

CITY OF FITCHBURG, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2013

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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, 2013, 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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fitchburg, Massachusetts, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

mation 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 February 18, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Melanson Heath + Company P. C.

Greenfield, Massachusetts
February 18, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Fitchburg, we offer readers this narrative overview and analysis of the financial activities of the City of Fitchburg for the fiscal year ended June 30, 2013.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Fitchburg's basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to 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 and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

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

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

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water and sewer operations.

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.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the water and sewer operations, both of which are considered to be major funds.

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$132,628,942 (i.e., net position), a change of \$(4,105,644) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$24,598,220, a change of \$(29,094) in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$9,590,292, a decrease of \$(424,278) in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$71,240,523, a decrease of \$(1,833,086) in comparison to the prior year.
- At the close of the current fiscal year, the Stabilization Fund balance (which is combined with the General Fund) was \$4,585,376, which represents an increase of \$1,018,994 in comparison with 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.

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 53,055	\$ 59,064	\$ 13,654	\$ 10,239	\$ 66,709	\$ 69,303
Capital assets	95,079	93,337	103,695	95,407	198,774	188,744
Total assets	148,134	152,401	117,349	105,646	265,483	258,047
Long-term liabilities outstanding	66,084	60,701	48,973	48,748	115,057	109,449
Other liabilities	5,876	8,754	11,601	2,767	17,477	11,521
Deferred inflows	320	343	-	-	-	-
Total liabilities	72,280	69,798	60,574	51,515	132,534	120,970
Net position:						
Invested in capital assets, net	73,367	68,543	49,983	49,286	123,350	117,829
Restricted	11,797	11,966	-	-	11,797	11,966
Unrestricted	(9,310)	2,094	6,792	4,845	(2,518)	6,939
Total net position	\$ 75,854	\$ 82,603	\$ 56,775	\$ 54,131	\$ 132,629	\$ 136,734

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 8,055	\$ 8,341	\$ 16,709	\$ 17,800	\$ 24,764	\$ 26,141
Operating grants and contributions	75,491	73,745	635	898	76,126	74,643
Capital grants and contributions	3,184	11,387	-	-	3,184	11,387
General revenues:						
Property taxes	41,788	40,496	-	-	41,788	40,496
Excises	2,800	2,947	-	-	2,800	2,947
Penalties, interest on taxes	907	916	-	279	907	1,195
Grants and contributions not restricted to specific programs	8,316	7,077	-	-	8,316	7,077
Investment income	108	249	76	16	184	265
Other	180	331	-	26	180	357
Total revenues	140,829	145,489	17,420	19,019	158,249	164,508
Expenses:						
General government	6,755	7,175	-	-	6,755	7,175
Public safety	14,260	13,657	-	-	14,260	13,657
Education	78,121	75,585	-	-	78,121	75,585
Public works	6,716	8,365	-	-	6,716	8,365
Health and human services	3,553	1,366	-	-	3,553	1,366
Culture and recreation	1,427	1,336	-	-	1,427	1,336
Employee benefits	30,026	30,917	-	-	30,026	30,917
Interest	884	1,092	-	-	884	1,092
Intergovernmental	5,140	5,031	-	-	5,140	5,031
Miscellaneous	696	573	-	-	696	573
Water operations	-	-	5,638	5,554	5,638	5,554
Sewer operations	-	-	9,138	9,725	9,138	9,725
Total expenses	147,578	145,097	14,776	15,279	162,354	160,376
Change in net position	(6,749)	392	2,644	3,740	(4,105)	4,132
Net assets - beginning of year	<u>82,603</u>	<u>82,211</u>	<u>54,131</u>	<u>50,391</u>	<u>136,734</u>	<u>132,602</u>
Net assets - end of year	<u>\$ 75,854</u>	<u>\$ 82,603</u>	<u>\$ 56,775</u>	<u>\$ 54,131</u>	<u>\$ 132,629</u>	<u>\$ 136,734</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 \$132,628,942, a change of \$(4,105,644) from the prior year.

By far the largest portion of net position, \$123,349,862, 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, \$11,797,338, 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 \$(2,518,258).

