(4,659,928)	19,222
Less: investment expense.....	(1,546,347)	-
	<u>(6,206,275)</u>	<u>19,222</u>
Net investment income (loss).....		
	(6,206,275)	19,222
TOTAL ADDITIONS.....		
	<u>17,043,776</u>	<u>359,417</u>
DEDUCTIONS:		
Administration.....	438,100	-
Retirement benefits - transfers to other systems.....	488,808	-
Retirement benefits - 3(8)c transfer to other systems.....	801,820	-
Retirement benefits and refunds.....	25,926,098	-
Educational scholarships.....	-	177,690
	<u>27,654,826</u>	<u>177,690</u>
TOTAL DEDUCTIONS.....		
	27,654,826	177,690
NET INCREASE (DECREASE) IN NET POSITION.....		
	(10,611,050)	181,727
NET POSITION AT BEGINNING OF YEAR.....		
	<u>201,720,748</u>	<u>5,270,096</u>
NET POSITION AT END OF YEAR.....		
	<u>\$ 191,109,698</u>	<u>\$ 5,451,823</u>

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the City of Haverhill, Massachusetts (City) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

A. Reporting Entity

The City is a municipal corporation that is governed by an elected Mayor and City Council (Council). As required by GAAP, these basic financial statements present the government and its component units, entities for which the City is considered to be financially accountable.

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and institutions. The City has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the City (primary government) and its component units. Two entities have been included as component units in the reporting entity, because of the significance of their operational and/or financial relationship with the City.

Component Unit Presented as a Fiduciary Fund – The following component unit is presented as a Fiduciary Fund of the primary government due to the nature and significance of relationship between the City and the component unit.

The Haverhill Contributory Retirement System (System) was established to provide retirement benefits to City employees, Whittier Regional Vocational Technical High School employees, the Haverhill Housing Authority employees, and their beneficiaries. The System is governed by a five-member board comprised of the City Auditor (ex-officio), two members elected by the System's participants, one member appointed by the Mayor and one member appointed by the Board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

The System did not issue a separate audited financial statement. The System issues a publicly available un-audited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 4 Summer Street, Haverhill, Massachusetts 01830.

Joint Ventures

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The City has entered into a joint venture with the City of Newburyport and the Towns of Amesbury, Georgetown, Groveland, Ipswich, Merrimac, Newbury, Rowley, Salisbury, and West Newbury to pool resources and share the costs, risks and rewards of providing vocational education through the Whittier Regional Vocational Technical High School. The City's assessment for 2019 was \$8,369,015. Stand-alone financial statements for the year ended June 30, 2019, are available at Whittier Regional Vocational Technical High School, 115 Amesbury Line Road, Haverhill, Massachusetts 01830.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

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

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets and deferred outflows of resources, liabilities and deferred inflows or resources, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Fiduciary funds are reported by fund type.

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. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal 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.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.

- Grants and contributions restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the effect of interfund services provided and used between functions is not eliminated as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund. Stabilization fund is also classified as part of the general fund.

The *Hunking Middle School fund* is used to account for activity associated with the construction of the new middle school.

The *Chapter 90 fund* is used to account for activity associated with the construction of highway improvements.

The *nonmajor governmental funds* consist of special revenue, debt service, capital project and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The *permanent fund* is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the 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 the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City's proprietary funds include the water and sewer enterprise funds which are used to account for the water and sewer activities.

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governments units. This fund is used to account for risk financing activities related to employees' health insurance.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The *agency fund* is used to account for assets held in a purely custodial capacity.

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

E. Fair Value Measurements

The City reports required types of financial instruments in accordance with the fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the government to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include actively traded equity and debt securities, U.S. government obligations, and mutual funds with quoted market prices in active markets.

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the City's financial instruments, see Note 2 – Cash and Investments.

F. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate, Personal Property Taxes, Tax Liens and Tax Foreclosures

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st 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 year of the levy.

Real estate tax liens are imposed in October of each year on delinquent properties and are recorded as receivables in the year they are processed. Real estate tax liens may be subject to foreclosure if the tax liens are not paid in accordance with the period required by the law (M.G.L. Ch.60, §50). Foreclosure proceedings are processed by the Treasurer or other tax lien custodian. Foreclosed properties can then be sold through advertised public auction or held for use by the City.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Motor Vehicle and Other Excise Taxes

Motor vehicle excise taxes are assessed annually for each vehicle registered and are recorded as receivables in the year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Water and Sewer User Fees

User fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period. Water and sewer liens are processed in December of every year and included as a lien on the property owner's tax bill. Water and sewer fees and liens are recorded as receivables in the year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Departmental and Other

Departmental and other receivables consist primarily of police detail receivables that are recorded as receivables in the year that the details are completed. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

G. Inventories

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

H. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which include land, land improvements, buildings, building improvements, vehicles, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the

proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$50,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	20-40
Buildings.....	20-40
Buildings and improvements.....	20
Machinery and equipment.....	5-15
Vehicles.....	5-10
Infrastructure.....	10-50

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the year of the purchase.

I. Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements (Net Position)

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has reported deferred outflows of resources related to pensions and deferred outflows of resources related to other postemployment benefits in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has reported deferred inflows of resources related to pensions and deferred inflows of resources related to other postemployment benefits in this category.

Governmental Fund Financial Statements

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents assets that have been recorded in the governmental fund financial statements but the revenue is not available and so will *not* be recognized as an inflow of resources (revenue) until it becomes available. The City has reported unavailable revenues as deferred inflows of resources in this category.

J. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net position as "internal balances."

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

K. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

Government-Wide Financial Statements

Transfers between and within governmental funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net."

Fund Financial Statements

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

L. Net position and Fund Equity

Government-Wide Financial Statements (Net Position)

Net position reported as "net investment in capital assets" includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital assets.

Net position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net position has been "restricted for" the following:

"Gifts and grants" represents restrictions placed on assets from outside parties and consists primarily of state and federal grants.

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and

unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Financial Statements (Fund Balances)

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. A vote of the City Council is the highest level of decision making authority that can commit funds for a specific purpose. Once voted, the limitation imposed by the vote remains in place until the funds are used for their intended purpose or a vote is taken to rescind the commitment.

“Assigned” fund balance includes amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed. The City Council has by resolution authorized the City Auditor to assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The City's spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

M. Long-term Debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

N. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income derived from the proprietary funds is retained by the proprietary funds.

O. Pensions

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 both the Haverhill Contributory Retirement System and the Massachusetts Teachers Retirement System and additions to/deductions from the Systems fiduciary net position have been determined on the same basis as they are reported by the Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

Q. Use of Estimates*Government-Wide and Fund Financial Statements*

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 year. Actual results could vary from estimates that were used.

R. Total Column*Government-Wide Financial Statements*

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

S. Appropriation and Fund Deficits

Several individual fund deficits exist at June 30, 2019, in the special revenue and capital project funds. These deficits will be funded by grants, bond proceeds, departmental revenues and available fund balance. Actual expenditures exceeded appropriations for snow and ice removal. This over-expenditure will be funded by the subsequent years' tax levy.

NOTE 2 - CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents." The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth. In addition, there are various restrictions limiting the amount and length of deposits and investments.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

The System participates in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's policy allows for unlimited bank deposits up to one year in financial institutions that are fully collateralized or fully insured by Federal Depository Insurance or the Depository Insurance Fund. The City's policy limits unsecured deposits to no more than 5% of an institution's assets and no more than 10% of the City's cash may be comprised of unsecured bank deposits. This percentage may be increased for not more than 30 days during times of heavy collection or in anticipation of large payments that will be made by the City in the near future. These payments may be for such items as debt service payment or regional school assessments. Their credit worthiness will be tracked by Veribanc, or other bank credit worthiness reporting systems. They will be diversified as much as possible. CDs will be purchased for no more than one year and will be reviewed frequently.

At year-end, the carrying amount of deposits totaled \$43,763,579 and the bank balance totaled \$45,358,201. Of the bank balance, \$3,433,045 was covered by Federal Depository Insurance, \$1,037,322 was covered by the Share Insurance Fund, \$11,435,400 was covered by Depositors Insurance Fund, and \$29,452,434 was uninsured and uncollateralized.

At December 31, 2018, the carrying amount of deposits for the System totaled \$677,406 and the bank balance totaled \$930,341. All of the bank balance was covered by Federal Depository Insurance.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The City’s policy to mitigate custodial credit risk requires review of the financial institution’s financial statements and the background of the brokerage house and broker/dealer (Advisor). The intent of this qualification is to limit the City’s exposure to only those institutions with a proven financial strength, capital adequacy of the firm, and overall affirmative reputation in the municipal industry. Further, all securities not held directly by the City, will be held in the City’s name and tax identification number by a third-party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

The City’s investments subject to custodial credit risk include \$2,776,690 in U.S. treasury bonds, \$2,346,132 in government sponsored enterprises, \$1,795,479 in corporate bonds, \$2,850,870 in equity securities and \$863,249 in certificates of deposit, which have custodial credit risk exposure totaling \$10,632,420 because the related securities are uninsured, unregistered and held by the counterparty.

