



CITY OF FITCHBURG, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2019

CITY OF FITCHBURG, MASSACHUSETTS

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Additional Offices:

Nashua, NH
Manchester, NH
Andover, MA
Ellsworth, ME

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
City of Fitchburg, 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 Fitchburg, Massachusetts, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fitchburg, Massachusetts, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Melanson Heath

March 10, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Fitchburg (the City), we offer readers this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2019.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

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

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial

statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

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

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity established fees and charges designed to recover its costs, including capital costs such as depreciation and debt service. The primary focus on these criteria is on fees charged to external users. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. Specifically, enterprise funds are used to account for water and sewer operations, which are considered to be major funds.

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

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to

support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of liabilities and deferred inflows exceeded assets and deferred outflows by \$(89,224,407) (i.e., net position), a change of \$(4,894,690) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$32,798,951, a change of \$(997,129) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$16,787,089, a change of \$1,018,368 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years. All amounts are presented in thousands.

NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 65,025	\$ 57,719	\$ 24,434	\$ 19,327	\$ 89,459	\$ 77,046
Capital assets	<u>96,683</u>	<u>94,844</u>	<u>126,909</u>	<u>123,140</u>	<u>223,592</u>	<u>217,984</u>
Total Assets	161,708	152,563	151,343	142,467	313,051	295,030
Deferred outflows of resources	24,178	19,826	2,110	1,859	26,288	21,685
Current liabilities	21,209	15,421	20,140	23,898	41,349	39,319
Noncurrent liabilities	<u>305,769</u>	<u>286,522</u>	<u>80,614</u>	<u>70,247</u>	<u>386,383</u>	<u>356,769</u>
Total Liabilities	326,978	301,943	100,754	94,145	427,732	396,088
Deferred inflows of resources	806	4,530	25	427	831	4,957
Net investment in capital assets	91,709	89,067	55,876	52,226	147,585	141,293
Restricted	12,791	12,420	-	-	12,791	12,420
Unrestricted	<u>(246,398)</u>	<u>(235,571)</u>	<u>(3,202)</u>	<u>(2,472)</u>	<u>(249,600)</u>	<u>(238,043)</u>
Total Net Position	\$ <u>(141,898)</u>	\$ <u>(134,084)</u>	\$ <u>52,674</u>	\$ <u>49,754</u>	\$ <u>(89,224)</u>	\$ <u>(84,330)</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$(89,224,407), a change of \$(4,894,690) in comparison to the prior year.

By far the largest portion of net position, \$147,585,230, reflects our investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$12,791,376, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$(249,601,013), primarily resulting from unfunded pension and OPEB liabilities.

CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues						
Program revenues:						
Charges for services	\$ 14,757	\$ 14,382	\$ 17,709	\$ 17,180	\$ 32,466	\$ 31,562
Operating grants and contributions	84,161	86,165	-	-	84,161	86,165
Capital grants and contributions	3,903	3,745	2,886	786	6,789	4,531
General revenues:						
Property taxes	54,917	52,453	-	-	54,917	52,453
Excises	4,298	4,167	-	-	4,298	4,167
Penalties, interest and other taxes	1,598	1,287	-	-	1,598	1,287
Grants and contributions not restricted to specific programs	10,838	10,918	-	-	10,838	10,918
Investment income	934	256	216	56	1,150	312
Miscellaneous	1,604	562	439	-	2,043	562
Total Revenues	177,010	173,935	21,250	18,022	198,260	191,957
Expenses						
General government	11,082	10,531	-	-	11,082	10,531
Public safety	28,118	26,002	-	-	28,118	26,002
Education	118,264	114,320	-	-	118,264	114,320
Public works	11,912	10,129	-	-	11,912	10,129
Health and human services	5,478	4,854	-	-	5,478	4,854
Culture and recreation	2,796	4,110	-	-	2,796	4,110
Miscellaneous	1,099	974	-	-	1,099	974
Interest	203	267	-	-	203	267
Intergovernmental	5,872	5,742	-	-	5,872	5,742
Water operations	-	-	8,015	6,109	8,015	6,109
Sewer operations	-	-	10,315	10,461	10,315	10,461
Total Expenses	184,824	176,929	18,330	16,570	203,154	193,499
Change in Net Position	(7,814)	(2,994)	2,920	1,452	(4,894)	(1,542)
Net Position - Beginning of Year	(134,084)	(131,090)	49,754	48,302	(84,330)	(82,788)
Net Position - End of Year	\$ (141,898)	\$ (134,084)	\$ 52,674	\$ 49,754	\$ (89,224)	\$ (84,330)

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(7,814,306). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 654,153
Major fund - CDBG fund expenditures in excess of revenues	(13,577)
Major fund - City grants fund expenditures in excess of revenues	(50,132)
Major fund - Capital projects fund expenditures in excess of revenues and other financing sources	(2,022,672)
Non-major fund revenues and other financing sources in excess of expenditures and other financing uses	435,099
Internal service fund revenues in excess of expenditures	1,413,184
Depreciation expense in excess of principal debt service	(2,055,729)
Capital assets purchases	10,319,299
Loss of disposal of assets	(2,397,212)
Issuance of bonds	(1,287,500)
Current year amortization of state (MSBA) reimbursements of school building projects, accrued in a prior year	(1,924,946)
Change in net pension liability, net of deferrals	(4,829,239)
Change in net OPEB liability, net of deferrals	(6,087,160)
Other	<u>32,126</u>
Total	\$ <u>(7,814,306)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$2,919,616. Key elements of this change are as follows:

Water operations	\$ 280,837
Sewer operations	<u>2,638,779</u>
Total	\$ <u>2,919,616</u>

D. FINANCIAL ANALYSIS OF FUNDS

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$32,798,951, a change of \$(997,129) in comparison to the prior year. Key elements of this change are as follows:

General fund operations, as discussed further below	\$ 654,153
Major fund - CDBG fund expenditures in excess of revenues	(13,577)
Major fund - City grants fund expenditures in excess of revenues	(50,132)
Major fund - Capital projects fund expenditures in excess of revenues and other financing sources	(2,022,672)
Non-major fund revenues and other financing sources in excess of expenditures and other financing uses	<u>435,099</u>
Total	\$ <u>(997,129)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$16,787,089, while total fund balance was \$21,365,204. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/19</u>	<u>6/30/18</u>	<u>Change</u>	% of Total 2019 General Fund Expenditures
General fund	\$ 10,178,310	\$ 9,688,922	\$ 489,388	7.3%
Stabilization fund	<u>6,608,779</u>	<u>6,079,799</u>	<u>528,980</u>	<u>4.8%</u>
Total Unassigned Fund Balance	\$ 16,787,089	\$ 15,768,721	\$ 1,018,368	12.1%
Total Fund Balance	\$ 21,365,204	\$ 20,711,051	\$ 654,153	15.4%

The total fund balance of the general fund increased by \$654,153 during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:

Excess of tax collections compared to budget	\$ 848,844
State and local revenues over budget	4,416,774
Budgetary appropriations unspent by departments	2,433,145
Use of free cash and overlay surplus as a funding source for nonrecurring expenses	(6,384,375)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current year	(1,189,215)
Change in Stabilization fund	<u>528,980</u>
Total	\$ <u>654,153</u>

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$(3,202,296), a change of \$(730,618) in comparison to the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$5,787,975. Major reasons for these amendments include:

Increase in general government appropriations	\$ 621,144
Increase in fire and police department appropriations	701,162
Increase in education appropriations	428,600
Increase in department of public works appropriations	1,794,688
Increase in debt service appropriations	1,000,000
Increase in various other departmental appropriations	230,381
Contribution to OPEB trust fund	250,000
Transfer to stabilization fund	350,000
Transfer to special revenue funds	262,000
Transfer to capital projects fund	<u>150,000</u>
Total	\$ <u>5,787,975</u>

\$5,684,375 of this increase was funded from surplus (free cash) and \$103,600 was transferred from a special revenue fund.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$223,591,357 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, and infrastructure.

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

Depreciation expense - governmental activities	\$ (6,083,729)
Depreciation expense - business-type activities	(4,284,920)
Loss on disposition of assets - governmental activities	(2,397,212)
Loss on disposition of assets - business-type activities	(540)
Infrastructure	
Street improvements	2,092,000
Water mains and hydrants	78,293
Sewer lines	238,836
Building and improvements	
Foreclosed buildings	439,500
Putnam street parking garage	478,609
Other	30,614
Departmental vehicles and equipment	
Public safety	204,128
Public works	993,992
Culture and recreation	95,390
Sewer	30,033
Land	
Foreclosed properties	1,042,200
Westminster land	520,000
Construction in progress	
East Plant facility	7,155,745
City Hall renovations	2,248,304
Longsjo school roof	1,478,931
Airport runway	664,361
Other	581,884
Total	\$ <u>5,606,419</u>

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$66,514,729, all of which was backed by the full faith and credit of the government.

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

REQUESTS FOR INFORMATION

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

Mr. Calvin Brooks
City Auditor
Fitchburg Municipal Offices
166 Boulder Drive, Suite 108
Fitchburg, MA 01420

CITY OF FITCHBURG, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2019

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Assets			
Current:			
Cash and short-term investments	\$ 39,659,469	\$ 19,346,053	\$ 59,005,522
Investments	10,965,535	-	10,965,535
Receivables, net of allowance for uncollectibles:			
Property taxes	1,021,066	-	1,021,066
Excises	911,811	-	911,811
User fees	-	3,568,832	3,568,832
Departmental and other	150,513	-	150,513
Intergovernmental	9,725,064	1,518,906	11,243,970
Other assets	60,000	-	60,000
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	985,845	-	985,845
Loans	1,545,211	-	1,545,211
Land and construction in progress	11,731,267	22,961,035	34,692,302
Capital assets, net of accumulated depreciation	84,951,179	103,947,876	188,899,055
Deferred Outflows of Resources			
Related to pensions	15,703,602	1,702,296	17,405,898
Related to OPEB	8,474,773	408,090	8,882,863
Total Assets and Deferred Outflows of Resources	185,885,335	153,453,088	339,338,423
Liabilities			
Current:			
Warrants payable	3,511,427	750,068	4,261,495
Accounts payable	97,518	-	97,518
Accrued payroll and withholdings	3,154,380	-	3,154,380
Accrued interest payable	-	466,276	466,276
Accrued claims payable	1,821,305	-	1,821,305
Notes payable	11,100,000	13,193,487	24,293,487
Other current liabilities	648,851	-	648,851
Current portion of long-term liabilities:			
Bonds payable	787,500	5,730,715	6,518,215
Other	88,327	-	88,327
Noncurrent:			
Bonds payable, net of current portion	2,260,000	57,736,514	59,996,514
Net pension liability	133,245,399	14,444,020	147,689,419
Net OPEB liability	166,302,124	8,008,041	174,310,165
Other, net of current portion	3,960,843	425,578	4,386,421
Deferred Inflows of Resources			
Related to pensions	99,350	10,770	110,120
Related to OPEB	286,895	13,816	300,711
Other	419,626	-	419,626
Total Liabilities and Deferred Inflows of Resources	327,783,545	100,779,285	428,562,830
Net Position			
Net investment in capital assets	91,709,131	55,876,099	147,585,230
Restricted for:			
Grants and other statutory restrictions	7,896,219	-	7,896,219
Permanent funds:			
Nonexpendable	2,235,885	-	2,235,885
Expendable	2,659,272	-	2,659,272
Unrestricted	(246,398,717)	(3,202,296)	(249,601,013)
Total Net Position	\$ (141,898,210)	\$ 52,673,803	\$ (89,224,407)