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(6,749,218). Key elements of this change are as follows:

Consolidated General fund operations	\$ (1,929,942)
Major fund - CDBG fund expenditures in excess of revenues	(57,010)
Major fund - City Grants fund expenditures in excess of revenues	(242,377)
Special revenue fund and trust revenues over expenditures	2,200,235
Depreciation expense in excess of principal debt service	(1,372,052)
Internal service fund operations	23,682
Capital assets purchased with tax levy and grant funds	3,296,753
Capital asset dispositions	(78,000)
Current year amortization of state (MSBA) reimbursements of school building projects, accrued in a prior year	(2,440,039)
Current year accrual of other post-employment benefit liability	(7,098,865)
Other	<u>948,397</u>
Total	<u>\$ (6,749,218)</u>

Business-Type Activities. Business-type activities for the year resulted in a change in net position of \$2,643,574. Key elements of this change are as follows:

Water enterprise	\$ 203,651
Sewer enterprise	<u>2,439,923</u>
Total	<u>\$ 2,643,574</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unreserved

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 \$24,598,220, a change of \$(29,094) in comparison with the prior year. Key elements of this change are as follows:

Consolidated General fund operations	\$ (1,929,942)
Major fund - CDBG fund expenditures in excess of revenues	(57,010)
Major fund - City Grants fund expenditures in excess of revenues	(242,377)
Special revenue and trust fund revenues over expenditures	<u>2,200,235</u>
Total	\$ <u>(29,094)</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 \$9,590,292, while total fund balance was \$12,052,504. 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>6/30/13</u>	<u>6/30/12</u>	<u>Change</u>	<u>% of Total 2013 General Fund Expenditures</u>
Unassigned - General fund	\$ 5,004,916	\$ 6,448,188	\$ (1,443,272)	4.2%
Unassigned - Stabilization fund	<u>4,585,376</u>	<u>3,566,382</u>	<u>1,018,994</u>	<u>3.9%</u>
Total Unassigned fund balance	\$ 9,590,292	\$ 10,014,570	\$ (424,278)	8.1%
Total fund balance	\$ 12,052,504	\$ 13,982,446	\$ (1,929,942)	10.1%

The total fund balance of the general fund decreased by \$(1,929,942) during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:

Excess of tax collections compared to budget	\$ 229,742
Excess of state and local revenues over budget	1,111,510
Budgetary appropriations unspent by departments	1,902,226
Use of free cash (fund balance) as a funding source/use	(5,177,005)

Timing Differences:

Difference between prior year encumbrances spent in the current year and current year encumbrances to be spent in subsequent period	(1,047,664)
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Reversal of prior year GAAP accrual	32,255
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Other:

Stabilization Fund interest and transfers in	<u>1,018,994</u>
Total	\$ <u>(1,929,942)</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 \$6,792,002, an increase of \$1,946,497 in comparison with 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 \$951,705. Major reasons for these amendments include:

- \$ 52,720 increase for IT appropriations.
- \$ 51,000 increase for recreation appropriations.
- \$142,565 increase for buildings appropriations.
- \$237,000 increase for public works appropriations.
- \$100,000 appropriation to health housing demolition.
- \$226,400 increase in veterans appropriations.
- \$102,000 increase in fire appropriations.
- \$ 40,020 increase in various other departmental appropriations.

All this increase was funded from surplus (free cash).

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$198,773,394 (net of accumulated depreciation), an increase of \$10,030,140 from the prior year. 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 funds	\$ (5,455,097)
Depreciation expense - water fund	(1,854,457)
Depreciation expense - sewer fund	(1,780,023)
Loss on disposition of assets - governmental funds	(78,000)
Loss on disposition of assets - water fund	(8,058)
Various school building improvements, including boiler replacements roof repairs and window replacements, most of which were reimbursed by MSBA	1,863,590
Machinery and equipment purchases for the Public Works Department, including a loader and street lights	471,110
Public safety equipment purchases, including a radio system, one vehicle for the Police Department and traffic control equipment	215,896
Miscellaneous equipment, library books and building improvements	175,413
Various park and field improvements	251,201
Trash and recycling bins, distributed to resident and business customers of the City's waste collection service provider	1,856,969
Streetscape improvements and street construction	2,441,043
Water main improvements / replacements and hydrant replacements, of which \$121,000 was paid for by developers	430,197
One vehicle purchases in the Water fund	37,325
Sewer infrastructure, including sewer lines and storm drains, which are part of the Combined Sewer Separation and CEPT projects (in process)	11,304,773
Various other Sewer infrastructure and equipment, including East Plant piping, pumping station improvements, and three vehicles	<u>158,258</u>
	<u>\$ 10,030,140</u>

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$71,240,523, 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 footnotes 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. Richard Sarasin
City Auditor
Fitchburg Municipal Offices
166 Boulder Drive, Suite 108
Fitchburg, MA 01420