Interest Rate Risk

The City’s policy to mitigate interest rate risk is to manage the duration of investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The System follows PRIM policies for interest rate risk.

As of June 30, 2019, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair value</u>	<u>Maturities</u>		
		<u>Under 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>
<u>Debt securities:</u>				
U.S. treasury bonds.....	\$ 2,776,690	\$ 617,496	\$ 1,733,678	\$ 425,516
Government sponsored enterprises.....	2,346,132	374,256	1,820,784	151,092
Corporate bonds.....	1,795,479	370,332	1,220,865	204,282
Bond mutual funds.....	708,441	-	201,073	507,368
Total debt securities.....	7,626,742	\$ <u>1,362,084</u>	\$ <u>4,976,400</u>	\$ <u>1,288,258</u>
<u>Other investments:</u>				
Equity securities.....	2,850,870			
Equity mutual funds.....	201,715			
Certificates of deposit.....	863,249			
Money market mutual funds.....	104,669			
MMDT - Cash portfolio.....	90,365			
Total investments.....	\$ <u>11,737,610</u>			

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .18 to 15.31 years.

As of December 31, 2018, the System had the following investments and maturities:

<u>Investment Type</u>	<u>Fair value</u>	<u>Maturities 6-10 Years</u>
<u>Debt securities:</u>		
Pooled domestic fixed income funds.....	\$ 12,763,595	\$ 12,763,595
<u>Other investments:</u>		
Equity securities.....	17,843,080	
Pooled alternative investments.....	3,861,535	
Pooled real estate funds.....	19,380,822	
Money market mutual funds.....	19,049,246	
Pension reserve investment trust (PRIT).....	117,529,863	
 Total investments.....	 \$ 190,428,141	

Credit Risk

The City’s policy to mitigate credit risk allows for unlimited investments in United States Treasury and United States Government Agency obligations. In regards to other investments, the City will only purchase investment grade securities with a high concentration in securities rated A or better. The City may invest in the Massachusetts Municipal Depository Trust (MMDT) with no limit to the amount of funds placed in the fund.

As of June 30, 2019, Standard & Poor’s Investors Service rated the City’s investments as follows:

<u>Quality Rating</u>	<u>U.S. Treasury Bonds</u>	<u>Government Sponsored Enterprises</u>	<u>Corporate Bonds</u>	<u>Bond Mutual Funds</u>
AAA.....	\$ -	\$ -	\$ -	\$ 671,248
AA+.....	2,776,690	2,346,132	-	-
A+.....	-	-	100,510	-
A.....	-	-	393,380	-
A-.....	-	-	357,076	-
BBB+.....	-	-	522,205	-
BBB.....	-	-	422,308	37,193
 Total.....	 \$ 2,776,690	 \$ 2,346,132	 \$ 1,795,479	 \$ 708,441

The City’s investments in money market mutual funds were unrated.

The System has not adopted a formal policy related to credit risk. As of December 31, 2018, \$12,763,595 of the System’s investment in pooled domestic fixed income funds were rated by Moody’s ranging from BBB to AAA. The System’s investments in PRIT and money market mutual funds were unrated.

Concentration of Credit Risk

The City will minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The City did not have any investments in any one issuer exceeding 5 percent of their total investments.

The System follows PRIM policies for concentration of credit risk. The System did not have any investments in any one issuer exceeding 5 percent of their total investments.

Fair Value of Investments

The City holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the City’s mission, the City determines that the disclosures related to these investments only need to be disaggregated by major type. The City chooses a tabular format for disclosing the levels within the fair value hierarchy.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of June 30, 2019:

Investment Type	June 30, 2019	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured at fair value:				
<u>Debt securities:</u>				
U.S. treasury bonds.....	\$ 2,776,690	\$ 2,776,690	\$ -	\$ -
Government sponsored enterprises.....	2,346,132	2,346,132	-	-
Corporate bonds.....	1,795,479	-	1,795,479	-
Bond mutual funds.....	708,441	708,441	-	-
Total debt securities.....	7,626,742	5,831,263	1,795,479	-
<u>Other investments:</u>				
Equity securities.....	2,850,870	2,850,870	-	-
Equity mutual funds.....	201,715	201,715	-	-
Certificates of deposit.....	863,249	863,249	-	-
Money market mutual funds.....	104,669	104,669	-	-
Total other investments.....	4,020,503	4,020,503	-	-
Total investments measured at fair value.....	11,647,245	\$ 9,851,766	\$ 1,795,479	\$ -
Investments measured at amortized cost:				
MMDT - Cash portfolio.....	90,365			
Total investments.....	\$ 11,737,610			

Government sponsored enterprises, U.S. treasury bonds, bond mutual funds, equity securities, equity mutual funds, certificates of deposit and money market mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Corporate bonds classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

MMDT investments are valued at amortized cost. Under the amortized cost method, an investment is valued initially at its cost and adjusted for the amount of interest income accrued each day over the term of the investment to account for any difference between the initial cost and the amount payable at its maturity. If amortized cost is determined to not be appropriate fair value, the value of the portfolio securities will be determined under procedures established by the Advisor.

The retiree pension defined benefit plan holds significant amounts of investments that are measured at fair value on a recurring basis. Because investing is a key part of the plan's activities, the plan shows greater disaggregation in its disclosures. The plan chooses a tabular format for disclosing the levels within the fair value hierarchy.

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The System has the following recurring fair value measurements as of December 31, 2018:

Investment Type	December 31, 2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured at fair value:				
<u>Debt securities:</u>				
Pooled domestic fixed income funds.....	\$ 12,763,595	\$ 12,763,595	\$ -	\$ -
<u>Other investments:</u>				
Equity securities.....	17,843,080	17,843,080	-	-
Pooled alternative investments.....	3,861,535	3,861,535	-	-
Pooled real estate funds.....	19,380,822	-	-	19,380,822
Money market mutual funds.....	19,049,246	19,049,246	-	-
Total other investments.....	60,134,683	40,753,861	-	19,380,822
Total investments measured at fair value.....	72,898,278	\$ 53,517,456	\$ -	\$ 19,380,822
Investments measured at net asset value:				
Pension Reserve Investment Trust (PRIT).....	117,529,863			
Total investments.....	\$ 190,428,141			

Pooled domestic fixed income funds, equity securities, pooled alternative investments and money market mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Real estate investment trust funds classified in level 3 are valued using either a discounted cash flow or market comparable companies' technique.

PRIT Investments are valued using the net asset value (NAV) method. This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board (PRIM). The fair values of the positions in each investment Pool are the same as the value of each Pool's shares. The System does not have the ability to control any of the investment decisions relative to its funds in PRIT.

NOTE 3 - RECEIVABLES

At June 30, 2019, receivables for the individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 1,991,469	\$ -	\$ 1,991,469
Tax liens.....	2,474,956	-	2,474,956
Motor vehicle and other excise taxes.....	1,451,030	(256,762)	1,194,268
Departmental and other.....	997,351	-	997,351
Intergovernmental.....	3,798,857	-	3,798,857
Total.....	<u>\$ 10,713,663</u>	<u>\$ (256,762)</u>	<u>\$ 10,456,901</u>

At June 30, 2019, receivables for the water and sewer enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water user charges.....	\$ 1,693,286	\$ -	\$ 1,693,286
Sewer user charges.....	2,396,661	-	2,396,661
Sewer departmental and other.....	538,036	-	538,036
Sewer intergovernmental.....	460,402	-	460,402
Total.....	<u>\$ 5,088,385</u>	<u>\$ -</u>	<u>\$ 5,088,385</u>

Governmental funds report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current year, the various components of *unavailable revenue* reported in the governmental funds were noted on the following page:

	General Fund	Other Governmental Funds	Total
<u>Receivables and other asset types:</u>			
Real estate and personal property taxes.....	\$ 1,418,522	\$ -	\$ 1,418,522
Tax liens.....	2,474,956	-	2,474,956
Motor vehicle and other excise taxes.....	1,194,268	-	1,194,268
Departmental and other.....	1,146,897	-	1,146,897
Intergovernmental - highway improvements.....	-	79,388	79,388
Intergovernmental - other.....	96,546	-	96,546
Tax foreclosures.....	855,960	-	855,960
Total.....	<u>\$ 7,187,149</u>	<u>\$ 79,388</u>	<u>\$ 7,266,537</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 10,126,880	\$ 157,352	\$ -	\$ 10,284,232
Construction in progress.....	831,624	-	(831,624)	-
Total capital assets not being depreciated....	<u>10,958,504</u>	<u>157,352</u>	<u>(831,624)</u>	<u>10,284,232</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	186,688,975	2,303,980	-	188,992,955
Buildings and improvements.....	9,715,522	2,506,967	-	12,222,489
Machinery and equipment.....	2,789,083	1,424,705	-	4,213,788
Vehicles.....	6,326,519	472,342	-	6,798,861
Infrastructure.....	172,528,336	5,906,642	-	178,434,978
Total capital assets being depreciated.....	<u>378,048,435</u>	<u>12,614,636</u>	<u>-</u>	<u>390,663,071</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(62,278,904)	(3,971,799)	-	(66,250,703)
Buildings and improvements.....	(4,589,136)	(609,061)	-	(5,198,197)
Machinery and equipment.....	(1,550,168)	(293,189)	-	(1,843,357)
Vehicles.....	(4,781,850)	(287,020)	-	(5,068,870)
Infrastructure.....	(89,609,608)	(4,407,643)	-	(94,017,251)
Total accumulated depreciation.....	<u>(162,809,666)</u>	<u>(9,568,712)</u>	<u>-</u>	<u>(172,378,378)</u>
Total capital assets being depreciated, net.....	<u>215,238,769</u>	<u>3,045,924</u>	<u>-</u>	<u>218,284,693</u>
Total governmental activities capital assets, net.....	<u>\$ 226,197,273</u>	<u>\$ 3,203,276</u>	<u>\$ (831,624)</u>	<u>\$ 228,568,925</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Water:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 1,254,853	\$ -	\$ -	\$ 1,254,853
Construction in progress.....	-	10,783,744	-	10,783,744
Total capital assets not being depreciated....	1,254,853	10,783,744	-	12,038,597
<u>Capital assets being depreciated:</u>				
Buildings.....	37,808	-	-	37,808
Buildings and improvements.....	21,368,764	281,076	-	21,649,840
Machinery and equipment.....	13,159,173	524,895	-	13,684,068
Vehicles.....	700,437	-	-	700,437
Infrastructure.....	32,832,005	3,328,262	-	36,160,267
Total capital assets being depreciated.....	68,098,187	4,134,233	-	72,232,420
<u>Less accumulated depreciation for:</u>				
Buildings.....	(35,157)	(407)	-	(35,564)
Buildings and improvements.....	(804,958)	(548,711)	-	(1,353,669)
Machinery and equipment.....	(9,737,370)	(324,414)	-	(10,061,784)
Vehicles.....	(648,422)	(6,970)	-	(655,392)
Infrastructure.....	(16,734,500)	(618,121)	-	(17,352,621)
Total accumulated depreciation.....	(27,960,407)	(1,498,623)	-	(29,459,030)
Total capital assets being depreciated, net.....	40,137,780	2,635,610	-	42,773,390
Total water activities capital assets, net.....	\$ 41,392,633	\$ 13,419,354	\$ -	\$ 54,811,987
Sewer:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 517,002	\$ -	\$ -	\$ 517,002
Construction in progress.....	282,715	573,742	(282,715)	573,742
Total capital assets not being depreciated....	799,717	573,742	(282,715)	1,090,744
<u>Capital assets being depreciated:</u>				
Buildings.....	133,912	-	-	133,912
Buildings and improvements.....	794,564	1,130,015	-	1,924,579
Machinery and equipment.....	20,139,222	-	-	20,139,222
Vehicles.....	269,307	-	-	269,307
Infrastructure.....	67,580,972	2,397,720	-	69,978,692
Total capital assets being depreciated.....	88,917,977	3,527,735	-	92,445,712
<u>Less accumulated depreciation for:</u>				
Buildings.....	(110,730)	(1,473)	-	(112,203)
Buildings and improvements.....	(56,224)	(73,310)	-	(129,534)
Machinery and equipment.....	(11,652,278)	(873,951)	-	(12,526,229)
Vehicles.....	(244,240)	(3,200)	-	(247,440)
Infrastructure.....	(37,621,309)	(1,350,333)	-	(38,971,642)
Total accumulated depreciation.....	(49,684,781)	(2,302,267)	-	(51,987,048)
Total capital assets being depreciated, net.....	39,233,196	1,225,468	-	40,458,664
Total sewer activities capital assets, net.....	\$ 40,032,913	\$ 1,799,210	\$ (282,715)	\$ 41,549,408

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government.....	\$	353,446
Public safety.....		694,235
Education.....		4,029,770
Public works.....		4,280,857
Health and human services.....		210,404
		<u>210,404</u>
Total depreciation expense - governmental activities.....	\$	<u>9,568,712</u>

Business-Type Activities:

Water.....	\$	1,498,623
Sewer.....		2,302,267
		<u>2,302,267</u>
Total depreciation expense - business-type activities.....	\$	<u>3,800,890</u>

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund transfers for the year ended June 30, 2019, are summarized as follows:

Transfers Out:	Transfers In:			Total	
	General fund	Hunking Middle School	Nonmajor governmental funds		
General fund.....	\$ -	\$ -	\$ 4,769,320	\$ 4,769,320	(1)
Nonmajor governmental funds.....	<u>4,581</u>	<u>377,224</u>	<u>-</u>	<u>381,805</u>	(2)
Total.....	\$ <u>4,581</u>	\$ <u>377,224</u>	\$ <u>4,769,320</u>	\$ <u>5,151,125</u>	

- (1) Transfers from the general fund to various capital project funds.
- (2) Transfers from nonmajor funds to the general fund and from receipts reserved for appropriation to the Hunking Middle School capital project fund.

NOTE 6 – CAPITAL LEASES

The City entered into a lease agreement to finance energy conservation improvements at the school department. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The following identifies the assets acquired under the lease agreement:

<u>Asset:</u>	<u>Governmental Activities</u>
School energy conservation improvements.....	\$ 2,500,000
Less: accumulated depreciation.....	<u>(333,334)</u>
Total.....	<u>\$ 2,166,666</u>

The future minimum lease obligations and the net present value of these minimum lease payments at June 30, 2019, are as follows:

<u>Years ending June 30:</u>	<u>Governmental Activities</u>
2020.....	\$ 206,324
2021.....	206,323
2022.....	206,323
2023.....	206,324
2024.....	206,323
2025.....	206,324
2026.....	206,324
2027.....	206,323
2028.....	206,324
2029.....	206,323
2030.....	206,323
2031.....	<u>206,323</u>
Total minimum lease payments.....	2,475,881
Less: amounts representing interest.....	<u>(396,775)</u>
Present value of minimum lease payments... \$	<u>2,079,106</u>

NOTE 7 - SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise fund, respectively.

Details related to the short-term debt activity for the year ended June 30, 2019, is as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2018	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2019
Governmental Funds:							
BAN	State Aid Anticipation Note.....	2.25%	05/30/19	\$ 2,000,000	\$ -	\$ 2,000,000	\$ -
SAAN	Municipal Purpose.....	2.00%	12/14/18	5,672,477	-	5,672,477	-
BAN	State Aid Anticipation Note.....	2.75%	05/29/20	-	1,000,000	-	1,000,000
SAAN	Municipal Purpose.....	3.25%	12/13/19	-	5,292,200	-	5,292,200
Total Governmental Funds.....				7,672,477	6,292,200	7,672,477	6,292,200
Business-Type Activities:							
BAN	MCWT Interim Loan - water.....	2.00%	06/30/19	4,191,847	-	4,191,847	-
BAN	MCWT Interim Loan - water.....	2.00%	06/30/19	2,091,557	-	2,091,557	-
BAN**	MCWT Interim Loan - water.....	2.00%	06/30/20	-	24,742,646	-	24,742,646
BAN**	MCWT Interim Loan - water.....	2.00%	06/30/20	-	2,601,239	-	2,601,239
BAN***	MCWT Interim Loan - sewer.....	2.00%	06/30/20	-	792,362	-	792,362
Total Business-Type Activities.....				6,283,404	28,136,247	6,283,404	28,136,247
Total Short-term debt.....				\$ 13,955,881	\$ 34,428,447	\$ 13,955,881	\$ 34,428,447

(**) The Massachusetts Clean Water Trust (MCWT) Temporary Financing relates to a program in which the City is able to rehabilitate, expand, or upgrade the existing water infrastructure network. The City has been approved for construction costs totaling \$41,094,762 and \$2,652,500 for the renovation of the water plant and water main projects, respectively at a market interest rate of 2%. The City entered into financing agreements where the City is allowed two years to expend funds against the interim loan. After the two years, the City will determine the final construction costs and a permanent debt schedule will be agreed upon and payable over 20 years. During the temporary status of the loan the City is only liable for the payment of interest costs.