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

CITY OF FITCHBURG, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for	Operating	Capital	Governmental	Business-	
		Services	Grants and	Grants and	Activities	Type	
			Contributions	Contributions		Activities	Total
		Expenses					
Governmental Activities							
General government	\$ 11,082,219	\$ 2,758,750	\$ 1,806,068	\$ 974,627	\$ (5,542,774)	\$ -	\$ (5,542,774)
Public safety	28,118,486	2,822,926	976,825	-	(24,318,735)	-	(24,318,735)
Education	118,262,785	4,194,059	79,325,199	177,064	(34,566,463)	-	(34,566,463)
Public works	11,911,887	1,146,920	922,530	2,750,894	(7,091,543)	-	(7,091,543)
Health and human services	5,478,471	3,666,166	975,292	-	(837,013)	-	(837,013)
Culture and recreation	2,795,721	168,100	154,598	-	(2,473,023)	-	(2,473,023)
Miscellaneous	1,098,995	-	-	-	(1,098,995)	-	(1,098,995)
Interest	203,212	-	-	-	(203,212)	-	(203,212)
Intergovernmental	5,872,416	-	-	-	(5,872,416)	-	(5,872,416)
Total Governmental Activities	184,824,192	14,756,921	84,160,512	3,902,585	(82,004,174)	-	(82,004,174)
Business-Type Activities							
Water operations	8,015,010	6,220,762	-	1,744,774	-	(49,474)	(49,474)
Sewer operations	10,314,517	11,488,280	-	1,141,192	-	2,314,955	2,314,955
Total Business-Type Activities	18,329,527	17,709,042	-	2,885,966	-	2,265,481	2,265,481
Total	\$ 203,153,719	\$ 32,465,963	\$ 84,160,512	\$ 6,788,551	(82,004,174)	2,265,481	(79,738,693)
General Revenues							
Property taxes					54,916,973	-	54,916,973
Excises					4,298,164	-	4,298,164
Penalties, interest and other taxes					1,598,103	-	1,598,103
Grants and contributions not restricted to specific programs					10,838,312	-	10,838,312
Investment income					934,491	215,705	1,150,196
Miscellaneous					1,603,825	438,430	2,042,255
Total General Revenues					74,189,868	654,135	74,844,003
Change in Net Position					(7,814,306)	2,919,616	(4,894,690)
Net Position							
Beginning of Year					(134,083,904)	49,754,187	(84,329,717)
End of Year					\$ (141,898,210)	\$ 52,673,803	\$ (89,224,407)

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

CITY OF FITCHBURG, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2019

	<u>General</u>	<u>Community Development Block Grant</u>	<u>City Grants Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Cash and short-term investments	\$ 14,894,856	\$ 374,348	\$ -	\$ 9,786,447	\$ 7,288,929	\$ 32,344,580
Investments	6,575,576	-	-	-	4,389,959	10,965,535
Receivables:						
Property taxes	1,170,095	-	-	-	-	1,170,095
Excises	1,503,333	-	-	-	-	1,503,333
Departmental and other, net of allowance for uncollectibles	77,074	-	-	-	73,439	150,513
Intergovernmental	5,418,318	975,479	698,472	-	2,055,701	9,147,970
Tax title and demolition liens	3,956,454	-	-	-	-	3,956,454
Loans, net of allowance for uncollectibles	-	1,523,246	8,432,986	-	-	9,956,232
Due from other funds	327,062	-	-	-	-	327,062
Other assets	60,000	-	-	-	-	60,000
Total Assets	<u>\$ 33,982,768</u>	<u>\$ 2,873,073</u>	<u>\$ 9,131,458</u>	<u>\$ 9,786,447</u>	<u>\$ 13,808,028</u>	<u>\$ 69,581,774</u>
Liabilities						
Warrants payable	\$ 1,922,676	\$ 49,432	\$ 45,455	\$ 44,076	\$ 1,331,847	\$ 3,393,486
Accounts payable	97,518	-	-	-	-	97,518
Accrued payroll and withholdings	2,892,143	-	-	-	262,237	3,154,380
Due to other funds	-	-	327,062	-	-	327,062
Notes payable	-	-	-	11,100,000	-	11,100,000
Other liabilities	648,851	-	-	-	-	648,851
Total Liabilities	5,561,188	49,432	372,517	11,144,076	1,594,084	18,721,297
Deferred Inflows of Resources						
Unavailable revenues	7,056,376	2,498,725	8,432,986	-	73,439	18,061,526
Fund Balances						
Nonspendable	-	-	-	-	2,235,885	2,235,885
Restricted	-	324,916	325,955	190,915	9,904,620	10,746,406
Assigned	4,578,115	-	-	-	-	4,578,115
Unassigned	16,787,089	-	-	(1,548,544)	-	15,238,545
Total Fund Balances	<u>21,365,204</u>	<u>324,916</u>	<u>325,955</u>	<u>(1,357,629)</u>	<u>12,140,505</u>	<u>32,798,951</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 33,982,768</u>	<u>\$ 2,873,073</u>	<u>\$ 9,131,458</u>	<u>\$ 9,786,447</u>	<u>\$ 13,808,028</u>	<u>\$ 69,581,774</u>

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

CITY OF FITCHBURG, MASSACHUSETTS

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

JUNE 30, 2019

Total Governmental Fund Balances	\$ 32,798,951
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	96,682,446
Revenues are reported on the accrual basis of accounting (net of allowance for uncollectible accounts) and are not deferred until collection.	5,939,345
Internal service funds are used by management to account for health insurance activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.	5,533,111
Long-term liabilities, including bonds payable, net pension liability and net OPEB liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(278,802,893)
Other	<u>(4,049,170)</u>
Net Position of Governmental Activities	\$ <u>(141,898,210)</u>

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

CITY OF FITCHBURG, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019

	<u>General</u>	<u>Community Development Block Grant</u>	<u>City Grants Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues						
Property taxes	\$ 53,572,438	\$ -	\$ -	\$ -	\$ -	\$ 53,572,438
Excises	4,211,789	-	-	-	-	4,211,789
Penalties, interest and other taxes	1,598,103	-	-	-	-	1,598,103
Charges for services	6,574,401	-	-	-	1,579,571	8,153,972
Intergovernmental	72,864,933	949,627	4,154,783	202,064	17,200,964	95,372,371
Licenses and permits	1,058,836	-	-	-	-	1,058,836
Fines and forfeitures	188,824	-	-	-	-	188,824
Investment income	620,320	-	207	-	284,356	904,883
Miscellaneous	<u>211,206</u>	<u>126,238</u>	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>367,444</u>
Total Revenues	140,900,850	1,075,865	4,184,990	202,064	19,064,891	165,428,660
Expenditures						
Current:						
General government	6,294,062	1,089,442	1,372,339	2,761,388	473,023	11,990,254
Public safety	16,327,941	-	826,493	-	287,104	17,441,538
Education	64,903,624	-	-	1,730,348	15,860,087	82,494,059
Public works	5,444,559	-	1,446,868	-	2,304,553	9,195,980
Health and human services	4,162,677	-	335,748	-	51,932	4,550,357
Culture and recreation	1,352,070	-	253,674	-	221,990	1,827,734
Employee benefits	29,321,157	-	-	-	-	29,321,157
Miscellaneous	1,098,995	-	-	-	-	1,098,995
Debt service	4,294,794	-	-	-	-	4,294,794
Intergovernmental	<u>5,872,416</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,872,416</u>
Total Expenditures	<u>139,072,295</u>	<u>1,089,442</u>	<u>4,235,122</u>	<u>4,491,736</u>	<u>19,198,689</u>	<u>168,087,284</u>
Excess (Deficiency) of Revenues Over Expenditures	1,828,555	(13,577)	(50,132)	(4,289,672)	(133,798)	(2,658,624)
Other Financing Sources (Uses)						
Issuance of bonds	-	-	-	776,000	511,500	1,287,500
Bond premiums	-	-	-	124,000	249,995	373,995
Transfers in	543,350	-	-	1,367,000	350,752	2,261,102
Transfers out	<u>(1,717,752)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(543,350)</u>	<u>(2,261,102)</u>
Total Other Financing Sources (Uses)	<u>(1,174,402)</u>	<u>-</u>	<u>-</u>	<u>2,267,000</u>	<u>568,897</u>	<u>1,661,495</u>
Change in Fund Balance	654,153	(13,577)	(50,132)	(2,022,672)	435,099	(997,129)
Fund Balance, at Beginning of Year, as reclassified	<u>20,711,051</u>	<u>338,493</u>	<u>376,087</u>	<u>665,043</u>	<u>11,705,406</u>	<u>33,796,080</u>
Fund Balance, at End of Year	<u>\$ 21,365,204</u>	<u>\$ 324,916</u>	<u>\$ 325,955</u>	<u>\$ (1,357,629)</u>	<u>\$ 12,140,505</u>	<u>\$ 32,798,951</u>

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

CITY OF FITCHBURG, MASSACHUSETTS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Net Changes in Fund Balances - Total Governmental Funds	\$ (997,129)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Capital outlay purchases	10,319,299
Loss on disposal of assets	(2,397,212)
Depreciation	(6,083,729)
The issuance of long-term debt (e.g., bonds and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position:	
Issuance of debt	(1,287,500)
Repayments of debt (bonds and loans)	4,028,000
Amortization of deferred gain / (loss) on early retirement of debt	71,498
Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, loans, etc.) differ between the two statements. This amount represents the change in deferred revenue, net of allowance for uncollectibles.	(180,901)
Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds.	(1,924,946)
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:	
Net pension liability and related deferred outflows and inflows of resources	(4,829,239)
Net OPEB liability and related deferred outflows and inflows of resources	(6,087,160)
Other	141,529
Internal service funds are used by management to account for health insurance activities. The net activity of internal service funds is reported with governmental activities.	
	<u>1,413,184</u>
Changes in Net Position of Governmental Activities	\$ <u>(7,814,306)</u>