CITY OF FITCHBURG, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 26,107,538	\$ 9,792,507	\$ 35,900,045
Investments	4,189,778	-	4,189,778
Receivables, net of allowance for uncollectibles:			
Property taxes	945,832	-	945,832
Excises	454,687	-	454,687
User fees	-	3,861,854	3,861,854
Departmental and other	156,122	-	156,122
Intergovernmental	5,998,008	-	5,998,008
Loans	712,359	-	712,359
Other assets	60,000	-	60,000
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	1,338,846	-	1,338,846
Intergovernmental	9,911,258	-	9,911,258
Loans	3,181,233	-	3,181,233
Land and construction in progress	4,186,106	14,540,445	18,726,551
Capital assets, net of accumulated depreciation	<u>90,892,652</u>	<u>89,154,191</u>	<u>180,046,843</u>
TOTAL ASSETS	148,134,419	117,348,997	265,483,416
LIABILITIES			
Current:			
Warrants payable	1,089,094	602,721	1,691,815
Accounts payable	572,087	452,409	1,024,496
Accrued payroll and withholdings	2,898,094	69,455	2,967,549
Accrued interest payable	-	242,902	242,902
Accrued claims payable	748,854	-	748,854
Notes payable	300,000	10,233,724	10,533,724
Other current liabilities	268,099	-	268,099
Current portion of long-term liabilities:			
Bonds payable	4,396,000	4,127,744	8,523,744
Deferred gain on early retirement of debt	71,494	-	71,494
Other liabilities	316,968	-	316,968
Noncurrent:			
Bonds payable, net of current portion	20,204,000	42,512,779	62,716,779
Deferred gain on early retirement of debt, net of current portion	357,474	-	357,474
Other liabilities, net of current portion	40,738,212	2,332,535	43,070,747
DEFERRED INFLOWS OF RESOURCES	319,829	-	319,829
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	72,280,205	60,574,269	132,854,474
NET POSITION			
Invested in capital assets, net of related debt	73,367,136	49,982,726	123,349,862
Restricted for:			
Grants and other statutory restrictions	7,336,734	-	7,336,734
Permanent funds:			
Nonexpendable	2,077,970	-	2,077,970
Expendable	2,382,634	-	2,382,634
Unrestricted	<u>(9,310,260)</u>	<u>6,792,002</u>	<u>(2,518,258)</u>
TOTAL NET POSITION	\$ 75,854,214	\$ 56,774,728	\$ 132,628,942

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

CITY OF FITCHBURG, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Expenses</u>	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 6,755,150	\$ 2,556,025	\$ 2,188,078	\$ 1,238,241	\$ (772,806)	\$ -	\$ (772,806)
Public safety	14,259,998	1,373,311	709,525	64,753	(12,112,409)	-	(12,112,409)
Education	78,120,579	1,081,610	66,332,465	552,031	(10,154,473)	-	(10,154,473)
Public works	6,715,669	1,043,390	69,198	1,328,792	(4,274,289)	-	(4,274,289)
Health and human services	3,553,361	1,932,744	736,712	-	(883,905)	-	(883,905)
Culture and recreation	1,427,313	67,611	83,264	-	(1,276,438)	-	(1,276,438)
Employee benefits	30,026,403	-	5,244,680	-	(24,781,723)	-	(24,781,723)
Interest	884,156	-	127,521	-	(756,635)	-	(756,635)
Intergovernmental	5,139,495	-	-	-	(5,139,495)	-	(5,139,495)
Miscellaneous	696,184	-	-	-	(696,184)	-	(696,184)
Total Governmental Activities	147,578,308	8,054,691	75,491,443	3,183,817	(60,848,357)	-	(60,848,357)
Business-Type Activities:							
Water services	5,638,687	5,172,568	635,381	-	-	169,262	169,262
Sewer services	9,138,199	11,536,187	-	-	-	2,397,988	2,397,988
Total Business-type Activities	14,776,886	16,708,755	635,381	-	-	2,567,250	2,567,250
Total	\$ 162,355,194	\$ 24,763,446	\$ 76,126,824	\$ 3,183,817	(60,848,357)	2,567,250	(58,281,107)
General Revenues:							
Property taxes				41,787,756	-	41,787,756	
Excises				2,800,073	-	2,800,073	
Penalties, interest and other taxes				907,457	-	907,457	
Grants and contributions not restricted to specific programs				8,316,419	-	8,316,419	
Investment income				107,617	76,324	183,941	
Miscellaneous				179,817	-	179,817	
Total general revenues				54,099,139	76,324	54,175,463	
Change in Net Position				(6,749,218)	2,643,574	(4,105,644)	
Net Position:							
Beginning of year				82,603,432	54,131,154	136,734,586	
End of year				\$ 75,854,214	\$ 56,774,728	\$ 132,628,942	