(***) The Massachusetts Clean Water Trust (MCWT) Temporary Financing relates to a program in which the City is able to rehabilitate, expand, or upgrade the existing wastewater infrastructure network. The City has been approved for wastewater treatment facility improvements totaling \$7,408,631, at a market interest rate of 2%. The City entered into a financing agreement where the City is allowed two years to expend funds against the interim loan. After the two years, the City will determine the final construction costs and a permanent debt schedule will be agreed upon and payable over 20 years. During the temporary status of the loan the City is only liable for the payment of interest costs.

NOTE 8 - LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

The City operated Hale Hospital until financial difficulties required the Hospital to be sold in 2001 with a significant loss. The Commonwealth enacted Chapter 387 of the Acts of 2000 for the purpose of allowing the City to issue State Qualified Deficit Financing Bond Anticipation Notes up to \$30 million. The legislation allows the City to amortize the deficit over a 20 year period ending no later than 2023. Therefore, the City recorded the initial note

issuance as long-term debt. Pursuant to this legislation the City appropriates a principal paydown amount each year in the general fund and issues new notes to pay off the remaining outstanding principal balance. The new notes are a current refunding since the City has reported these series of one year notes as long-term debt. There is no gain or loss on the current refunding. At June 30, 2019 there are two notes outstanding for a total of \$7,902,500. In September 2019, the City issued a \$5,913,000 hospital current refunding note, due on September 1, 2020, where the proceeds were used to redeem a \$7,000,000 note due on September 1, 2019.

Details related to the outstanding indebtedness at June 30, 2019, and the debt service requirements are as follows:

Bonds Payable Schedule – Governmental Funds

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2019
MCWT.....	2033	\$ 12,121,424	0.00 - 2.00	\$ 7,266,084
Municipal Purpose Bonds of 2010.....	2029	10,027,261	2.80 - 3.80	4,112,000
Hospital restructuring bonds of 2011.....	2022	9,680,000	4.30	3,355,000
Municipal Purpose Bonds of 2012.....	2032	2,762,700	4.03 - 4.33	1,755,000
Municipal Purpose Bonds of 2014.....	2034	3,165,000	.70 - 3.48	1,735,000
Municipal Purpose Bonds of 2015.....	2045	11,197,000	3.60 - 4.00	10,225,000
Municipal Purpose Bonds of 2016.....	2041	1,677,000	2.00 - 4.00	1,535,000
Municipal Purpose Bonds of 2017.....	2042	2,215,000	2.00 - 4	1,985,000
Municipal Purpose Bonds of 2018.....	2047	15,723,500	3.00-5.00	15,205,000
Sub-total of long-term governmental bonds.....				47,173,084
Hospital deficit refunding note.....	2020	902,500	3.00%	902,500
Hospital deficit refunding note.....	2020	7,000,000	1.75%	7,000,000
Sub-total of Hospital deficit long-term notes.....				7,902,500
Add: Unamortized premium on bonds.....				789,559
Total governmental bonds payable.....				\$ 55,865,143

Debt service requirements for principal and interest for governmental bonds payable in future years are as follows:

Year	Principal	Interest	Total
2020.....	\$ 11,334,735	\$ 1,938,036	\$ 13,272,771
2021.....	3,576,610	\$ 1,724,189	5,300,799
2022.....	3,659,610	\$ 1,508,821	5,168,431
2023.....	2,427,780	\$ 1,316,255	3,744,035
2024.....	2,341,126	\$ 1,152,092	3,493,218
2025.....	2,376,651	\$ 1,062,586	3,439,237
2026.....	2,375,361	\$ 982,948	3,358,309
2027.....	2,005,258	\$ 900,211	2,905,469
2028.....	1,944,367	\$ 824,409	2,768,776
2029.....	1,781,650	\$ 757,277	2,538,927
2030.....	1,756,132	\$ 690,553	2,446,685
2031.....	1,760,816	\$ 632,627	2,393,443
2032.....	1,679,995	\$ 580,706	2,260,701
2033.....	1,573,365	\$ 529,948	2,103,313
2034.....	1,276,106	\$ 482,219	1,758,325
2035.....	1,246,020	\$ 444,592	1,690,612
2036.....	1,045,000	\$ 406,800	1,451,800
2037.....	1,080,000	\$ 371,794	1,451,794
2038.....	1,105,000	\$ 335,626	1,440,626
2039.....	1,135,000	\$ 298,210	1,433,210
2040.....	1,175,000	\$ 258,928	1,433,928
2041.....	1,210,000	\$ 217,701	1,427,701
2042.....	1,155,000	\$ 175,152	1,330,152
2043.....	1,145,000	\$ 133,929	1,278,929
2044.....	1,085,000	\$ 92,898	1,177,898
2045.....	1,125,000	\$ 53,951	1,178,951
2046.....	595,000	\$ 13,584	608,584
2047.....	105,002	\$ 1,774	106,776
Total.....	\$ <u>55,075,584</u>	\$ <u>17,887,816</u>	\$ <u>72,963,400</u>

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During 2019, \$868,861 of such assistance was received. This was the final payment received for such assistance.

The Commonwealth enacted legislation that changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the City. Through the end of 2019, the City has received \$37,524,803 of capital grant reimbursements from the MSBA which is equal to 93.97% of approved construction costs incurred to date for the new Hunking Middle School. The project is substantially complete and the City anticipates receiving the final reimbursement once the MSBA has completed its final review of the project.

The governmental funds are scheduled to be subsidized by the Massachusetts Clean Water Trust (MCWT) on a periodic basis for principal in the amount of \$96,546 and interest costs for \$36,727. Thus, net MCWT loan repayments, including interest, are scheduled to be \$308,385. Since the City is legally obligated for the total amount of the debt, such amounts have been recorded in the accompanying basic financial statements. The 2019 principal and interest subsidies totaled \$15,476 and \$15,124, respectively.

Bonds Payable Schedule – Enterprise Funds

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2019
Water - MCWT.....	2033	\$ 2,786,681	2.00	\$ 1,978,810
Water - Municipal Purpose Bonds of 2012.....	2023	1,974,000	4.02	465,000
Water - Municipal Purpose Bonds of 2014.....	2023	1,600,000	1.78	660,000
Sewer - MCWT.....	2035	23,219,765	2.00	23,224,717
Sewer - Municipal Purpose Bonds of 2010.....	2029	187,800	3.90	108,000
Sewer - Municipal Purpose Bonds of 2012.....	2023	1,244,300	3.93 - 4.04	470,000
Sewer - Municipal Purpose Bonds of 2016.....	2036	1,081,000	2.00 - 4.00	965,000
Sewer - Municipal Purpose Bonds of 2017.....	2042	343,000	2.00 - 4.00	310,000
Sewer - Municipal Purpose Bonds of 2018.....	2043	2,106,500	3.00 - 5.00	2,145,000
Total Bonds Payable.....				<u>\$ 30,326,527</u>

Debt service requirements for principal and interest for water and sewer enterprise fund bonds and notes payable in future years are noted on the following page:

Year	Principal	Interest	Total
2020.....	\$ 2,311,397	\$ 910,388	\$ 3,221,785
2021.....	2,255,331	839,278	3,094,609
2022.....	2,174,142	774,470	2,948,612
2023.....	2,153,068	709,531	2,862,599
2024.....	1,823,961	650,343	2,474,304
2025.....	1,813,427	597,406	2,410,833
2026.....	1,864,002	535,622	2,399,624
2027.....	1,904,114	482,133	2,386,247
2028.....	1,660,386	434,008	2,094,394
2029.....	1,506,628	384,248	1,890,876
2030.....	1,529,352	334,756	1,864,108
2031.....	1,562,656	285,368	1,848,024
2032.....	1,474,419	236,935	1,711,354
2033.....	1,510,708	188,246	1,698,954
2034.....	1,429,722	138,293	1,568,015
2035.....	1,454,169	89,515	1,543,684
2036.....	754,849	55,096	809,945
2037.....	604,196	35,730	639,926
2038.....	95,000	18,464	113,464
2039.....	95,000	15,268	110,268
2040.....	90,000	12,076	102,076
2041.....	90,000	9,050	99,050
2042.....	90,000	5,926	95,926
2043.....	80,000	2,800	82,800
Total.....	<u>\$ 30,326,527</u>	<u>\$ 7,744,950</u>	<u>\$ 38,071,477</u>

The sewer enterprise fund is scheduled to be subsidized by the MCWT on a periodic basis for principal in the amount of \$460,402 and interest costs for \$1,466,831. Thus, net MCWT loan repayments, including interest, are scheduled to be \$10,040,229. The principal subsidies are guaranteed and therefore a \$460,402 intergovernmental receivable has been reported in the proprietary fund financial statements. Since the City is legally obligated for the total amount of the debt, such amounts have been recorded in the accompanying basic financial statements. The 2019 principal and interest subsidies totaled \$23,357 and \$178,384, respectively.