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

CITY OF FITCHBURG, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues				
Property taxes	\$ 52,723,594	\$ 52,723,594	\$ 52,723,594	\$ -
Excises	3,777,668	3,777,668	4,211,789	434,121
Penalties, interest and other taxes	829,000	829,000	1,598,103	769,103
Charges for services	5,628,500	5,628,500	7,285,426	1,656,926
Intergovernmental	65,794,953	65,794,953	66,477,204	682,251
Licenses and permits	850,000	850,000	1,058,836	208,836
Fines and forfeitures	142,000	142,000	188,824	46,824
Investment income	75,000	75,000	441,340	366,340
Miscellaneous	500	500	211,206	210,706
Total Revenues	129,821,215	129,821,215	134,196,322	4,375,107
Expenditures				
General government	4,494,156	5,115,300	4,932,337	182,963
Public safety	16,753,309	17,454,471	16,557,760	896,711
Education	58,356,968	58,785,568	58,755,499	30,069
Public works	3,631,693	5,426,381	5,201,141	225,240
Health and human services	3,980,848	4,094,138	4,052,517	41,621
Culture and recreation	1,345,595	1,462,686	1,377,572	85,114
Employee benefits	30,230,299	30,480,299	30,084,723	395,576
Miscellaneous	1,125,275	1,125,275	1,077,617	47,658
Debt service	3,311,060	4,311,060	4,294,794	16,266
Intergovernmental	6,414,595	6,414,595	5,872,416	542,179
Total Expenditures	129,643,798	134,669,773	132,206,376	2,463,397
Excess (Deficiency) of Revenues over Expenditures	177,417	(4,848,558)	1,989,946	6,838,504
Other Financing Sources/Uses				
Transfers in	398,083	501,683	543,350	41,667
Transfers out	(1,275,500)	(2,037,500)	(2,067,752)	(30,252)
Use of free cash:				
Operating budget and capital items	-	5,084,375	-	(5,084,375)
Contribution to OPEB trust fund	-	250,000	-	(250,000)
Transfer to Stabilization fund	-	350,000	-	(350,000)
Overlay surplus	700,000	700,000	-	(700,000)
Total Other Financing Sources/Uses	(177,417)	4,848,558	(1,524,402)	(6,372,960)
Excess of Revenues and Other Sources Over Expenditures and Other Uses	\$ -	\$ -	\$ 465,544	\$ 465,544

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

CITY OF FITCHBURG, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2019

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Funds
Assets				
Current:				
Cash and short-term investments	\$ 5,455,305	\$ 13,890,748	\$ 19,346,053	\$ 7,314,889
User fees, net of allowance for uncollectibles	1,363,667	2,205,165	3,568,832	-
Intergovernmental receivables	-	1,518,906	1,518,906	577,094
Total Current Assets	6,818,972	17,614,819	24,433,791	7,891,983
Noncurrent:				
Land and construction in progress	1,871,000	21,090,035	22,961,035	-
Capital assets, net of accumulated depreciation	41,560,079	62,387,797	103,947,876	-
Total Noncurrent Assets	43,431,079	83,477,832	126,908,911	-
Deferred Outflows of Resources				
Related to pensions	731,047	971,249	1,702,296	-
Related to OPEB	174,035	234,055	408,090	-
Total Assets and Deferred Outflows of Resources	51,155,133	102,297,955	153,453,088	7,891,983
Liabilities				
Current:				
Warrants payable	55,173	694,895	750,068	117,941
Accrued interest payable	41,905	424,371	466,276	-
Accrued claims payable	-	-	-	1,821,305
Notes payable	3,600,000	9,593,487	13,193,487	-
Current portion of long-term liabilities:				
Bonds payable	2,309,028	3,421,687	5,730,715	-
Total Current Liabilities	6,006,106	14,134,440	20,140,546	1,939,246
Noncurrent:				
Bonds payable, net of current portion	9,240,172	48,496,342	57,736,514	-
Net pension liability	6,202,952	8,241,068	14,444,020	-
Net OPEB liability	3,415,120	4,592,921	8,008,041	-
Other	194,189	231,389	425,578	-
Total Noncurrent Liabilities	19,052,433	61,561,720	80,614,153	-
Deferred Inflows of Resources				
Related to pensions	4,625	6,145	10,770	-
Related to OPEB	5,892	7,924	13,816	-
Other	-	-	-	419,626
Total Liabilities and Deferred Inflows of Resources	25,069,056	75,710,229	100,779,285	2,358,872
Net Position				
Net investment in capital assets	31,758,745	24,117,354	55,876,099	-
Unrestricted	(5,672,668)	2,470,372	(3,202,296)	5,533,111
Total Net Position	\$ 26,086,077	\$ 26,587,726	\$ 52,673,803	\$ 5,533,111

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

CITY OF FITCHBURG, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2019

	Business-Type Activities Enterprise Funds			Governmental <u>Activities</u> Internal Service <u>Fund</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>	
Operating Revenues				
Charges for services	\$ 6,220,762	\$ 11,488,280	\$ 17,709,042	\$ -
Employee contributions	-	-	-	5,406,124
Employer contributions	-	-	-	15,143,758
Miscellaneous	-	-	-	862,386
Total Operating Revenues	6,220,762	11,488,280	17,709,042	21,412,268
Operating Expenses				
Salary and benefits	2,663,151	2,089,619	4,752,770	-
Operating expenses	1,421,394	2,310,992	3,732,386	-
Depreciation	1,837,815	2,447,105	4,284,920	-
Administrative assessments	820,000	1,050,000	1,870,000	-
Employee benefits	-	-	-	20,028,692
Other	1,117,394	1,226,278	2,343,672	-
Total Operating Expenses	7,859,754	9,123,994	16,983,748	20,028,692
Operating Income (Loss)	(1,638,992)	2,364,286	725,294	1,383,576
Nonoperating Revenues (Expenses)				
Intergovernmental revenue	1,744,774	1,141,192	2,885,966	-
Investment income	15,214	200,491	215,705	29,608
Miscellaneous	315,097	123,333	438,430	-
Interest expense	(155,256)	(1,190,523)	(1,345,779)	-
Total Nonoperating Revenues (Expenses), Net	1,919,829	274,493	2,194,322	29,608
Change in Net Position	280,837	2,638,779	2,919,616	1,413,184
Net Position, at Beginning of Year	25,805,240	23,948,947	49,754,187	4,119,927
Net Position, at End of Year	\$ 26,086,077	\$ 26,587,726	\$ 52,673,803	\$ 5,533,111

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

CITY OF FITCHBURG, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2019

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Fund
	Water Fund	Sewer Fund	Total	
Cash Flows From Operating Activities				
Receipts from customers and users	\$ 6,358,425	\$ 11,651,503	\$ 18,009,928	\$ -
Payments to vendors and employees	(5,231,721)	(6,664,663)	(11,896,384)	-
Receipts from employees and employer	-	-	-	20,849,764
Payments of employee benefits and expenses	-	-	-	(18,764,366)
Net Cash Provided By Operating Activities	1,126,704	4,986,840	6,113,544	2,085,398
Cash Flows From Capital and Related Financing Activities				
Acquisition and construction of capital assets	(628,397)	(7,424,584)	(8,052,981)	-
Capital contributions	1,298,475	1,100,447	2,398,922	-
Proceeds of notes and governmental loans	6,186,597	20,136,242	26,322,839	-
Principal payments on bonds and notes	(4,196,228)	(17,652,682)	(21,848,910)	-
Interest expense	(166,727)	(1,093,703)	(1,260,430)	-
Net Cash Provided By (Used For) Capital and Related Financing Activities	2,493,720	(4,934,280)	(2,440,560)	-
Cash Flows From Investing Activities				
Investment income	15,214	200,491	215,705	29,608
Net Cash Provided by Investing Activities	15,214	200,491	215,705	29,608
Net Change in Cash and Short-Term Investments	3,635,638	253,051	3,888,689	2,115,006
Cash and Short-Term Investments, Beginning of Year	1,819,667	13,637,697	15,457,364	5,199,883
Cash and Short-Term Investments, End of Year	\$ 5,455,305	\$ 13,890,748	\$ 19,346,053	\$ 7,314,889
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities				
Operating income (loss)	\$ (1,638,992)	\$ 2,364,286	\$ 725,294	\$ 1,383,576
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,837,815	2,447,105	4,284,920	-
Changes in assets and liabilities and deferred outflows/inflows:				
User fee / other receivables	137,663	163,223	300,886	(224,421)
Deferred outflows - related to pensions	(46,446)	(9,750)	(56,196)	-
Deferred outflows - related to OPEB	(95,337)	(99,977)	(195,314)	-
Warrants and other payables	(247,549)	(662)	(248,211)	957,824
Accrued / other liabilities	16,484	(13,976)	2,508	(31,581)
Net pension liability	661,192	457,852	1,119,044	-
Net OPEB liability	669,048	(85,551)	583,497	-
Deferred inflows - related to pensions	(172,334)	(242,388)	(414,722)	-
Deferred inflows - related to OPEB	5,160	6,678	11,838	-
Net Cash Provided By Operating Activities	\$ 1,126,704	\$ 4,986,840	\$ 6,113,544	\$ 2,085,398

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

CITY OF FITCHBURG, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019

	Pension and OPEB <u>Trust Funds</u>
Assets	
Cash and short-term investments	\$ 846,132
Investments in external investment pools	116,380,484
Accounts receivable	<u>103,842</u>
Total Assets	117,330,458
 Liabilities	
Accounts payable	<u>12,229</u>
Total Liabilities	<u>12,229</u>
 Net Position	
Restricted for pension purposes	116,083,199
Restricted for OPEB purposes	<u>1,235,030</u>
Total Net Position	\$ <u><u>117,318,229</u></u>

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

CITY OF FITCHBURG, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

	Pension and OPEB <u>Trust Funds</u>
Additions	
Contributions:	
Employers	\$ 17,821,114
Plan members	3,429,091
Other systems and Commonwealth of Massachusetts	401,411
Other	<u>31,300</u>
Total Contributions	21,682,916
Investment Income (Loss):	
Interest and dividends	65,416
Depreciation in fair value of investments	(2,248,377)
Less: management fees	<u>(628,231)</u>
Net Investment (Loss)	<u>(2,811,192)</u>
Total Additions	18,871,724
Deductions	
Benefit payments to plan members and beneficiaries	22,133,665
Refunds to plan members	429,801
Transfers to other systems	413,908
Administrative expenses	<u>231,075</u>
Total Deductions	<u>23,208,449</u>
Net (Decrease)	(4,336,725)
Net Position Restricted for Pensions and OPEB Purposes	
Beginning of Year	<u>121,654,954</u>
End of Year	\$ <u><u>117,318,229</u></u>

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

City of Fitchburg, Massachusetts

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The City is a municipal corporation governed by an elected City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2019, it was determined that no entities met the required GASB 14 (as amended) criteria of component units, other than as noted below.