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

CITY OF FITCHBURG, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2013

	<u>General</u>	Community Development Block Grant	City Grants Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and short-term investments	\$ 14,683,690	\$ 137,144	\$ -	\$ 7,713,556	\$ 22,534,390
Investments	-	-	-	4,189,778	4,189,778
Receivables:					
Property taxes	996,572	-	-	-	996,572
Tax title and demolition liens	5,734,993	-	-	-	5,734,993
Excises	886,504	-	-	-	886,504
Departmental and other, net of allowance	144,921	-	-	12,217	157,138
Intergovernmental	506,546	844,702	1,206,788	1,371,762	3,929,798
Loans, net of allowance for uncollectibles	-	4,058,345	6,058,343	-	10,116,688
Due from other funds	881,370	-	-	-	881,370
Other assets	<u>60,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,000</u>
TOTAL ASSETS	\$ 23,894,596	\$ 5,040,191	\$ 7,265,131	\$ 13,287,313	\$ 49,487,231
LIABILITIES					
Warrants payable	\$ 503,697	\$ 34,140	\$ 39,418	\$ 511,839	\$ 1,089,094
Accounts payable	374,743	54,345	-	142,999	572,087
Accrued payroll and withholdings	2,670,169	9,374	15,623	202,928	2,898,094
Notes payable	-	-	300,000	-	300,000
Due to other funds	-	-	881,370	-	881,370
Other liabilities	<u>268,099</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>268,099</u>
TOTAL LIABILITIES	3,816,708	97,859	1,236,411	857,766	6,008,744
DEFERRED INFLOWS OF RESOURCES	8,025,384	4,784,323	6,058,343	12,217	18,880,267
Fund Balances:					
Nonspendable	-	-	-	2,077,970	2,077,970
Restricted	-	158,009	203,136	10,400,657	10,761,802
Assigned	2,462,212	-	-	-	2,462,212
Unassigned	<u>9,590,292</u>	<u>-</u>	<u>(232,759)</u>	<u>(61,297)</u>	<u>9,296,236</u>
TOTAL FUND BALANCES	<u>12,052,504</u>	<u>158,009</u>	<u>(29,623)</u>	<u>12,417,330</u>	<u>24,598,220</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 23,894,596	\$ 5,040,191	\$ 7,265,131	\$ 13,287,313	\$ 49,487,231

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, 2013

Total Governmental Fund Balances	\$ 24,598,220
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	95,078,758
• Revenues are reported on the accrual basis of accounting (net of allowance for uncollectible accounts) and are not deferred until collection. This accrual also includes future years' State reimbursement of school projects costs.	19,710,364
• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.	2,551,020
• Long-term liabilities, including bonds and loans payable, compensated absences, and other post-employment benefits are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(65,655,180)
• As noted above, bonds payable are not reported in the governmental funds. Accordingly, net deferred gain on early retirement of debt, resulting from advance and current refundings, is also not recorded in governmental funds.	<u>(428,968)</u>
Net Position of Governmental Activities	<u>\$ 75,854,214</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, 2013

	<u>General</u>	<u>Community Development Block Grant</u>	<u>City Grants Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 41,541,919	\$ -	\$ -	\$ -	\$ 41,541,919
Excises	2,905,149	-	-	-	2,905,149
Penalties, interest and other taxes	907,457	-	-	-	907,457
Charges for services	4,719,570	-	1,500	2,348,672	7,069,742
Intergovernmental	65,517,943	1,221,408	4,781,650	13,519,612	85,040,613
Licenses and permits	756,540	-	-	-	756,540
Fines and forfeitures	155,266	-	-	-	155,266
Investment income	100,504	-	-	7,113	107,617
Miscellaneous	688	179,129	-	-	179,817
Total Revenues	116,605,036	1,400,537	4,783,150	15,875,397	138,664,120
Expenditures:					
Current:					
General government	4,058,257	1,457,547	763,448	688,552	6,967,804
Public safety	12,601,023	-	864,225	140,170	13,605,418
Education	61,514,567	-	-	13,499,767	75,014,334
Public works	3,733,447	-	2,320,790	1,251,014	7,305,251
Health and human services	3,144,036	-	300,472	83,384	3,527,892
Culture and recreation	991,381	-	7,071	149,908	1,148,360
Employee benefits	22,678,326	-	-	-	22,678,326
Miscellaneous	696,184	-	-	-	696,184
Debt service	4,245,629	-	769,521	-	5,015,150
Intergovernmental	5,139,495	-	-	-	5,139,495
Total Expenditures	118,802,345	1,457,547	5,025,527	15,812,795	141,098,214
Excess (deficiency) of revenues over expenditures	(2,197,309)	(57,010)	(242,377)	62,602	(2,434,094)
Other Financing Sources (Uses):					
Bond proceeds	-	-	-	2,405,000	2,405,000
Transfers in	267,367	-	-	-	267,367
Transfers out	-	-	-	(267,367)	(267,367)
Total Other Financing Sources (Uses)	267,367	-	-	2,137,633	2,405,000
Change in fund balance	(1,929,942)	(57,010)	(242,377)	2,200,235	(29,094)
Fund Equity, at Beginning of Year	13,982,446	215,019	212,754	10,217,095	24,627,314
Fund Equity, at End of Year	\$ 12,052,504	\$ 158,009	\$ (29,623)	\$ 12,417,330	\$ 24,598,220