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2019, the City had the following authorized and unissued debt:

Purpose	Amount
School Remolding.....	\$ 2,680,000
Landfill.....	9,657,212
MWPAT CW-00-54A (Landfill).....	4,995
Departmental Equipment.....	115,000
Parking Deck.....	301
High School Renovation.....	227,488
Park Department Building Repairs.....	53,000
School Books.....	125,325
Fire Pumper Truck.....	70
School Energy Project.....	2,500,000
Hunking School Feasibility Study.....	20
Hunking School.....	2,975,197
Police Station Repairs.....	1,172,700
City Hall Boilers.....	500,000
Fire Rescue Truck.....	700,000
Replace Street Lights.....	764,925
CWSRF-143/ MCWT-CW-98-90.....	50,000
Sewer.....	1,520,000
Planning CSO.....	200,000
CSO Project MCWT-CW-03-34, 04-09.....	969,063
Sewer CW-05-17.....	321,426
Sewer Lake Street.....	444
Wastewater Odor.....	931,369
CSO System Improvements.....	1,176,720
Marsh Ave/Main Street Sewer Repairs.....	500,000
Water Treatment Plant.....	40,937
Water Mains.....	452,000
Merrimack Riverbank Stabilization.....	990,000
Water Distribution System.....	952,334
Water Treatment Plant.....	<u>27,484,000</u>
Total.....	<u>\$ 57,064,526</u>

Changes in Long-term Liabilities

During the year ended June 30, 2019, the following changes occurred in long-term liabilities:

	Beginning Balance	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Increases	Other Decreases	Ending Balance	Due Within One Year
Governmental Activities:							
Long-term bonds payable.....	\$ 61,790,653	\$ 7,902,500	\$ (14,617,569)	\$ -	\$ -	\$ 55,075,584	\$ 11,334,735
Add: Unamortized premium on bonds....	862,071	-	(72,512)	-	-	789,559	61,919
Total bonds payable.....	62,652,724	7,902,500	(14,690,081)	-	-	55,865,143	11,396,654
Capital lease obligations.....	2,223,289	-	-	-	(144,183)	2,079,106	148,213
Landfill closure.....	14,840,000	-	-	681,000	(361,000)	15,160,000	71,000
Compensated absences.....	2,243,000	-	-	1,396,000	(1,369,000)	2,270,000	1,434,000
Workers' compensation.....	788,000	-	-	62,000	(392,000)	458,000	69,000
Net pension liability.....	159,234,221	-	-	31,459,256	(16,059,445)	174,634,032	-
Total other postemployment benefits liability.....	369,891,786	-	-	14,515,519	(32,766,917)	351,640,388	-
Total governmental activity long-term liabilities.....	\$ 611,873,020	\$ 7,902,500	\$ (14,690,081)	\$ 48,113,775	\$ (51,092,545)	\$ 602,106,669	\$ 13,118,867
Business-Type Activities:							
Long-term bonds payable.....	\$ 33,019,525	\$ -	\$ (2,692,998)	\$ -	\$ -	\$ 30,326,527	\$ 2,311,397
Compensated absences.....	85,000	-	-	126,000	(85,000)	126,000	126,000
Net pension liability.....	9,868,265	-	-	1,858,732	(902,848)	10,824,149	-
Total other postemployment benefits liability.....	12,232,642	-	-	1,519,262	(1,170,853)	12,581,051	-
Total business-type activity long-term liabilities.....	\$ 55,205,432	\$ -	\$ (2,692,998)	\$ 3,503,994	\$ (2,158,701)	\$ 53,857,727	\$ 2,437,397

NOTE 9 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

GASB #54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The City has reported principal portions of endowment funds as nonspendable.

In addition to the nonspendable fund balance, GASB #54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- **Restricted:** fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- **Committed:** fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The City’s highest level of decision making authority is City Council.
- **Assigned:** fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- **Unassigned:** fund balance of the general fund that is not constrained for any particular purpose.

As of June 30, 2019, the governmental fund balances consisted of the following:

	General	Hunking Middle School	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances:				
Restricted for:				
City federal & state grants.....	\$ -	\$ -	\$ 481,543	\$ 481,543
School federal & state grants.....	-	-	3,364,257	3,364,257
School lunch.....	-	-	674,304	674,304
City revolving funds.....	-	-	11,754	11,754
School revolving funds.....	-	-	1,806,536	1,806,536
City gift funds.....	-	-	199,463	199,463
School gift funds.....	-	-	28,616	28,616
Receipts reserved for appropriation.....	-	-	1,257,113	1,257,113
School capital projects.....	-	-	1,442,285	1,442,285
Other capital projects.....	-	-	3,500,824	3,500,824
Committed to:				
Articles and continuing appropriations:				
School stabilization fund.....	2,401	-	-	2,401
OPEB stabilization fund.....	271,637	-	-	271,637
Assigned to:				
Encumbrances:				
General government.....	160,659	-	-	160,659
Public safety.....	215,073	-	-	215,073
Education.....	1,371,257	-	-	1,371,257
Public works.....	882,092	-	-	882,092
Human services.....	11,427	-	-	11,427
Community and economic development...	1,774	-	-	1,774
Employee benefits.....	50,000	-	-	50,000
Subsequent years' expenditures.....	5,100,000	-	-	5,100,000
Unassigned.....	17,606,926	(2,624,209)	(2,694,665)	12,288,052
Total Fund Balances.....	\$ 25,673,246	\$ (2,624,209)	\$ 10,072,030	\$ 33,121,067

Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body.

At year end, the general stabilization fund totaled \$5,461,176 and is reported as unassigned fund balance within the general fund. The school stabilization fund totaled \$2,401 and the OPEB stabilization fund totaled \$271,637 both of which are reported as committed fund balance within the general fund.

NOTE 10 - RISK FINANCING

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The City administers various premium-based health care plans, workers compensation and other insurance for its employees and retirees.

The City participates in premium-based health care plans for its active employees and retirees. The City is self-insured for its workers' compensation and unemployment compensation activities. Settlements have not exceeded coverage for each of the past three years. The incurred but not reported liability related to unemployment claims is immaterial and therefore not recorded.

Workers' Compensation

The City participates in a self-insured workers' compensation plan for which the City employs a third party administrator. Workers' compensation claims are administered by the third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future workers' compensation liability is based on history and injury type.

At June 30, 2019, the amount of the liability for workers' compensation claims totaled \$458,000. Changes in the reported liability since July 1, 2017, are as follows:

	Balance at Beginning of Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Year-End	Current Portion
2018.....	\$ 478,000	\$ 764,000	\$ (454,000)	\$ 788,000	\$ 118,000
2019.....	788,000	62,000	(392,000)	458,000	69,000

NOTE 11 - PENSION PLAN

Plan Descriptions – The City is a member of the Haverhill Contributory Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan covering eligible employees of the 3 member units. The System is administered by five board members (Board) on behalf of all current employees and retirees except for current teachers and retired teachers. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System is a component unit and is reported as a pension trust fund in the fiduciary fund financial statements.

The City is a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multi-employer defined benefit plan. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for 100% of the 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 the audited financial report may be obtained by visiting <http://www.mass.gov/osc/publications-and-reports/financial-reports/>.

Special Funding Situation – The Commonwealth is a nonemployer contributor and is required by statute to make 100% of all actuarially determined employer contributions on behalf of the City to the MTRS. Therefore, the City is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in MTRS. Since the City does not contribute directly to MTRS, there is no net pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based on each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2018. The City's portion of the collective pension expense, contributed by the Commonwealth, of \$17,117,970 is reported in the general fund as intergovernmental revenue and pension benefits in the current year. The portion of the Commonwealth's collective net pension liability associated with the City is \$168,923,687 as of the measurement date.

Benefits Provided – Both Systems provide retirement, disability, survivor and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. The Systems provide retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not

consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. Members become vested after ten years of creditable service. There were no changes in benefit terms that affected the measurement of the total pension liability at December 31, 2018.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

At December 31, 2018, the System's membership consists of the following:

Active members.....	981
Inactive members.....	256
Retirees and beneficiaries currently receiving benefits.....	<u>1,050</u>
 Total.....	 <u><u>2,287</u></u>

Contributions – Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the System a legislatively mandated actuarial determined contribution that is apportioned among the employers based on active current payroll. The total member units' contribution for the year ended December 31, 2018, was \$17,878,483, 42.20% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City's proportionate share of the required contribution was \$16,935,463, which was \$26,830 less than the City's actual contribution.