Blended Component Unit: The Fitchburg Contributory Retirement System was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at Fitchburg Municipal Offices, 166 Boulder Drive, Suite 108, Fitchburg, MA 01420.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given 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 (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted

to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

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

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

The City reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *community development block grant fund* is used to account for grant and program income resulting from one of the City's Federal Housing and Urban Development Agency grants.
- The *city grants fund* is used to account for the City's non-education related federal and state grants.
- The *capital projects fund* is used to account for the acquisition or construction of capital facilities or other capital assets of the City funded by borrowing.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports the following major proprietary funds:

- The *water enterprise fund* is used to account for the operations related to providing the City's water services and supporting infrastructure.
- The *sewer enterprise fund* is used to account for the operations of the City's wastewater treatment facility and supporting infrastructure.

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

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

The City reports the following fiduciary fund:

- The *pension and other post-employment benefits trust funds* are used to accumulate resources for retiree post-employment benefits.

D. Cash and Short-Term Investments

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

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

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

E. Investments

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

Investments for the Contributory Retirement System are in the State's Pension Reserve Investment Trust fund (PRIT). Investments for the OPEB trust fund are in the State Retirees Benefit Trust Fund (SRBT). All other trust fund investments consist of certificates of deposit, corporate bonds and equities, equity mutual funds, Federal agency securities, and U.S. Treasury notes. Investments are carried at fair value, except certificates of deposit, which are reported at cost.

F. Property Tax Limitations

Legislation known as “Proposition 2 ½” has limited the amount of revenue that can be derived from property taxes. The prior fiscal year’s tax levy limit is used as a base and cannot increase by more than 2.5% (excluding new growth), unless an override is voted. The actual fiscal year 2019 tax levy reflected an excess capacity of \$9,314.

G. Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due from/to other funds” (i.e., the current portion of interfund loans).

H. Capital Assets

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

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Land improvements	40
Infrastructure	40 - 50
Machinery and equipment	5 - 15
Office equipment and furniture	5 - 20
Computer equipment	5

I. Compensated Absences

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

J. Long-Term Obligations

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

K. Fund Equity

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

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

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

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

L. Use of Estimates

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

2. Stewardship, Compliance and Accountability

A. Budgetary Information

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

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public.

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

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

<u>General Fund</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources/Uses</u>
GAAP basis	\$ 140,900,850	\$ 139,072,295	\$ (1,174,402)
Remove the effect of adding the City's Stabilization fund per GASB 54	(178,980)	-	(350,000)
Adjust tax revenue to accrual basis	(848,844)	-	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(4,242,330)	-
Add end of year appropriation carryforwards to expenditures	-	3,053,115	-
Reverse the effect of grant reimbursements for indirect costs	711,025	711,025	-
Reverse the effect of non-budgeted State contributions for teachers retirement	<u>(6,387,729)</u>	<u>(6,387,729)</u>	<u>-</u>
Budgetary Basis	\$ <u>134,196,322</u>	\$ <u>132,206,376</u>	\$ <u>(1,524,402)</u>

D. Deficit Fund Equity

Certain individual funds reflected deficit balances as of June 30, 2019:

Capital Projects Major Fund:	
City Hall Renovation	\$ (1,259,776)
Crocker School Renovation	(61,031)
Longsjo School Roof	<u>(227,737)</u>
Total Capital Projects Fund	\$ <u>(1,548,544)</u>

It is anticipated that the deficits in these funds will be eliminated through future bond proceeds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the City's deposits "in a bank or trust company or banking company to an amount not exceeding 60% of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding 10% of the capital and surplus of such bank or trust company." The City's policy to limit custodial credit risk consists of complying with applicable Massachusetts General Laws and obtaining collateralization agreements for any amounts in excess of FDIC or DIFM.

As of June 30, 2019, none of the City's bank balance of \$60,582,935 was exposed to custodial credit risk as uninsured and/or uncollateralized.

As of December 31, 2018, none of the System's bank balance of \$941,644 was exposed to custodial credit risk as uninsured, uncollateralized, and/or collateral held by pledging bank's trust department not in the System's name.

4. Investments – City

The following is a summary of the City's investments as of June 30, 2019 (in thousands):

<u>Investment Type</u>	<u>Amount</u>
Certificates of deposit	\$ 493
Corporate bonds	2,947
Corporate equities	715
Equity mutual funds	276
Federal agency securities	3,001
U.S. Treasury notes	<u>3,534</u>
Total Investments	<u>\$ 10,966</u>

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the City's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs). Additionally, the City's investment policy limits the amount invested in any single financial institution (other than U.S. Treasury or pooled State funds) to 10%. The Library's

investment policy requires they invest in a prudent manner, achieving growth and income through quality investments with minimal risk; all bonds should have a rating of BBB- or better.

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

<u>Investment Type</u>	<u>Amount</u>	<u>Rating as of Year End</u>				
		<u>AAA</u>	<u>AA3</u>	<u>A1/2/3</u>	<u>Baa1/2/3</u>	<u>Unrated</u>
Certificates of deposit	\$ 493	\$ -	\$ -	\$ -	\$ -	\$ 493
Corporate bonds	<u>2,947</u>	<u>56</u>	<u>337</u>	<u>1,003</u>	<u>1,551</u>	<u>-</u>
Total	\$ <u>3,440</u>	\$ <u>56</u>	\$ <u>337</u>	\$ <u>1,003</u>	\$ <u>1,551</u>	\$ <u>493</u>

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's policy manages custodial credit risk by the diversification and prudent selection of investment instruments and choice of depository. The Library's investment policy manages custodial credit risk by keeping a diversified portfolio, with specified ranges of asset allocation between cash equivalents (0% - 25%), fixed income (25% - 75%) and stocks (25% - 50%). The City manages custodial credit risk exposure with SIPC and excess SIPC insurance.

As of June 30, 2019, \$1,687,681 of the City's total investments were subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the City's brokerage firm, which is also the counterparty to these securities as follows (in thousands):

<u>Investment Type</u>	<u>Amount</u>	<u>Held by Counterparty</u>	<u>Held by Counterparty's Trust or Agent</u>
Corporate bonds	\$ 2,947	\$ 697	\$ -
Corporate equities	715	715	-
Equity mutual funds	276	276	-
Federal agency securities	<u>3,001</u>	<u>-</u>	<u>-</u>
Total	\$ <u>6,939</u>	\$ <u>1,688</u>	\$ <u>-</u>

C. Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. The City does not have formal investment policies related to concentration of credit risk exposure. The City limits investments in one financial institution to no more than 10% of City's investments (with the exception of U.S. Treasuries or agencies and State pools (MMDT)). The Library limits investment in any one company to no more than 15% of the total stock portfolio and no one industry can represent more than 30% of total equity holdings. The City's and Library's investments were within these limits as of June 30, 2019.

As of June 30, 2019, the City does not have an investment in one issuer greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's investment policy manages interest rate risk by the diversification and prudent selection of investment instruments and choice of depository. The Library's policy limits interest rate risk by requiring fixed income investments (bonds) to have an average maturity of 7 years or less.

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

<u>Investment Type</u>	<u>Amount</u>	<u>Investment Maturities (in Years)</u>		
		Less <u>Than 1</u>	<u>1-5</u>	<u>6-10</u>
Certificates of deposit	\$ 493	\$ 161	\$ 322	\$ 10
Corporate bonds	2,947	692	2,255	-
Federal agency securities	3,001	-	2,476	525
U.S. Treasury notes	<u>3,534</u>	<u>1,222</u>	<u>2,184</u>	<u>128</u>
Total	\$ <u>9,975</u>	\$ <u>2,075</u>	\$ <u>7,237</u>	\$ <u>663</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. None of the City's investment policies address foreign currency risk specifically; however, Massachusetts General Laws prohibit foreign investment.

F. Fair Value

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

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

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

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

The City has the following fair value measurements as of June 30, 2019 (in thousands):

		Fair Value Measurements Using:		
		Quoted prices in active markets for identical (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<u>Investment Type</u>	<u>Amount</u>			
Investments by fair value level:				
Corporate bonds	\$ 2,947	\$ -	\$ 2,947	\$ -
Corporate equities	715	715	-	-
Equity mutual funds	276	276	-	-
Federal agency securities	3,001	-	3,001	-
U.S. Treasury notes	3,534	-	3,534	-
Total	<u>\$ 10,473</u>			

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

Debt securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features, and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quote prices. Level 2 debt securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market.

5. Investments – OPEB Trust Fund

All of the OPEB Trust Fund assets are invested in the external (State) investment pool – State Retirees Benefits Trust Fund (SRBT).

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law employs the prudent person rule whereby investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The OPEB Trust Fund assets are invested in accordance with Massachusetts General Law (MGL) Chapter 203C.

All of the OPEB Trust Fund investments are exempt from credit risk disclosure as they are invested in SRBT.

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The OPEB Trust Fund assets are invested in accordance with Massachusetts General Law (MGL) Chapter 203C.

All of the OPEB Trust Fund investments are exempt from custodial credit risk disclosure as they are invested in SRBT.

C. Concentration of Credit Risk

The OPEB Trust Fund places no limit on the amount the OPEB Trust Fund may invest in any one issuer. The OPEB Trust Fund assets are invested in accordance with MGL Chapter 203C which states that the trustee shall reasonably diversify the investments of the Trust unless, under the circumstances, it is prudent not to do so.

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

All of the OPEB Trust Fund investments are exempt from concentration of credit risk disclosure as they are invested in SRBT.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The OPEB Trust Fund assets are invested in accordance with MGL Chapter 203C which states that the trustee shall reasonably diversify the investments of the Trust unless, under the circumstances, it is prudent not to do so.

All of the OPEB Trust Fund investments are exempt from interest rate risk disclosure as they are invested in SRBT.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The OPEB Trust Fund assets are invested in accordance with MGL Chapter 203C.