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, 2013

Net Changes in Fund Balances - Total Governmental Funds	\$ (29,094)								
<ul style="list-style-type: none"> 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: <table> <tr> <td>Capital outlay purchases, net of dispositions</td> <td style="text-align: right;">7,197,222</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(5,455,097)</td> </tr> </table> 		Capital outlay purchases, net of dispositions	7,197,222	Depreciation	(5,455,097)				
Capital outlay purchases, net of dispositions	7,197,222								
Depreciation	(5,455,097)								
	(3,103,255)								
<ul style="list-style-type: none"> 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 net change in deferred revenue and allowance for uncollectible accounts. 									
<ul style="list-style-type: none"> 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: <table> <tr> <td>Bond issuance</td> <td style="text-align: right;">(2,405,000)</td> </tr> <tr> <td>Loan issuance</td> <td style="text-align: right;">(1,573,469)</td> </tr> <tr> <td>Repayments of debt (bonds and loans)</td> <td style="text-align: right;">4,083,045</td> </tr> <tr> <td>Amortization of deferred gain / (loss) on early retirement of debt</td> <td style="text-align: right;">71,494</td> </tr> </table> 		Bond issuance	(2,405,000)	Loan issuance	(1,573,469)	Repayments of debt (bonds and loans)	4,083,045	Amortization of deferred gain / (loss) on early retirement of debt	71,494
Bond issuance	(2,405,000)								
Loan issuance	(1,573,469)								
Repayments of debt (bonds and loans)	4,083,045								
Amortization of deferred gain / (loss) on early retirement of debt	71,494								
<ul style="list-style-type: none"> Some expenses reported in the Statement of Activities, such as compensated absences and other post-employment benefits (OPEB), do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table> <tr> <td>Change in compensated absence liability</td> <td style="text-align: right;">1,540,119</td> </tr> <tr> <td>Change in OPEB liability</td> <td style="text-align: right;">(7,098,865)</td> </tr> </table> 		Change in compensated absence liability	1,540,119	Change in OPEB liability	(7,098,865)				
Change in compensated absence liability	1,540,119								
Change in OPEB liability	(7,098,865)								
<ul style="list-style-type: none"> Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. 									
<hr/>									
Changes in Net Position of Governmental Activities	\$ (6,749,218)								

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, 2013

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original <u>Budget</u>	Final <u>Budget</u>	Actual Amounts	
Revenues and Other Sources:				
Taxes	\$ 41,312,177	\$ 41,312,177	\$ 41,312,177	\$ -
Excise	2,652,773	2,652,773	2,905,149	252,376
Penalties, interest and other taxes	601,541	601,541	907,457	305,916
Charges for services	4,326,500	4,326,500	4,720,258	393,758
Intergovernmental	54,989,396	54,989,396	54,995,640	6,244
Licenses and permits	557,100	557,100	756,540	199,440
Fines and forfeits	220,000	220,000	155,266	(64,734)
Investment income	63,000	63,000	81,510	18,510
Transfers in	267,367	267,367	267,367	-
Other sources	4,449,416	5,401,121	5,401,121	-
Total Revenues and Other Sources	109,439,270	110,390,975	111,502,485	1,111,510
Expenditures and Other Uses:				
General government	4,074,008	4,345,990	4,048,869	297,121
Public safety	12,803,999	12,909,605	12,617,990	291,615
Education	49,858,610	49,858,610	49,858,610	-
Public works	3,079,064	3,714,780	3,694,798	19,982
Health and human services	3,088,631	3,417,137	3,227,347	189,790
Culture and recreation	1,020,027	1,035,333	990,727	44,606
Debt service	4,650,000	4,500,000	4,284,699	215,301
Intergovernmental	5,345,615	5,345,615	5,139,495	206,120
Employee benefits	23,300,000	23,281,189	22,706,200	574,989
Miscellaneous	1,145,200	758,600	695,898	62,702
Transfers out	1,000,000	1,000,000	1,000,000	-
Other Uses	74,116	224,116	224,116	-
Total Expenditures and Other Uses	109,439,270	110,390,975	108,488,749	1,902,226
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 3,013,736	\$ 3,013,736