Pension Liabilities – The components of the net pension liability of the participating member units at December 31, 2018, were as follows:

Total pension liability.....	\$ 386,209,722
Total pension plan's fiduciary net position.....	<u>(191,109,698)</u>
Total net pension liability.....	<u><u>\$ 195,100,024</u></u>
 The pension plan's fiduciary net position as a percentage of the total pension liability.....	 49.48%

At June 30, 2019, the City reported a liability of \$185,458,181 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. Accordingly, update procedures were used to roll forward the total pension liability to the measurement date. 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 members, except for the portion related to early retirement incentives (ERI), which is allocated to individual employers in proportion with the amount of

ERI payment made as part of the fiscal 2019 contribution. At December 31, 2018, the City’s proportion was 95.06%, which was the same proportion measured at December 31, 2017.

Pension Expense – For the year ended June 30, 2019, the City recognized pension expense of \$25,847,053. At June 30, 2019, the City reported deferred outflows of resources related to pensions of \$25,665,833 and deferred inflows of resources related to pensions of \$908,506. The balances of deferred outflows and inflows at June 30, 2019, consist of the following:

Deferred Category	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Differences between expected and actual experience.....	\$ 2,831,754	\$ -	\$ 2,831,754
Difference between projected and actual earnings.....	10,646,613	-	10,646,613
Changes of assumptions.....	11,659,620	-	11,659,620
Changes in proportion and proportionate share of contributions...	527,846	(908,506)	(380,660)
Total deferred outflows/(inflows) of resources.....	\$ 25,665,833	\$ (908,506)	\$ 24,757,327

The deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2020.....	\$ 12,123,857
2021.....	6,429,614
2022.....	2,276,178
2023.....	3,927,678
Total.....	\$ 24,757,327

Actuarial Assumptions – The total pension liability in the January 1, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was rolled forward to December 31, 2018:

Valuation date.....	January 1, 2018
Actuarial cost method.....	Entry Age Normal.
Amortization method - UAAL.....	Increasing dollar amount at 3.80% to reduce the Unfunded Actuarial Accrued Liability to zero on or before June 30, 2033.
Amortization method - 2002 and 2003 ERI Actuarial Liability.....	Increasing dollar amount at 4% to reduce the Unfunded Actuarial Accrued Liability attributable to the 2002 ERI and 2003 ERI to zero on or before June 30, 2033.
Asset valuation method.....	The actuarial value of assets is the market value of assets as of the valuation date reduced by the sum of: <ul style="list-style-type: none"> a) 75% of gains and losses of the prior year, b) 50% of gains and losses of the second prior year and c) 25% of gains and losses of the third prior year. Investment gains and losses are determined by the excess or deficiency of the expected return over the actual return on the market value. The actuarial valuation of assets is further constrained to be not less than 90% or more than 110% of market value.

Investment rate of return.....	7.25%, net of pension plan investment expense, including inflation.
Discount rate.....	7.25%
Inflation rate.....	2.50% per year
Projected salary increases.....	Group 1: 3.25% ultimate rate, lowered to 2.50% for 2018-19; 5.00% steps for first 4 years of service. Group 4: 3.75% ultimate rate, lowered to 3.00% for 2018-19; 8.50% step in year 1, 6.40% in year 2, 6.00% in year 3, 3.40% in year 5.
Payroll growth.....	4.25% per year
Mortality rates.....	RP-2014 Mortality Table adjusted to 2006, projected with fully generational mortality improvement using Scale MP-2016. For disabled lives, the mortality rates were based on the RP-2014 Mortality Table adjusted to 2006, projected with fully generational mortality improvement using scale MP-2016, set forward 2 years.

Investment policy – The pension plan’s policy in regard to the allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

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 real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of January 1, 2018 are summarized in the following table:

Asset Class	Long-Term Expected Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity.....	26.00%	5.94%
Foreign equity.....	21.00%	5.56%
Total fixed income.....	21.00%	0.82%
Hedge funds.....	7.00%	4.90%
Private equity/venture.....	8.00%	7.90%
Real estate.....	10.00%	4.80%
Real assets.....	7.00%	7.90%
Total.....	100.00%	

Rate of return – For the year ended December 31, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -2.13%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate – The discount rate used to measure the total pension liability was 7.25% as of December 31, 2018 and December 31, 2017. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the

actuarially determined contribution rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (6.25%)	Current Discount (7.25%)	1% Increase (8.25%)
	<u> </u>	<u> </u>	<u> </u>
The City's proportionate share of the net pension liability.....	\$ 222,158,554	\$ 185,458,181	\$ 154,162,263
System total net pension liability.....	\$ 233,708,424	\$ 195,100,024	\$ 162,177,053

Changes of assumptions – None.

Changes in plan provisions – None.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – The City of Haverhill administers a single-employer defined benefit healthcare plan (Retiree Health Plan). The Plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the City’s group health insurance plan, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the City and the unions representing City employees and are renegotiated each bargaining period. The Plan does not issue a publicly available financial report. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement #75.

Funding Policy – Contribution requirements are also negotiated between the City and union representatives. The required contribution is based on a pay-as-you-go financing requirement. Depending on the healthcare plan selected and date of hire, the City contributes various percentages ranging from 70% to 85% of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining portion of their premium costs. For life insurance, the City contributes \$5.40 per month for each retiree receiving \$5,000 of basic life insurance.

Total OPEB Liability – GASB Statement #75 requires the net OPEB liability to be measured as of a date no earlier than the end of the employer’s prior fiscal year and no later than the end of the employer’s current fiscal year, consistently applied from period to period. The City’s total OPEB liability of \$364,221,439 was measured as of June 30, 2018 and was determined by an actuarial valuation as of June 30, 2018.

Employees Covered by Benefit Terms – The table on the following page represents the Plan’s membership at June 30, 2018:

Active members.....	1,488
Inactive employees or beneficiaries currently receiving benefits.....	<u>2,177</u>
 Total.....	 <u><u>3,665</u></u>

Significant Actuarial Methods and Assumptions – The total OPEB liability in the June 30, 2018 actuarial valuation was determined by using the following actuarial assumptions, applied to all periods included in the measurement, to be in accordance with GASB Statement #75:

Valuation date.....	June 30, 2018
Actuarial cost method.....	Entry Age Normal. Benefits are attributed ratably to service from date of hire until full eligibility date. Full eligibility date is assumed to be first eligibility for retiree medical benefits.
Marital Status.....	60% of male employees and 50% of female employees are assumed to have a covered spouse at retirement. Wives are assumed to be three years younger than their husbands.
Participation.....	95% of future retiree teachers are assumed to participate in the retiree medical plan, 95% of future non-teacher retirees are expected to participate in the retiree medical plan and 100% of future retirees are expected to elect life insurance.
Health care trend rate.....	5.5% in 2018 with an ultimate rate of 4.50%.
Discount rate.....	3.75%

Discount rate – The discount rate used to measure the total OPEB liability was 3.75% as of June 30, 2018, and June 30, 2017. The discount rate at June 30, 2018, was based on the average of the June 30, 2018, bond buyer 20 year municipal AA rate and the June 30, 2019, rate which were 4.0% and 3.5%, respectively.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balances at June 30, 2017.....	\$ 382,124,428
Changes for the year:	
Service cost.....	1,808,348
Interest.....	14,226,433
Differences between expected and actual experience.....	(24,730,591)
Benefit payments.....	<u>(9,207,179)</u>
Net change.....	<u>(17,902,989)</u>
Balances at June 30, 2018.....	\$ <u><u>364,221,439</u></u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following table presents the total other postemployment benefit liability, calculated using the discount rate of 3.75% as well as what the total other postemployment benefit liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate.

	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
Total OPEB liability.....	\$ 450,009,394	\$ 364,221,439	\$ 301,224,268

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following table presents the total other postemployment benefit liability, calculated using the current healthcare trend rate of 5.50%, as well as what the total other postemployment benefit liability would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher.

	1% Decrease	Current Trend	1% Increase
Total OPEB liability.....	\$ 302,081,488	\$ 364,221,439	\$ 447,219,600

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows or Resources Related to OPEB – For the year ended June 30, 2018, the GASB Statement #75 measurement date, the Town recognized OPEB expense of \$10,563,411. At June 30, 2018, the City reported deferred outflows of resources related to OPEB of \$9,041,385, and deferred inflows of resources related to OPEB of \$19,259,221 in the following categories:

Deferred Category	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Differences between expected and actual experience.....	\$ -	\$ (19,259,221)	\$ (19,259,221)
Contributions made subsequent to the measurement date.....	9,041,385	-	9,041,385
Total deferred outflows/(inflows) of resources.....	\$ 9,041,385	\$ (19,259,221)	\$ (10,217,836)

The deferred outflows and inflows of resources related to OPEB will be recognized in pension expense as follows:

Measurement date year ended June 30:

2019.....	\$ 3,570,015
2020.....	(5,471,370)
2021.....	(5,471,370)
2022.....	(2,845,111)
Total deferred outflows/(inflows) of resources.....	\$ (10,217,836)

Changes of Assumptions – None.