F. Fair Value

All of the OPEB Trust Fund investments are in SRBT and therefore are measured at net asset value (NAV) in accordance with Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

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

The OPEB Trust Fund has the following fair value measurements as of June 30, 2019 (in thousands):

<u>Investment Type</u>	<u>Amount</u>
Investments measured at the net asset value (NAV):	
External Investment Pool	\$ <u>1,235</u>

<u>Investment Type</u>	<u>Amount</u>	<u>Unfunded Commitments</u>	Redemption Frequency (If currently eligible)	Redemption Notice Period
External Investment Pool	\$ <u>1,235</u>	\$ <u>-</u>	Monthly	30 days

6. **Investments - Pension Trust Fund (the System)**

All of the System's investments are in an external (State) investment pool (PRIT)* as of December 31, 2018.

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

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than

mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

Due to their nature, none of the System's investments are subject to credit risk disclosure.

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The System does not have formal investment policies related to custodial credit risk but manages custodial risk through diversification and the "prudent person" principles outlines in PERAC guidelines.

The System's investments are held in the State investment pool which are exempt from the custodial risk disclosure.

Investments in the State investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

C. Concentration of Credit Risk

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

As of December 31, 2018, the System did not have any investments subject to concentration of credit risk disclosure as all of the investments are in the State investment pool, which are excluded from concentration of credit disclosure.

D. Interest Rate Risk

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

Information about the sensitivity of the fair values of the System's investments to market interest rate fluctuations is not applicable as all of the System's investments are immediately liquid.

E. Foreign Currency Risk

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

F. Fair Value

All of the System's investments are in the State investment pool and therefore are measured at net asset value (NAV) in accordance with Governmental Accounting Standards Board Statement No. 72 Fair Value Measurement and Application (GASB 72).

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

The System has the following fair value measurements as of December 31, 2018:

<u>Investment Type</u>	<u>Amount</u>			
Investments measured at the net asset value (NAV):				
External Investment Pool	\$ <u>115,145</u>			

<u>Investment Type</u>	<u>Amount</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
External Investment Pool	\$ <u>115,145</u>	\$ <u>-</u>	Monthly	30 days

7. Property Taxes and Excises Receivables

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

The day after the final tax bill is due, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The City has an

ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

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

Property taxes and excise receivables at June 30, 2019 consists of the following:

	Gross Amount (fund basis)	Allowance for Doubtful Accounts	Current Portion	Long- Term Portion
Real estate taxes	\$ 986,101	\$ (26,649)	\$ 959,452	\$ -
Personal property taxes	183,994	(122,380)	61,614	-
Tax liens	2,950,996	(2,065,697)	-	885,299
Demo tax title	971,360	(874,224)	-	97,136
Demo liens	34,098	(30,688)	-	3,410
Total Property Taxes	<u>\$ 5,126,549</u>	<u>\$ (3,119,638)</u>	<u>\$ 1,021,066</u>	<u>\$ 985,845</u>
Motor vehicle excise	<u>\$ 1,503,333</u>	<u>\$ (591,522)</u>	<u>\$ 911,811</u>	<u>\$ -</u>
Total Excises	<u>\$ 1,503,333</u>	<u>\$ (591,522)</u>	<u>\$ 911,811</u>	<u>\$ -</u>

8. User Fee Receivables

Receivables for user charges and betterments at June 30, 2019 consist of the following:

	Gross Amount	Allowance for Doubtful Accounts	Net Amount
<u>Receivables</u>			
Water	\$ 1,611,506	\$ (247,839)	\$ 1,363,667
Sewer	<u>2,678,556</u>	<u>(473,391)</u>	<u>2,205,165</u>
Total	<u>\$ 4,290,062</u>	<u>\$ (721,230)</u>	<u>\$ 3,568,832</u>

9. Intergovernmental Receivables

The balance reported in the general fund represents the June 2019 payment due from the State of Massachusetts received in early July 2019. The balance reported in

the nonmajor governmental funds represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2019.

10. Loans Receivable

The loan receivable balance represents loans issued to individuals for home improvement and mortgage financing, one loan to a Community Development Corporation located in Fitchburg to renovate a building for use as housing for pregnant teenagers and a loan to the Fitchburg Redevelopment Authority described below. The loans were issued through the City's Community Development Block Grant and HOME Grant programs.

Loan balances as of June 30, 2019 consist of the following:

	Total Loan <u>Balance</u>	Less Allowance <u>for Uncollectibles</u>	Net <u>Amount</u>
CDBG - consumer loans	\$ 549,218	\$ (109,844)	\$ 439,374
CDBG - mortgage/financing loans	57,265	-	57,265
CDBG - deferred payment loans	916,763	(916,763)	-
HOME - mortgage/financing loans	1,310,714	(262,142)	1,048,572
Other City grants - deferred payment loans	<u>7,122,272</u>	<u>(7,122,272)</u>	<u>-</u>
Total	\$ <u>9,956,232</u>	\$ <u>(8,411,021)</u>	\$ <u>1,545,211</u>

11. Interfund Receivables/Payables Fund Accounts

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2019 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General fund	\$ 327,062	\$ -
City Grants fund	<u>-</u>	<u>327,062</u>
Total	\$ <u>327,062</u>	\$ <u>327,062</u>

12. Capital Assets

Capital asset activity for the year ended June 30, 2019 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Convert CIP	Ending Balance
Governmental Activities					
Capital assets, being depreciated:					
Land improvements	\$ 14,128	\$ -	\$ -	\$ -	\$ 14,128
Buildings and improvements	89,298	919	(1,975)	128	88,370
Machinery, equipment, and furnishings	23,600	1,293	(32)	-	24,861
Infrastructure	<u>81,341</u>	<u>2,092</u>	<u>(2,175)</u>	<u>-</u>	<u>81,258</u>
Total Capital Assets, Being Depreciated	208,367	4,304	(4,182)	128	208,617
Less accumulated depreciation for:					
Land improvements	(5,980)	(378)	-	-	(6,358)
Buildings and improvements	(47,431)	(2,531)	1,188	-	(48,774)
Machinery, equipment, and furnishings	(17,986)	(1,512)	32	-	(19,466)
Infrastructure	<u>(48,142)</u>	<u>(1,663)</u>	<u>737</u>	<u>-</u>	<u>(49,068)</u>
Total Accumulated Depreciation	<u>(119,539)</u>	<u>(6,084)</u>	<u>1,957</u>	<u>-</u>	<u>(123,666)</u>
Total Capital Assets, Being Depreciated, Net	88,828	(1,780)	(2,225)	128	84,951
Capital assets, not being depreciated:					
Land	5,815	1,042	(172)	-	6,685
Construction in progress (CIP)	<u>201</u>	<u>4,973</u>	<u>-</u>	<u>(128)</u>	<u>5,046</u>
Total Capital Assets, Not Being Depreciated	<u>6,016</u>	<u>6,015</u>	<u>(172)</u>	<u>(128)</u>	<u>11,731</u>
Governmental Activities Capital Assets, Net	<u>\$ 94,844</u>	<u>\$ 4,235</u>	<u>\$ (2,397)</u>	<u>\$ -</u>	<u>\$ 96,682</u>
Business-Type Activities					
Capital assets, being depreciated:					
Buildings and improvements	\$ 109,528	\$ 31	\$ -	\$ -	\$ 109,559
Machinery, equipment, and furnishings	8,417	30	(57)	-	8,390
Infrastructure	<u>71,552</u>	<u>316</u>	<u>(10)</u>	<u>-</u>	<u>71,858</u>
Total Capital Assets, Being Depreciated	189,497	377	(67)	-	189,807
Less accumulated depreciation for:					
Buildings and improvements	(57,124)	(2,683)	-	-	(59,807)
Machinery, equipment, and furnishings	(4,769)	(515)	57	-	(5,227)
Infrastructure	<u>(19,748)</u>	<u>(1,086)</u>	<u>9</u>	<u>-</u>	<u>(20,825)</u>
Total Accumulated Depreciation	<u>(81,641)</u>	<u>(4,284)</u>	<u>66</u>	<u>-</u>	<u>(85,859)</u>
Total Capital Assets, Being Depreciated, Net	107,856	(3,907)	(1)	-	103,948
Capital assets, not being depreciated:					
Land	1,635	520	-	-	2,155
Construction in progress (CIP)	<u>13,650</u>	<u>7,156</u>	<u>-</u>	<u>-</u>	<u>20,806</u>
Total Capital Assets, Not Being Depreciated	<u>15,285</u>	<u>7,676</u>	<u>-</u>	<u>-</u>	<u>22,961</u>
Business-Type Activities Capital Assets, Net	<u>\$ 123,141</u>	<u>\$ 3,769</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ 126,909</u>

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

Governmental Activities	
General government	\$ 59
Public safety	977
Education	1,808
Public works	2,522
Human services	304
Culture and recreation	<u>414</u>
Total Governmental Activities	\$ <u>6,084</u>
Business-Type Activities	
Water	\$ 1,837
Sewer	<u>2,447</u>
Total Business-Type Activities	\$ <u>4,284</u>

13. Deferred Outflows of Resources

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

14. Warrants and Accounts Payable

Warrants payable represent 2019 expenditures paid by July 15, 2019. Accounts payable represent additional 2019 expenditures paid after July 15, 2019.

15. Notes Payable

The City had the following notes outstanding at June 30, 2019:

<u>Purpose</u>	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2019</u>
Bond anticipation	3.0%	06/21/19	06/19/20	\$ 14,700,000
MCWT interim note CWP 16-10	0.0%	05/01/17	n/a *	<u>9,593,487</u>
Total				\$ <u>24,293,487</u>

* There is no set maturity date, will be determined when the balance is converted to a long-term note.