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

CITY OF FITCHBURG, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2013

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Water Fund	Sewer Fund	Total	
ASSETS				
Current:				
Cash and short-term investments	\$ 3,847,395	\$ 5,945,112	\$ 9,792,507	\$ 3,573,148
User fees, net of allowance for uncollectibles	<u>1,254,639</u>	<u>2,607,215</u>	<u>3,861,854</u>	<u>-</u>
Total current assets	5,102,034	8,552,327	13,654,361	3,573,148
Noncurrent:				
Land and construction in progress	1,001,000	13,539,445	14,540,445	-
Capital assets, net of accumulated depreciation	<u>47,535,929</u>	<u>41,618,262</u>	<u>89,154,191</u>	<u>-</u>
Total noncurrent assets	<u>48,536,929</u>	<u>55,157,707</u>	<u>103,694,636</u>	<u>-</u>
TOTAL ASSETS	53,638,963	63,710,034	117,348,997	3,573,148
LIABILITIES				
Current:				
Warrants payable	36,884	565,837	602,721	-
Accounts payable	-	452,409	452,409	-
Accrued payroll	24,824	44,631	69,455	-
Deferred revenue	-	-	-	273,274
Accrued interest payable	88,982	153,920	242,902	-
Accrued claims payable	-	-	-	748,854
Notes payable	-	10,233,724	10,233,724	-
Current portion of long-term liabilities:				
Bonds payable	<u>2,005,985</u>	<u>2,121,759</u>	<u>4,127,744</u>	<u>-</u>
Total current liabilities	2,156,675	13,572,280	15,728,955	1,022,128
Noncurrent:				
Bonds payable, net of current portion	19,471,680	23,041,099	42,512,779	-
Other liabilities	<u>1,071,952</u>	<u>1,260,583</u>	<u>2,332,535</u>	<u>-</u>
Total noncurrent liabilities	<u>20,543,632</u>	<u>24,301,682</u>	<u>44,845,314</u>	<u>-</u>
TOTAL LIABILITIES	22,700,307	37,873,962	60,574,269	1,022,128
NET POSITION				
Invested in capital assets, net of related debt	29,069,078	20,913,648	49,982,726	-
Unrestricted	<u>1,869,578</u>	<u>4,922,424</u>	<u>6,792,002</u>	<u>2,551,020</u>
TOTAL NET POSITION	\$ 30,938,656	\$ 25,836,072	\$ 56,774,728	\$ 2,551,020

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, 2013

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Fund
	Water Fund	Sewer Fund	Total	
Operating Revenues:				
Charges for services	\$ 5,172,568	\$ 11,536,187	\$ 16,708,755	\$ -
Employee contributions	-	-	-	5,244,680
Employer contributions	-	-	-	12,442,339
Total Operating Revenues	5,172,568	11,536,187	16,708,755	17,687,019
Operating Expenses:				
Salary and wages	1,284,267	2,134,499	3,418,766	-
Operating expenses	1,262,109	3,079,278	4,341,387	-
Depreciation	1,854,457	1,780,023	3,634,480	-
Administrative assessments	911,389	1,056,311	1,967,700	-
Employee benefits	-	-	-	17,663,337
Other	60,819	350,298	411,117	-
Total Operating Expenses	5,373,041	8,400,409	13,773,450	17,663,337
Operating Income (Loss)	(200,473)	3,135,778	2,935,305	23,682
Nonoperating Revenues (Expenses):				
Intergovernmental revenue	635,381	-	635,381	-
Investment income	34,389	41,935	76,324	-
Interest expense	(265,646)	(737,790)	(1,003,436)	-
Total Nonoperating Revenues (Expenses), Net	404,124	(695,855)	(291,731)	-
Change in Net Position	203,651	2,439,923	2,643,574	23,682
Net Position at Beginning of Year	30,735,005	23,396,149	54,131,154	2,527,338
Net Position at End of Year	\$ 30,938,656	\$ 25,836,072	\$ 56,774,728	\$ 2,551,020

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, 2013

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Fund
	Water Fund	Sewer Fund	Total	
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 5,212,684	\$ 11,592,174	\$ 16,804,858	\$ -
Payments to vendors and employees	(3,326,504)	(5,898,170)	(9,224,674)	-
Receipts from employees and employer	-	-	-	17,641,945
Payments of employee benefits and expenses	-	-	-	(18,015,261)
Net Cash Provided By Operating Activities	1,886,180	5,694,004	7,580,184	(373,316)
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Receipts from governments	15,600	-	15,600	-
Proceeds of notes and governmental loans	1,750,000	12,133,724	13,883,724	-
Acquisition and construction of capital assets	(220,582)	(11,463,032)	(11,683,614)	-
Principal payments on bonds and notes	(1,485,308)	(3,862,378)	(5,347,686)	-
Interest expense paid	(270,313)	(742,962)	(1,013,275)	-
Net Cash (Used For) Capital and Related Financing Activities	(210,603)	(3,934,648)	(4,145,251)	-
<u>Cash Flows From Investing Activities:</u>				
Investment income	34,389	41,935	76,324	-
Net Cash Provided by Investing Activities	34,389	41,935	76,324	-
Net Change in Cash and Short-Term Investments	1,709,966	1,801,291	3,511,257	(373,316)
Cash and Short Term Investments, Beginning of Year	2,137,429	4,143,821	6,281,250	3,946,464
Cash and Short Term Investments, End of Year	\$ 3,847,395	\$ 5,945,112	\$ 9,792,507	\$ 3,573,148
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income (loss)	\$ (200,473)	\$ 3,135,778	\$ 2,935,305	\$ 23,682
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	1,854,457	1,780,023	3,634,480	-
Changes in assets and liabilities:				
User fee receivables	40,116	55,987	96,103	-
Warrants and other payables	(2,123)	508,203	506,080	-
Accrued / other liabilities	194,203	214,013	408,216	(396,998)
Net Cash Provided By Operating Activities	\$ 1,886,180	\$ 5,694,004	\$ 7,580,184	\$ (373,316)