Changes of Plan Provisions – None.

NOTE 13 – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require the City to close its old landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The City had operated a solid waste landfill that ceased operations in 1996. The City has reflected \$15,160,000 as the estimate of the landfill closure liability at June 30, 2019, in the government-wide financial statements governmental activities. This amount is based on estimates of what it would cost to perform all future closure and post closure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 14 - CONTINGENCIES

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* through June 30, 2019, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2019, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2019.

NOTE 15 - COMMITMENTS

The City has authorized \$41.1 million to complete the renovation of the Kenoza Lake water treatment plant. Construction of the upgrades to the Kenoza Lake water treatment plant is financed by the Drinking Water State Revolving Fund (DWSRF). The DWSRF program is administered by the Commonwealth of Massachusetts Department of Environmental Protection. As of June 30, 2019, the City has expended \$29.4 million to complete the project.

The City has authorized \$8,340,000 for various wastewater infrastructure improvements. Construction costs are financed through an interim loan agreement with the Massachusetts Clean Water Trust. As of June 30, 2019, the City has expended \$2.4 million to complete the projects.

NOTE 16 – TAX INCREMENT FINANCING AGREEMENTS

The City enters into tax increment financing (TIF) agreements with local business under Chapter 40, Section 59 of the Massachusetts General Laws. Under this section of the law, localities may grant property tax exemptions of the business' property tax bill for the purpose of attracting or retaining businesses within their jurisdictions. The exemptions may be granted to any business located within or promising to relocate to the City.

For the fiscal year ended June 30, 2019, the City exempted property taxes totaling \$428,000 under this program.

NOTE 17 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 8, 2020, which is the date the financial statements were available to be issued.

NOTE 18 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2019, the following GASB pronouncements were implemented:

- GASB Statement #83, *Certain Asset Retirement Obligations*. This pronouncement did not impact the basic financial statements.
- GASB Statement #88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #84, *Fiduciary Activities*, which is required to be implemented in 2020.
- The GASB issued Statement #87, *Leases*, which is required to be implemented in 2021.
- The GASB issued Statement #89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is required to be implemented in 2021.
- The GASB issued Statement #90, *Majority Equity Interests – an amendment of GASB Statements #14 and #61*, which is required to be implemented in 2020.
- The GASB issued Statement #91, *Conduit Debt Obligations*, which is required to be implemented in 2022.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

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Required Supplementary Information

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Original Budget	Final Budget			
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 103,130,805	\$ 102,940,320	\$ 102,265,866	\$ -	\$ (674,454)
Tax liens.....	-	-	613,603	-	613,603
Motor vehicle and other excise taxes.....	8,815,000	8,815,000	9,192,666	-	377,666
Penalties and interest on taxes.....	500,000	500,000	490,899	-	(9,101)
Fees and rentals.....	1,206,200	1,206,200	1,429,211	-	223,011
Payments in lieu of taxes.....	2,000,000	2,000,000	2,267,951	-	267,951
Licenses and permits.....	2,490,000	2,490,000	2,687,036	-	197,036
Fines and forfeitures.....	710,000	710,000	687,573	-	(22,427)
Intergovernmental.....	67,278,249	67,278,249	67,447,288	-	169,039
Departmental and other.....	1,543,000	1,543,000	1,612,975	-	69,975
Investment income.....	368,000	368,000	841,061	-	473,061
Miscellaneous.....	300,000	300,000	388,372	-	88,372
TOTAL REVENUES.....	188,341,254	188,150,769	189,924,501	-	1,773,732
EXPENDITURES:					
Current:					
General government.....	3,793,008	3,921,399	3,512,376	160,659	248,364
Public safety.....	24,063,050	24,550,090	23,166,770	215,073	1,168,247
Education.....	94,827,065	94,764,682	93,238,409	1,371,257	155,016
Public works.....	10,562,732	11,396,861	10,984,493	882,092	(469,724)
Human services.....	3,122,413	3,209,346	3,000,971	11,427	196,948
Community and economic development.....	1,037,222	1,123,499	1,049,407	1,774	72,318
Pension benefits.....	16,321,037	16,321,037	16,031,221	-	289,816
Property and liability insurance.....	762,048	608,048	608,048	-	-
Employee benefits.....	24,556,328	24,639,478	21,947,107	50,000	2,642,371
Salary reserve.....	773,059	68,857	-	-	68,857
Other reserve.....	467,200	-	-	-	-
State and county charges.....	6,040,251	6,064,080	5,948,668	-	115,412
Debt service:					
Principal.....	6,880,551	6,880,551	6,715,069	-	165,482
Interest.....	2,395,387	2,395,387	2,251,843	-	143,544
TOTAL EXPENDITURES.....	195,601,351	195,943,315	188,454,382	2,692,282	4,796,651
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(7,260,097)	(7,792,546)	1,470,119	(2,692,282)	6,570,383
OTHER FINANCING SOURCES (USES):					
Use of prior year reserves.....	3,940,396	3,940,396	-	-	(3,940,396)
Use of free cash.....	5,050,000	8,750,000	-	-	(8,750,000)
Other amounts raised.....	(1,550,000)	(1,517,551)	-	-	1,517,551
Transfers in.....	789,701	789,701	809,137	-	19,436
Transfers out.....	(970,000)	(4,170,000)	(4,120,725)	-	49,275
TOTAL OTHER FINANCING SOURCES (USES).....	7,260,097	7,792,546	(3,311,588)	-	(11,104,134)
NET CHANGE IN FUND BALANCE.....	-	-	(1,841,469)	(2,692,282)	(4,533,751)
BUDGETARY FUND BALANCE, Beginning of year.....	21,987,316	21,987,316	21,987,316	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ 21,987,316	\$ 21,987,316	\$ 20,145,847	\$ (2,692,282)	\$ (4,533,751)

See notes to required supplementary information.

Pension Plan Schedules – Retirement System

The Pension Plan's Schedule of Changes in the Net Pension Liability and Related Ratios presents multi-year trend information on the net pension liability and related ratios.

The Pension Plan's Schedule of Contributions presents multi-year trend information on the required and actual contributions to the pension plan and related ratios.

The Pension Plan's Schedule of Investment Return presents multi-year trend information on the money-weighted investment return on retirement assets, net of investment expense.

The schedules are intended to present information for ten years. Until a ten-year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
AND RELATED RATIOS
HAVERHILL CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018
Total pension liability:					
Service cost.....	\$ 4,276,136	\$ 4,457,871	\$ 5,091,379	\$ 5,577,886	\$ 5,599,351
Interest.....	25,172,959	25,608,700	24,463,813	25,327,896	26,993,422
Differences between expected and actual experience.....	-	-	2,750,089	3,933,465	-
Changes in assumptions.....	-	-	15,636,834	13,629,952	-
Benefit payments.....	(24,393,730)	(23,974,413)	(25,274,903)	(25,251,773)	(25,997,926)
Net change in total pension liability.....	5,055,365	6,092,158	22,667,212	23,217,426	6,594,847
Total pension liability - beginning.....	<u>322,582,714</u>	<u>327,638,079</u>	<u>333,730,237</u>	<u>356,397,449</u>	<u>379,614,875</u>
Total pension liability - ending (a).....	<u>\$ 327,638,079</u>	<u>\$ 333,730,237</u>	<u>\$ 356,397,449</u>	<u>\$ 379,614,875</u>	<u>\$ 386,209,722</u>
Plan fiduciary net position:					
Employer contributions.....	\$ 14,661,848	\$ 15,869,862	\$ 16,511,360	\$ 17,851,950	\$ 17,878,483
Member contributions.....	4,103,074	3,455,693	3,764,777	4,035,100	4,152,768
Net investment income (loss).....	12,874,474	(3,625,996)	12,685,293	27,090,598	(6,206,275)
Administrative expenses.....	(546,094)	(481,093)	(472,465)	(616,282)	(438,100)
Retirement benefits and refunds.....	(24,393,730)	(23,974,413)	(25,274,903)	(25,251,773)	(25,997,926)
Net increase (decrease) in fiduciary net position.....	6,699,572	(8,755,947)	7,214,062	23,109,593	(10,611,050)
Fiduciary net position - beginning of year.....	<u>173,453,468</u>	<u>180,153,040</u>	<u>171,397,093</u>	<u>178,611,155</u>	<u>201,720,748</u>
Fiduciary net position - end of year (b).....	<u>\$ 180,153,040</u>	<u>\$ 171,397,093</u>	<u>\$ 178,611,155</u>	<u>\$ 201,720,748</u>	<u>\$ 191,109,698</u>
Net pension liability - ending (a)-(b).....	<u>\$ 147,485,039</u>	<u>\$ 162,333,144</u>	<u>\$ 177,786,294</u>	<u>\$ 177,894,127</u>	<u>\$ 195,100,024</u>
Plan fiduciary net position as a percentage of the total pension liability.....	54.99%	51.36%	50.12%	53.14%	49.48%
Covered payroll.....	\$ 37,792,808	\$ 38,734,500	\$ 40,037,584	\$ 42,190,684	\$ 42,369,388
Net pension liability as a percentage of covered payroll.....	390.25%	419.09%	444.05%	421.64%	460.47%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