The following summarizes activity in notes payable during fiscal year 2019:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ 7,114,000	\$ 14,700,000	\$ (7,114,000)	\$ 14,700,000
MCWT interim notes	<u>13,483,059</u>	<u>8,279,592</u>	<u>(12,169,164)</u>	<u>9,593,487</u>
Total	<u>\$ 20,597,059</u>	<u>\$ 22,979,592</u>	<u>\$ (19,283,164)</u>	<u>\$ 24,293,487</u>

16. Capital Lease Obligations

In November 2014 the City signed a lease-purchase agreement for approximately 3,000 streetlight fixtures for a total cost of \$1,175,000. Construction began on this project in fiscal year 2015 and completed in fiscal year 2017. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2019:

Fiscal Year	
2020	\$ 104,122
2021	104,122
2022	104,122
2023	104,122
2024	104,122
Thereafter	<u>104,122</u>
Total payments	624,732
Less amounts representing interest	<u>(56,546)</u>
Present Value of Minimum Lease Payments	<u>\$ 568,186</u>

17. Long-Term Debt

A. General Obligation Bonds and Notes from Direct Borrowings

The City issues general obligation bonds and notes from direct borrowings to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities, while general obligation bonds and notes from direct borrowings have been issued for business-type activities. General obligation bonds and notes from direct borrowings currently outstanding are as follows:

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of June 30, 2019
<u>Governmental Activities:</u>			
Multi-purpose (2011)	06/15/21	3.0 - 4.0	\$ 210,000
Multi-purpose (2016)	06/30/21	2.0 - 4.0	610,000
Multi-purpose (2013)	06/15/23	3.0 - 3.5	940,000
Multi-purpose (2019)	06/01/29	5.0	<u>1,287,500</u>
Total Governmental Activities			<u>\$ 3,047,500</u>

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of June 30, 2019
<u>Business-Type Activities:</u>			
<u>Water Fund:</u>			
Water treatment (MCWT 99-06)	08/01/20	1.0 - 2.0	\$ 1,575,000
Water treatment (MCWT 00-10)	08/01/20	1.0 - 2.0	855,000
General obligation 2011 - water portion	06/15/21	3.0 - 4.0	200,000
Water treatment (MCWT 00-10A)	08/01/24	1.0 - 2.0	2,165,000
Water treatment (MCWT 01-16)	07/15/25	-	3,272,700
General obligation 2013 - water portion	06/15/33	3.0 - 3.5	1,210,000
General obligation 2019 - water portion	06/01/39	3.0 - 5.0	<u>2,271,500</u>
Total Water Fund			11,549,200

<u>Sewer Fund:</u>			
Sewer inflow (MCWT 03-12)	08/01/24	2.0	245,000
Sewer (MCWT 03-12A)	07/15/25	2.0	2,475,632
General obligation 2016 - sewer portion	06/30/26	2.0 - 4.0	1,995,000
Sewer (MCWT 03-12B)	07/15/26	2.0	730,754
2016 refunding - sewer portion	06/30/28	2.0 - 4.0	3,005,000
Sewer (MCWT 08-03)	07/15/28	2.0	4,030,271
Sewer (MCWT 08-03A)	07/15/30	2.0	632,132
Sewer (MCWT 03-12C)	07/15/30	2.0	210,343
General obligation 2011 - sewer portion	06/15/31	3.0 - 4.0	1,200,000
General obligation 2013 - sewer portion	06/15/33	3.0 - 3.5	1,330,000
Sewer (MCWT 12-01)	07/15/35	2.0	4,643,772
Sewer (MCWT 12-02)	07/15/35	2.0	5,949,344
Sewer (MCWT 12-01A)	07/15/36	2.0	631,962
Sewer (MCWT 13-01)	07/15/36	2.0	11,586,596
Sewer (MCWT 13-01A)	01/15/37	2.0	1,115,110
Sewer (MCWT 16-05)	07/15/38	2.0	2,068,695
Sewer (MCWT 16-10)	07/15/38	2.0	9,017,418
General obligation 2019 - sewer portion	06/01/39	3.0 - 5.0	<u>1,051,000</u>
Total Sewer Fund			<u>51,918,029</u>
Total Business-Type Activities			<u>\$ 63,467,229</u>

B. Future Debt Service

The annual payments to retire all general obligation bonds and notes from direct borrowings outstanding as of June 30, 2019 are as follows:

	<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$	787,500	\$ 115,880	\$ 903,380
2021		780,000	88,800	868,800
2022		365,000	64,700	429,700
2023		360,000	51,142	411,142
2024		130,000	37,750	167,750
2025 - 2029		<u>625,000</u>	<u>93,750</u>	<u>718,750</u>
Total	\$	<u>3,047,500</u>	\$ <u>452,022</u>	\$ <u>3,499,522</u>

	<u>General Obligation Bonds</u>			<u>Notes from Direct Borrowings</u>		
<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,182,500	\$ 445,599	\$ 1,628,099	\$ 4,548,215	\$ 876,031	\$ 5,424,246
2021	1,180,000	405,750	1,585,750	4,636,468	818,270	5,454,738
2022	1,080,000	358,700	1,438,700	3,480,852	759,479	4,240,331
2023	1,080,000	315,648	1,395,648	3,551,391	700,581	4,251,972
2024	1,070,000	272,700	1,342,700	3,623,108	640,387	4,263,495
2025 - 2029	4,130,000	800,644	4,930,644	14,543,303	2,393,786	16,937,089
2030 - 2034	1,750,000	277,067	2,027,067	10,917,337	1,217,292	12,134,629
Thereafter	<u>790,000</u>	<u>70,650</u>	<u>860,650</u>	<u>5,904,055</u>	<u>239,236</u>	<u>6,143,291</u>
Total	\$ <u>12,262,500</u>	\$ <u>2,946,758</u>	\$ <u>15,209,258</u>	\$ <u>51,204,729</u>	\$ <u>7,645,062</u>	\$ <u>58,849,791</u>

C. Changes in General Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 5,788	\$ 1,288	\$ (4,028)	\$ 3,048	(788)	2,260
Net pension liability	124,188	9,057	-	133,245	-	133,245
Net OPEB liability	156,470	9,832	-	166,302	-	166,302
Other:						
Accrued employee benefits	3,537	-	(56)	3,481	-	3,481
Capital lease obligations	<u>654</u>	<u>-</u>	<u>(86)</u>	<u>568</u>	<u>(88)</u>	<u>480</u>
Subtotal Other	<u>4,191</u>	<u>-</u>	<u>(142)</u>	<u>4,049</u>	<u>(88)</u>	<u>3,961</u>
Totals	\$ <u>290,637</u>	\$ <u>20,177</u>	\$ <u>(4,170)</u>	\$ <u>306,644</u>	\$ <u>(876)</u>	\$ <u>305,768</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion</u>
<u>Business-Type Activities</u>						
Bonds payable:						
General obligation bonds	\$ 10,097	\$ 3,323	\$ (1,157)	\$ 12,263	\$ (1,183)	\$ 11,080
Notes from direct borrowings	<u>44,299</u>	<u>11,086</u>	<u>(4,180)</u>	<u>51,205</u>	<u>(4,548)</u>	<u>46,657</u>
Subtotal Bonds payable	54,396	14,409	(5,337)	63,468	(5,731)	57,737
Net pension liability	13,325	1,119	-	14,444	-	14,444
Net OPEB liability	7,425	583	-	8,008	-	8,008
Other:						
Accrued employee benefits	<u>423</u>	<u>3</u>	<u>-</u>	<u>426</u>	<u>-</u>	<u>426</u>
Totals	<u>\$ 75,569</u>	<u>\$ 16,114</u>	<u>\$ (5,337)</u>	<u>\$ 86,346</u>	<u>\$ (5,731)</u>	<u>\$ 80,615</u>

D. Long-Term Debt Supporting Governmental and Business-Type Activities

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

18. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the City that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Deferred inflows of resources related to pension and OPEB, in accordance with GASB Statements No. 68 and 75, are more formally discussed in the corresponding pension and OPEB notes. *Unavailable revenues* are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

On the government-wide basis financial statements, the other deferred inflows balance represents amounts in the Internal Service Fund for teachers' withholdings to be applied over July and August 2019.

19. Transfers

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

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds		
General fund	\$ 543,350	\$ 1,717,752
Capital projects fund	1,367,000	-
Nonmajor Governmental Funds:		
Special revenue funds	<u>350,752</u>	<u>543,350</u>
Total Governmental Funds	\$ <u>2,261,102</u>	\$ <u>2,261,102</u>

20. Governmental Funds – Balances

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

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

The following types of fund balances are reported at June 30, 2019:

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

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

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority. No funds met this fund balance classification in fiscal year 2019.

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

in the subsequent budgetary period and surplus set aside for use in the subsequent year's budget.

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

Following is a breakdown of the City's fund balances at June 30, 2019:

	General Fund	Community Development Block Grant	City Grants Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable						
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ -	\$ 2,235,885	\$ 2,235,885
Total Nonexpendable	-	-	-	-	2,235,885	2,235,885
Restricted						
Bonded projects	-	-	-	190,915	-	190,915
Special revenue funds	-	324,916	325,955	-	7,245,348	7,896,219
Expendable permanent funds	-	-	-	-	2,659,272	2,659,272
Total Restricted	-	324,916	325,955	190,915	9,904,620	10,746,406
Assigned						
Encumbrances:						
General government	805,701	-	-	-	-	805,701
Public safety	664,378	-	-	-	-	664,378
Education	592,715	-	-	-	-	592,715
Public works	853,315	-	-	-	-	853,315
Health and human services	22,311	-	-	-	-	22,311
Culture and recreation	38,194	-	-	-	-	38,194
Employee benefits	75,619	-	-	-	-	75,619
Miscellaneous	882	-	-	-	-	882
Reserved for expenditures	1,525,000	-	-	-	-	1,525,000
Total Assigned	4,578,115	-	-	-	-	4,578,115
Unassigned						
General fund	10,178,310	-	-	-	-	10,178,310
General stabilization fund *	6,608,779	-	-	-	-	6,608,779
Deficit fund balances	-	-	-	(1,548,544)	-	(1,548,544)
Total Unassigned	16,787,089	-	-	(1,548,544)	-	15,238,545
Total Fund Balance	\$ 21,365,204	\$ 324,916	\$ 325,955	\$ (1,357,629)	\$ 12,140,505	\$ 32,798,951

* 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 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.

21. Long-term Contracts

McKay Campus School – In July 1995, the City entered into an agreement with the Commonwealth of Massachusetts (acting through Fitchburg State University, FSU) whereby FSU would operate the elementary school located at the City's McKay school building. FSU provides staff and pays overhead costs, while the City provides textbooks, supplies, and use of the building. Per the terms of the agreement, the cost to the City is negotiated annually. The agreement can be terminated by either

party, with two year's notice. The cost of this agreement for fiscal year 2019 was approximately \$860,000.

Ambulance Services – Effective with fiscal year 2008, the City entered into a three-year agreement with a private company to provide ambulance services to its residents. Under the terms of the initial agreement, the City is guaranteed to receive approximately \$400,000 per year from the private company. Effective with fiscal year 2011, the City extended the agreement for 5 years, with an increase in annual guaranteed revenue to \$450,000. In May 2015, the City signed a multi-year extension of this agreement through June 30, 2020 with annual guaranteed revenue of \$520,000.

City Hall Lease – Due to imminent structural concerns with the long time City Hall building, the City was forced to relocate all offices to leased space in October 2012.

In September 2012, the City entered into a lease with the Fitchburg Redevelopment Authority (FRA) for two spaces totaling approximately 14,550 square feet. The initial term of the lease is from September 15, 2012 – December 31, 2016, with provisions for 3 one-year extensions. The lease was extended as of January 1, 2017. Per the extended lease terms, fixed base rent for the first space, consisting of approximately 8,400 square feet, is \$84,000 annually. The fixed base rent for the 2nd space (approximately 6,150 square feet) is \$61,500 annually. As of June 16, 2017, a 3rd space has been secured through an amendment to the original lease for an additional 2,000 square feet for a fixed annual rent amount of \$20,000, payable monthly.