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

CITY OF FITCHBURG, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2012

Pension
Trust Fund

ASSETS

Cash and short-term investments	\$ 1,651,792
Investments	84,002,719
Accounts receivable	<u>964</u>
Total Assets	85,655,475

LIABILITIES AND NET POSITION

Accounts payable	8,416
Deferred revenue	<u>4,120,013</u>
Total Liabilities	<u>4,128,429</u>

NET POSITION

Total net position held in trust for pension benefits	\$ <u>81,527,046</u>
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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 DECEMBER 31, 2012

Pension
Trust Fund

Additions:

Contributions:

Employers	\$ 8,193,854
Other systems and Commonwealth of Massachusetts	642,640
Plan members	<u>2,726,786</u>
Total contributions	11,563,280

Investment Income:

Interest and dividends	2,641,691
Gain on sale of investments	1,997,503
Increase in fair value of investments	5,685,901
Less: management fees	<u>(445,351)</u>
Net investment income	<u>9,879,744</u>

Total additions 21,443,024

Deductions:

Benefit payments to plan members and beneficiaries	13,131,891
Refunds to plan members and other systems	440,434
Administrative expenses	<u>166,829</u>
Total deductions	<u>13,739,154</u>

Net increase 7,703,870

Net assets:

Beginning of year	<u>73,823,176</u>
End of year	<u>\$ 81,527,046</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 government is a municipal corporation governed by an elected City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2013, it was determined that no entities met the required GASB-39 criteria of component units, other than as noted below.

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

In the Fiduciary Funds: The Fitchburg Contributory Retirement System, which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at 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. Likewise, the *primary government* is reported separately from certain le-

gally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment 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*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of*

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

The government reports the following major governmental 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* 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.

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

The government reports the following major proprietary funds:

- Water fund
- Sewer fund

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

The *pension trust fund* accounts for the activities of the Fitchburg Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

D. Cash and Short-Term Investments

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

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and cash equivalents". The interest earnings attributable to each fund type is 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 and Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2013 tax levy reflected an excess capacity of \$13,475.

G. 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 five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Property, plant and equipment is 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

H. 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).

I. Compensated Absences

It is the government’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, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

In fiscal year 2013, a new teacher’s contract went into effect that effectively eliminated various benefits that were previously paid out at retirement. This reduced the City’s compensated absence liability by approximately \$1.5 million in fiscal year 2013.

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.

The City's fund balance classification policies and procedures are as follows:

- 1) **Nonspendable funds** are either unspendable in the current form (i.e. inventory or prepaid items) or can never be spent (i.e. perpetual care).
- 2) **Restricted funds** are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) **Committed funds** are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., City Council).
- 4) **Assigned funds** are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) **Unassigned funds** are available to be spent in future periods.

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

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment 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.

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

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

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 with budgetary data.

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 116,605,036	\$ 118,802,345
Other financing sources/uses (GAAP basis)	267,367	-
To reverse the effect of including Stabilization Fund and General Fund activity	(18,994)	1,000,000
Adjust tax revenue to accrual basis	(229,742)	-
Reverse beginning of year appropriation carry-forwards from expenditures	-	(2,517,876)
Add end of year appropriation carryforwards to expenditures	-	1,470,212
To reverse the effect of non-budgeted State contributions for teachers retirement	(10,522,303)	(10,522,303)
To reverse prior year GAAP accruals	-	32,255
Recognize fund balance as funding source / use	<u>5,401,121</u>	<u>224,116</u>
Budgetary basis	<u>\$ 111,502,485</u>	<u>\$ 108,488,749</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2013:

Special Revenue Funds:	
City Grants Major Fund:	
Police-911 Dept Training FY13	\$ 15,122
Police E911 Support FY13	89,293
DPW - St Constr Ch 90 - FY13	84,280
Shea St Flood Hazard mitigation	17,285
DPW - MEMA drainage Columbia Ave	26,779
Non Major Special Revenue Funds:	
Sped Circuit Breaker Fund	61,297

The deficits in these funds will be eliminated through future departmental revenues and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Massachusetts general law Chapter 44, section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent 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." 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, 2013, \$165,888 of the City's bank balance of \$37,421,617 was exposed to custodial credit risk as uninsured, uncollateralized money market funds held by pledging bank's trust department not in the City's name.