SCHEDULE OF CONTRIBUTIONS
HVERHILL CONTRIBUTORY RETIREMENT SYSTEM

Year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
December 31, 2018.....	\$ 17,850,259	\$ (17,878,483)	\$ (28,224)	\$ 42,369,388	42.20%
December 31, 2017.....	17,507,028	(17,851,950)	(344,922)	42,190,684	42.31%
December 31, 2016.....	16,469,879	(16,511,360)	(41,481)	40,037,584	41.24%
December 31, 2015.....	15,840,897	(15,869,862)	(28,965)	38,734,500	40.97%
December 31, 2014.....	14,638,101	(14,638,101)	-	37,792,808	38.73%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

SCHEDULE OF INVESTMENT RETURNS
HVERHILL CONTRIBUTORY RETIREMENT SYSTEM

<u>Year</u>	<u>Annual money-weighted rate of return, net of investment expense</u>
December 31, 2018.....	-2.13%
December 31, 2017.....	15.46%
December 31, 2016.....	7.62%
December 31, 2015.....	-1.73%
December 31, 2014.....	7.62%

Note: this schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

Pension Plan Schedules – City

The Schedule of the City's Proportionate Share of the Net Pension Liability presents multi-year trend information on the City's net pension liability and related ratios.

The Schedule of City's Contributions presents multi-year trend information on the City's required and actual contributions to the pension plan and related ratios.

The Schedule of the Special Funding Amounts of the Net Pension Liability for the Massachusetts Teachers Contributory Retirement System presents multi-year trend information on the liability and expense assumed by the Commonwealth of Massachusetts on behalf of the City along with related ratios.

These schedules are intended to present information for ten years. Until a ten-year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
HAVERHILL CONTRIBUTORY RETIREMENT SYSTEM**

Year	Proportion of the net pension liability (asset)	Proportionate share of the net pension liability (asset)	Covered payroll	Net pension liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
December 31, 2018.....	95.06%	\$ 185,458,181	\$ 39,241,159	472.61%	49.48%
December 31, 2017.....	95.06%	169,102,486	38,828,347	435.51%	53.14%
December 31, 2016.....	95.35%	169,524,586	36,801,857	460.64%	50.12%
December 31, 2015.....	95.39%	154,851,511	38,734,500	399.78%	51.36%
December 31, 2014.....	95.79%	141,269,878	34,552,896	408.85%	54.99%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

SCHEDULE OF THE CITY'S CONTRIBUTIONS
HVERHILL CONTRIBUTORY RETIREMENT SYSTEM

Year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
June 30,2019.....	\$ 16,935,463	\$ (16,962,293)	\$ (26,830)	\$ 39,829,776	42.59%
June 30,2018.....	16,612,725	(16,940,056)	(327,331)	39,410,772	42.98%
June 30,2017.....	15,685,281	(15,724,771)	(39,490)	37,353,885	42.10%
June 30,2016.....	15,086,263	(15,113,837)	(27,574)	39,315,518	38.44%
June 30,2015.....	13,990,894	(13,990,894)	-	35,071,189	39.89%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF THE SPECIAL FUNDING AMOUNTS
OF THE NET PENSION LIABILITY
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM**

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Therefore, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the associated collective net pension liability; the portion of the collective pension expense as both a revenue and pension expense recognized; and the Plan's fiduciary net position as a percentage of the total liability.

Year	Commonwealth's 100% Share of the Associated Net Pension Liability	Expense and Revenue Recognized for the Commonwealth's Support	Plan Fiduciary Net Position as a Percentage of the Total Liability
2019.....	\$ 168,923,687	\$ 17,117,970	54.84%
2018.....	160,435,307	16,745,100	54.25%
2017.....	153,786,397	15,687,221	52.73%
2016.....	142,197,190	11,533,458	55.38%
2015.....	111,625,445	7,755,155	61.64%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

Other Postemployment Benefit Plan Schedules

The Schedule of Changes in the City's Total Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability.

**SCHEDULE OF CHANGES IN THE
CITY'S TOTAL OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFIT PLAN**

	June 30, 2017	June 30, 2018
Total OPEB Liability		
Service Cost.....	\$ 1,730,476	\$ 1,808,348
Interest.....	14,007,718	14,226,433
Differences between expected and actual experience....	-	(24,730,591)
Benefit payments.....	<u>(10,745,972)</u>	<u>(9,207,179)</u>
Net change in total OPEB liability.....	4,992,222	(17,902,989)
Total OPEB liability - beginning.....	<u>377,132,206</u>	<u>382,124,428</u>
Total OPEB liability - ending.....	<u>\$ 382,124,428</u>	<u>\$ 364,221,439</u>
Covered-employee payroll.....	\$ 79,421,152	\$ 81,009,575
Total OPEB liability as a percentage of covered-employee payroll.....	481.14%	449.60%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for
which information is available.

See notes to required supplementary information.

NOTE A - BUDGETARY BASIS OF ACCOUNTING

1. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by the Council. The Mayor presents an annual budget to the Council, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The Council, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between and within departments subsequent to the approval of the annual budget, requires majority Council approval via a supplemental appropriation or Council order.

The majority of appropriations are non-continuing which lapse at the end of each year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior year be carried forward and made available for spending in the current year. These carry forwards are included as part of the subsequent year's original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by majority vote of the Council.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original 2019 approved budget authorized \$196.6 million in appropriations, carryforwards, and other amounts to be raised. During 2019, the Council also approved supplemental appropriations totaling \$3.5 million. The change is primarily due to increases in transfers from free cash to fund capital projects.

The City Auditor has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the City's accounting system.

2. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2018, is presented below:

Net change in fund balance - budgetary basis.....	\$ (1,841,469)
<u>Perspective differences:</u>	
Activity of the stabilization fund recorded in the general fund for GAAP.....	(218,725)
<u>Basis of accounting differences:</u>	
Net change in recording tax refunds payable.....	(2,789)
Net change in recording 60 day receipts.....	32,400
Net change in recording accrued expenditures.....	719,235
Recognition of revenue for on-behalf payments.....	17,117,970
Recognition of expenditures for on-behalf payments.....	<u>(17,117,970)</u>
Net change in fund balance - GAAP basis.....	<u>\$ (1,311,348)</u>

NOTE B – PENSION PLAN***Pension Plan Schedules – Retirement System***Schedule of Changes in the Net Pension Liability and Related Ratios

The Schedule of Changes in the Net Pension Liability and Related Ratios includes the detailed changes in the System's total pension liability, changes in the System's net position, and the ending net pension liability. It also demonstrates the plan's net position as a percentage of the total pension liability and the net pension liability as a percentage of covered payroll.

Since the System performs an actuarial valuation bi-annually, there are no reported amounts for the changes in benefit terms and differences between expected and actual experience as of December 31, 2018.

Schedule of Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the System's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The appropriations are payable on July 1 and January 1. Employers may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual employer contributions may be less than the "total appropriation". The appropriations are allocated amongst employers based on covered payroll.

Schedule of Investment Return

The money-weighted rate of return is calculated as the internal rate of return on pension plan investments, net of pension plan investment expense. A money weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested. Inputs to the money weighted rate of return calculation are determined monthly.

Pension Plan Schedules – CitySchedule of the City's Proportionate Share of the Net Pension Liability

The Schedule of the City's Proportionate Share of the Net Pension Liability details the allocated percentage of the net pension liability (asset), the proportionate share of the net pension liability, and the covered employee payroll. It also demonstrates the net position as a percentage of the pension liability and the net pension liability as a percentage of covered payroll.

Schedule of City's Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the System's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The appropriations are payable on July 1 and January 1. The City may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual contributions may be less than the "total appropriation".

Schedule of the Special Funding Amounts of the Net Pension Liabilities

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the City does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the City; the portion of the collective pension expense as both revenue and pension expense recognized by the City; and the Plan's fiduciary net position as a percentage of the total liability.

Changes of Assumptions – None

Changes in Plan Provisions – None

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

The City administers a single-employer defined benefit healthcare plan (Retiree Health Plan). The plan provides lifetime healthcare and prescription drug benefits for eligible retirees and their spouses through the City's health insurance plan, which covers both active and retired members, including teachers.

The Other Postemployment Benefit PlanThe Schedule of Changes in the City's Total Other Postemployment Benefit Liability and Related Ratios

The Schedule of Changes in the City's Total Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability.

Changes of Assumptions – None.

Changes in Plan Provisions – None.