22. Fitchburg Contributory Retirement System

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

A. Plan Description

Substantially all employees of the City (except teachers and administrators under contract employed by the School Department) are members of the Fitchburg Contributory Retirement System (the System), a cost sharing, multiple employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System's Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at the Fitchburg Municipal Offices, 166 Boulder Drive, Suite 108, Fitchburg, MA 01420.

Participants Contributions

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

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

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

Participant Retirement Benefits

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

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest 5-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100%, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the Massachusetts State Police. The other three classes are as follows:

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

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

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

Methods of Payment

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

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the members death.
- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.
- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to

January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable “pops up” to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

Participant Refunds

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

Employer Contributions

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

The City’s contribution to the System for the year ended June 30, 2019 was \$12,078,232, which was slightly higher than annual required contribution of \$12,052,887.

B. Summary of Significant Accounting Policies

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

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

At June 30, 2019, the City reported a liability of approximately \$147.7 million 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. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019, the City’s proportion was 96.36%.

For the year ended June 30, 2019, the City recognized pension expense of approximately \$17.6 million. In addition, the City reported deferred outflows of resources and deferred (inflows) of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of <u>Resources</u>	Deferred (Inflows) of <u>Resources</u>
Differences between expected and actual experience	\$ 3,901	\$ -
Changes in assumptions	8,644	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	(110)
Net difference between projected and actual earnings on pension plan investments	<u>4,861</u>	<u>-</u>
Total	\$ <u>17,406</u>	\$ <u>(110)</u>

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

<u>Year ended June 30:</u>	
2020	\$ 6,263
2021	4,827
2022	3,747
2023	2,461
2024	<u>(2)</u>
Total	\$ <u>17,296</u>

D. Actuarial Assumptions

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

Valuation Date	January 1, 2018
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	4.00%
Inflation rate	2.25%
Post-retirement cost-of-living adjustment	3% of first \$12,000

Actuarial valuation of the ongoing Systems involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future.

Mortality rates were based on:

- Pre-retirement rates reflect the RP-2014 employees table projected generationally using MP-2016 and a base year of 2006 (gender distinct).
- Post-retirement rates reflect the healthy annuitant table.
- For disable retirees, the rates reflect the RP-2014 health annuitant table with a base year of 2006, set forward 2 years (gender distinct).

E. Target Allocations

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. equity	13.0%	5.25%
International equities	13.0%	5.43%
Emerging equities	5.0%	6.90%
Hedged equity	8.0%	4.54%
Core bonds	6.0%	2.07%
Short-Term fixed income	2.0%	1.72%
20+ yr. Treasury STRIPS	3.0%	1.22%
TIPS	4.0%	1.71%
Value-added fixed income	8.0%	5.21%
Private equity	13.0%	8.70%
Real estate	10.0%	4.09%
Timberland	4.0%	4.65%
Portfolio completion (PCS)	11.0%	4.41%
Total	<u>100.0%</u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate (in thousands):

	Current Discount Rate	
1% Decrease (6.25%)	(7.25%)	1% Increase (8.25%)
\$176,001	\$147,689	\$123,704

H. Pension Plan Fiduciary Net Position

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

23. Massachusetts Teachers' Retirement System (MTRS)

A. Plan Description

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts,

charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a standalone audited financial report.

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

B. Benefits Provided

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

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

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

C. Contributions

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

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

D. Actuarial Assumptions

The total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of January 1, 2018 rolled forward to June 30, 2018. This valuation used the following assumptions:

- (a) 7.35% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
- Mortality rates were as follows:
 - Pre-retirement – reflects RP-2014 White Collar Employees table projected generationally with Scale MP-2016 (gender distinct).
 - Post-retirement – reflects RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct).
 - Disability – assumed to be in accordance with the RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct).

E. Target Allocations

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation

percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	39.0%	5.0%
Portfolio completion strategies	13.0%	3.7%
Core fixed income	12.0%	0.9%
Private equity	12.0%	6.6%
Real estate	10.0%	3.8%
Value added fixed income	10.0%	3.8%
Timber/natural resources	4.0%	3.4%
Total	<u>100.0%</u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 7.35%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current discount rate (in thousands):

<u>1% Decrease to 6.35%</u>	<u>Current Discount Rate 7.35%</u>	<u>1% Increase to 8.35%</u>
\$29,482,300	\$23,711,289	\$18,771,300

H. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member

employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (GASB 68)* and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

I. City Proportions

In fiscal year 2018 (the most recent measurement period), the City's proportionate share of the MTRS' collective net pension liability was approximately \$115.2 million based on a proportionate share of 0.49%. As required by GASB 68, the City has recognized its portion of the Commonwealth's contribution of approximately \$6.4 million as both a revenue and expenditure in the general fund, and its portion of the collective pension expense of \$11.7 million as both a revenue and expense in the governmental activities.

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

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, replaces the requirements of Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. In fiscal year 2014, the City established a single-employer defined benefit OPEB Trust Fund to provide funding for future employee health care costs. The OPEB Trust Fund does not issue a stand-alone financial report.

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

All the following OPEB disclosures are based on a measurement date of June 30, 2019.

A. General Information about the OPEB Plan

Plan Description

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

Benefits Provided

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

Funding Policy

The City's funding policy includes financing the implicit subsidy on a pay-as-you-go basis, as required by statute. Additional contributions are based on actuarially determined amounts.

Plan Membership

At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefit payments	788
Active employees	<u>1,063</u>
Total	<u>1,851</u>

B. Investments

The OPEB trust fund assets are invested in the State Retirees Benefits Trust Fund (SRBT).

Rate of return. For the year ended June 30, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 2.46%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Actuarial Assumptions

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

Inflation and salary increases	3.0%
Investment rate of return	2.79%
Municipal bond rate	2.79%
Discount rate	2.79%
Healthcare cost trend rates	8.0% for 2019, fluctuating 0.5% to an ultimate rate of 5.0% as of 2025 and later years
Retirees' share of benefit-related costs	25% – 30%
Participation rate	80%

Mortality rates were based on RP-2006 Mortality table with MP-2018 projection.

D. Target Allocations

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2019 are summarized in the following table.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.00%	6.50%
Fixed income	23.00%	1.50%
Private equity	10.00%	6.00%
Real estate	10.00%	5.50%
Other	17.00%	0.00%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the net OPEB liability was 2.79%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. As a result, the municipal bond rate of 2.79% was used based on an index provided by S&P Municipal Bond 20-year High Grade Rate Index as of June 30, 2019.

F. Net OPEB Liability

The components of the net OPEB liability, measured as of June 30, 2019, were as follows (in thousands):

Total OPEB liability	\$ 175,498
Plan fiduciary net position	<u>(1,188) *</u>
Net OPEB liability	<u>\$ 174,310</u>

Plan fiduciary net position as a percentage of the total OPEB liability	0.68%
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* Does not include certain immaterial market value adjustments.

G. Changes in the Net OPEB Liability

The following summarizes the changes in the net OPEB liability in fiscal year 2019 (in thousands):

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance, Beginning of Year	\$ 164,809	\$ 915	\$ 163,894
Changes for the year:			
Service cost	5,936	-	5,936
Interest	4,836	-	4,836
Contributions - employer	-	5,324	(5,324)
Net investment income	-	23	(23)
Differences between expected and actual experience	(314)	-	(314)
Changes in assumptions or other inputs	5,305	-	5,305
Benefit payments	<u>(5,074)</u>	<u>(5,074)</u>	<u>-</u>
Net Changes	<u>10,689</u>	<u>273</u>	<u>10,416</u>
Balance, End of Year	<u>\$ 175,498</u>	<u>\$ 1,188</u>	<u>\$ 174,310</u>

Changes in assumptions or other inputs reflect a change in the discount rate from 2.98% in 2018 to 2.79% in 2019.

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

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-

point lower or 1 percentage-point higher than the current discount rate (in thousands):

1% Decrease <u>(1.79%)</u>	Current Discount Rate <u>(2.79%)</u>	1% Increase <u>(3.79%)</u>
\$202,200	\$174,310	\$146,420

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

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower or 1 percentage-point higher than the current healthcare cost trend rates (in thousands):

1% Decrease <u>(7.0%)</u>	Current Healthcare Cost Trend Rates <u>(8.0%)</u>	1% Increase <u>(6.0%)</u>
\$141,747	\$174,310	\$213,807

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

For the year ended June 30, 2019, the City recognized an OPEB expense of \$11,810,848. At June 30, 2019, the City reported deferred outflows and (inflows) of resources related to OPEB from the following sources (in thousands):

	Deferred Outflows of <u>Resources</u>	Deferred (Inflows) of <u>Resources</u>
Difference between expected and actual experience	\$ 512	\$ (270)
Changes in assumptions	8,371	-
Net difference between projected and actual OPEB investment earnings	<u>-</u>	<u>(31)</u>
Total	\$ <u>8,883</u>	\$ <u>(301)</u>

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

Year ended June 30:

2020	\$ 1,066
2021	1,066
2022	1,066
2023	1,066
2024	1,074
Thereafter	<u>3,244</u>
Total	<u>\$ 8,582</u>

25. Consolidation of Pension and OPEB Trust Funds

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

Combining Statement of Plan Net Position

	Pension Trust Fund <u>December 31, 2018)</u>	Other Post- Employment Benefits <u>Trust Fund</u>	Pension and OPEB <u>Trust Funds</u>
Assets			
Cash and short-term investments	\$ 846,132	\$ -	\$ 846,132
Investments in external investment pools	115,145,454	1,235,030	116,380,484
Accounts receivable	<u>103,842</u>	<u>-</u>	<u>103,842</u>
Total Assets	116,095,428	1,235,030	117,330,458
Liabilities			
Accounts payable	<u>12,229</u>	<u>-</u>	<u>12,229</u>
Total Liabilities	<u>12,229</u>	<u>-</u>	<u>12,229</u>
Net Position			
Restricted for pension purposes	116,083,199	-	116,083,199
Restricted for OPEB purposes	<u>-</u>	<u>1,235,030</u>	<u>1,235,030</u>
Total Net Position	<u>\$ 116,083,199</u>	<u>\$ 1,235,030</u>	<u>\$ 117,318,229</u>

Combining Statement of Changes in Plan Net Position

	Pension Trust Fund (For the Year Ended December 31, 2018)	Other Post- Employment Benefits Trust Fund	Pension and OPEB Trust Funds
Additions			
Contributions:			
Employers	\$ 12,497,446	\$ 5,323,668	\$ 17,821,114
Plan members	3,429,091	-	3,429,091
Other systems and Commonwealth of Massachusetts	401,411	-	401,411
Other	<u>31,300</u>	<u>-</u>	<u>31,300</u>
Total Contributions	16,359,248	5,323,668	21,682,916
Investment Income (Loss):			
Interest and dividends	-	65,416	65,416
(Depreciation) in fair value of investments	(2,248,377)	-	(2,248,377)
Less: management fees	<u>(628,231)</u>	<u>-</u>	<u>(628,231)</u>
Net Investment Income (Loss)	<u>(2,876,608)</u>	<u>65,416</u>	<u>(2,811,192)</u>
Total Additions	13,482,640	5,389,084	18,871,724
Deductions			
Benefit payments to plan members and beneficiaries	17,059,997	5,073,668	22,133,665
Refunds to plan members	429,801	-	429,801
Transfers to other systems	413,908	-	413,908
Administrative expenses	<u>231,075</u>	<u>-</u>	<u>231,075</u>
Total Deductions	<u>18,134,781</u>	<u>5,073,668</u>	<u>23,208,449</u>
Net Increase (Decrease)	(4,652,141)	315,416	(4,336,725)
Net Position Restricted for Pensions and OPEB Purposes			
Beginning of year	<u>120,735,340</u>	<u>919,614</u>	<u>121,654,954</u>
End of year	<u>\$ 116,083,199</u>	<u>\$ 1,235,030</u>	<u>\$ 117,318,229</u>

26. Self-Insurance

The City self-insures against claims for most employee health coverage. Annual estimated requirements for claims are provided in the City's annual operating budget.

The City's insurance plans are retrospectively rated policies. In other words, the City contributes a level monthly premium which is adjusted quarterly for actual claims paid.

The City contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the City is liable for up to \$130,000 per incident. The City has no maximum aggregate liability for all claims paid within one year. The claims liability represents an estimate of claims incurred but unpaid at year end, based on past historical costs and claims paid subsequent to year end.

Changes in the aggregate liability for claims for the year ended June 30, 2019 are as follows:

Claims liability, beginning of year	\$ 870,467
Claims incurred/recognized in fiscal year 2019	20,028,692
Claims paid in fiscal year 2019	<u>(19,077,854)</u>
Claims Liability, End of Year	<u>\$ 1,821,305</u>

27. Subsequent Events

Debt

Subsequent to June 30, 2019, the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
MA Clean Water Trust bond CWP 16-10-A	\$ 11,214,360	2.00%	10/24/19	07/15/39
MA Clean Water Trust note CWP 16-10-B	\$ 2,785,640	0.00%	11/15/19	n/a *

* There is no set maturity date, will be determined when the balance is converted to a long-term note.

28. Commitments and Contingencies

Outstanding Legal Issues – On an ongoing basis, there are typically pending legal issues in which the City is involved. The City's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the

grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Wastewater Consent Decree (CD), Wastewater NPDES Permit, and Related Potential Liabilities – The City has been made aware of combined sewer separation, overflow and inflow/infiltration environmental issues which may become a material liability of the City in the future. The City signed the final consent decree with the Environmental Protection Agency (originally issued on June 1, 2012) which includes a compliance schedule that lasts through the year 2030 with a May 2012 estimated total cost of up to \$104 million, depending on re-evaluation and testing of phosphorous emissions and other factors in a few years. The decree also addresses the City's compliance with its Federal National Pollutant Discharge Elimination System (NPDES) permit. A NPDES permit enables and regulates the discharge of treated wastewater and the operation and management of a publicly owned treatment works. The City's NPDES permit is renewable every 5 years and includes various limitations, including phosphorous limits.

The City has established several projects to address different aspects of the sewer separation/overflow/treatment issues, including NPDES permit issues. As of June 30, 2019, the City has incurred approximately \$77.2 million of engineering and construction costs related to these projects, \$62.9 million of which was funded through the Massachusetts Clean Water Trust (MCWT).

Encumbrances – At year-end the City's general fund has \$3,053,115 in encumbrances that will be honored in the next fiscal year.

29. Beginning Fund Balance Reclassification

The City's major governmental funds for fiscal year 2019, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity Beginning of Year (as previously reported)	Reclassify Major Funds per GASB 34	Fund Equity Beginning of Year (as reclassified)
Capital projects fund	\$ -	\$ 665,043	\$ 665,043
Nonmajor governmental funds	<u>12,370,449</u>	<u>(665,043)</u>	<u>11,705,406</u>
Total	<u>\$ 12,370,449</u>	<u>\$ -</u>	<u>\$ 12,370,449</u>

30. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 84, *Fiduciary Activities*, effective for the City beginning with its fiscal year ending June 30, 2020. This statement establishes guidance on how to address the categorization of fiduciary activities for financial reporting and how fiduciary activities are to be reported and may require reclassification of certain funds.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 87, *Leases*, effective for the City beginning with its fiscal year ending June 30, 2021. This statement establishes new reporting and disclosure requirements, including the recording of various operating leases in the financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (GASB 68)

JUNE 30, 2019

(Unaudited)

(Amounts expressed in thousands)

Fitchburg Contributory Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2019	December 31, 2018	96.36%	\$147,689	\$32,675	452.0%	43.1%
June 30, 2018	December 31, 2017	96.43%	\$137,513	\$31,418	437.7%	45.9%
June 30, 2017	December 31, 2016	96.28%	\$134,496	\$30,723	437.8%	42.9%
June 30, 2016	December 31, 2015	96.60%	\$123,193	\$29,175	422.3%	43.7%
June 30, 2015	December 31, 2014	96.55%	\$115,754	\$27,759	417.0%	45.6%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Government</u>	<u>Total Net Pension Liability Associated with the Government</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2019	June 30, 2018	0.49%	-	\$115,199	\$115,199	\$34,412	-	54.8%
June 30, 2018	June 30, 2017	0.51%	-	\$117,326	\$117,326	\$34,812	-	54.3%
June 30, 2017	June 30, 2016	0.49%	-	\$108,745	\$108,745	\$31,993	-	52.7%
June 30, 2016	June 30, 2015	0.50%	-	\$101,788	\$101,788	\$31,490	-	55.4%
June 30, 2015	June 30, 2014	0.51%	-	\$81,168	\$81,168	\$31,335	-	61.6%

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

See Independent Auditors' Report.

CITY OF FITCHBURG, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

JUNE 30, 2019

(Unaudited)

(Amounts expressed in thousands)

Fitchburg Contributory Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2019	December 31, 2018	\$12,053	\$12,078	(\$25)	\$32,675	36.96%
June 30, 2018	December 31, 2017	\$11,097	\$11,121	(\$24)	\$31,418	35.40%
June 30, 2017	December 31, 2016	\$10,194	\$10,220	(\$26)	\$30,723	33.26%
June 30, 2016	December 31, 2015	\$9,649	\$9,672	(\$23)	\$29,175	33.15%
June 30, 2015	December 31, 2014	\$9,096	\$9,118	(\$22)	\$27,759	32.85%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution Provided by Commonwealth</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2019	June 30, 2018	\$6,388	\$6,388	-	\$34,412	18.56%
June 30, 2018	June 30, 2017	\$6,334	\$6,334	-	\$34,812	18.19%
June 30, 2017	June 30, 2016	\$5,470	\$5,470	-	\$31,993	17.10%
June 30, 2016	June 30, 2015	\$5,077	\$5,077	-	\$31,490	16.12%
June 30, 2015	June 30, 2014	\$4,786	\$4,786	-	\$31,335	15.27%

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

See Independent Auditors' Report.

CITY OF FITCHBURG, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST-EMPLOYMENT BENEFITS (OPEB)
SCHEDULE OF CHANGES IN NET OPEB LIABILITY (GASB 74 AND 75)
(Unaudited)
(Amounts expressed in thousands)

	For the year ending June 30,		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability			
Service cost	\$ 5,936	\$ 5,828	\$ 5,434
Interest on unfunded liability - time value of money	4,836	4,747	4,868
Differences between expected and actual experience	(314)	4,697	-
Changes in assumptions	5,305	-	-
Benefit payments, including refunds of member contributions	<u>(5,074)</u>	<u>(5,467)</u>	<u>(5,412)</u>
Net Change in Total OPEB Liability	10,689	9,805	4,890
Total OPEB Liability - Beginning	<u>164,809</u>	<u>155,004</u>	<u>150,114</u>
Total OPEB Liability - Ending (a)	175,498	164,809	155,004
Plan fiduciary net position			
Contributions - employer	5,324	5,717	5,712
Net investment income	23 *	67	42
Benefit payments, including refunds of member contributions	<u>(5,074)</u>	<u>(5,467)</u>	<u>(5,412)</u>
Net Change in Plan Fiduciary Net Position	273	317	342
Plan Fiduciary Net Position - Beginning	<u>915</u>	<u>598</u>	<u>256</u>
Plan Fiduciary Net Position - Ending (b)	<u>1,188</u>	<u>915</u>	<u>598</u>
Net OPEB Liability - Ending (a-b)	\$ <u><u>174,310</u></u>	\$ <u><u>163,894</u></u>	\$ <u><u>154,406</u></u>

* May reflect certain rounding and immaterial classification differences from page 69.

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

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

See Independent Auditors' Report.

CITY OF FITCHBURG, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST-EMPLOYMENT BENEFITS (OPEB)
SCHEDULES OF NET OPEB LIABILITY, CONTRIBUTIONS,
AND INVESTMENT RETURNS (GASB 74 AND 75)

(Unaudited)

(Amounts expressed in thousands)

	For the year ending June 30,		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Schedule of Net OPEB Liability			
Total OPEB liability	\$ 175,498	\$ 164,809	\$ 155,004
Plan fiduciary net position	<u>(1,188)</u>	<u>(915)</u>	<u>(598)</u>
Net OPEB Liability	<u>\$ 174,310</u>	<u>\$ 163,894</u>	<u>\$ 154,406</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.68%	0.56%	0.39%
 Schedule of Contributions	 <u>2019</u>	 <u>2018</u>	 <u>2017</u>
Actuarially determined contribution	\$ 16,932	\$ 10,576	\$ 10,303
Contributions in relation to the actuarially determined contribution	<u>(5,324)</u>	<u>(5,717)</u>	<u>(5,712)</u>
Contribution Deficiency (Excess)	<u>\$ 11,608</u>	<u>\$ 4,859</u>	<u>\$ 4,591</u>
 Schedule of Investment Returns	 <u>2019</u>	 <u>2018</u>	 <u>2017</u>
Annual money weighted rate of return, net of investment expense	2.46%	8.90%	9.10%

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

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

See Independent Auditors' Report.