As of December 31, 2012, none of the Retirement System's bank balance of \$1,743,032 was exposed to custodial credit risk as uninsured, uncollateralized, and/or collateral held by pledging bank's trust department not in the Retirement System's name.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term invest-

ments that were purchased using surplus revenues (which excludes investments purchased with Library funds), Massachusetts General Law, Chapter 44, Section 55 and the City's investment policy limits the City's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below (in thousands) is the actual rating as of June 30, 2013 for each investment of the City:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>			
			<u>AA+/AA/AA-</u>	<u>A+/A/A-</u>	<u>BBB</u>	<u>not rated</u>
Federal agency securities	\$ 2,138	\$ -	\$ 2,138	\$ -	\$ -	\$ -
Equity securities	440	440	-	-	-	-
Corporate bonds	1,505	-	751	644	55	55
Mutual funds	107	107	-	-	-	-
Total investments	\$ 4,190	\$ 547	\$ 2,889	\$ 644	\$ 55	\$ 55

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

Presented below is the composition of the Fitchburg Retirement System investments as of December 31, 2012 (in millions), none of which are subject to credit risk disclosure:

<u>Investment Type</u>	<u>Fair Value</u>
PRIT *	\$ 82
TA Associates Realty (equity investments)	2
Total investments	\$ 84

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

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's policy to limit custodial credit risk is to only invest in funds included on the Commonwealth's "legal list" of investments, as compiled by Commissioner of Banking. The Library's investment policy to limit custodial credit risk is to keep a diversified portfolio, with specified ranges of asset allocation between cash equivalents (0% - 25%), fixed income (25% - 75%) and stocks (25% - 50%). Further, fixed income investments must have an investment grade of BBB- or better. The Retirement System does not have a policy for custodial credit risk.

Of the total City investments of \$4,189,778, (which include Library funds) the City has a custodial credit risk exposure of \$1,162,362 because the related securities are uninsured, unregistered and/or held by the City's brokerage firm (which is also the Counterparty to these securities) but are not in the City's name.

All of the Retirement System's investments are in either an equity investment fund or state pension investment trust fund, neither of which are exposed to custodial credit risk.

C. Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

Federal Home Loan Mortgage Corp	\$210,095
Federal National Mortgage Assn	\$414,284

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 Retirement System does not have an investment in one issuer (other than PRIT) 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 limits investments to those contained in the "legal list" of investments compiled by the Commissioner of Banking. The Library's policy limits interest rate risk by requiring fixed income investments (bonds) to have an average maturity of 7 years or less. The Retirement System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

Investment Type	Investment Maturities (in Years)					
	Fair Value	N/A	Less Than 1	1-5	6-10	More Than 10
Federal agency securities	\$ 2,138	\$ -	\$ 307	\$ 972	\$ 859	\$ -
Equity securities	440	440	-	-	-	-
Corporate bonds	1,505	-	542	482	438	43
Mutual funds	107	107	-	-	-	-
Total investments	\$ 4,190	\$ 547	\$ 849	\$ 1,454	\$ 1,297	\$ 43

None of the Retirement System's investments are subject to market interest rate fluctuations.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City and Retirement System do not have policies for foreign currency risk.

5. Taxes Receivable

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

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien

against the delinquent taxpayers' property. The City has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2013 consist of the following (in thousands):

Real Estate		
2013	\$ 829	
2012 & prior	<u>16</u>	
		845
Personal Property		
2013	40	
2012	19	
Prior	<u>54</u>	
		113
Deferred Taxes		
	<u>39</u>	
Total		
	\$ <u>997</u>	

6. Allowance for Doubtful Accounts

The departmental (parking ticket and airport) receivable balances reported in the accompanying governmental funds balance sheet are presented net of allowances for uncollectibles of \$570,364 and \$79,492, respectively. In addition, the receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 51	\$ -
Tax title and demolition liens	4,396	-
Excises	432	-
Departmental (Parking garage)	1	-
Loans	6,223	-
Water charges	-	278
Sewer charges	-	465

7. Intergovernmental Receivables

The balance reported in the accompanying governmental funds balance sheet represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2013 and are expected to be reimbursed in fiscal year 2014.

The balance reported in the governmental activities statement of net position includes an additional amount (\$2,068,210 current and \$9,911,258 non-current) that represents future school building project cost reimbursements. This receivable will be paid to the City by the Massachusetts School Building Authority in annual installments of approximately \$2 million through fiscal year 2019.

8. 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.

In October 2004, the City executed a loan to the Fitchburg Redevelopment Authority (FRA) for \$6,000,000. The note coincides with a City loan received in June 2004 through the U.S. Department of Housing and Urban Development, Section 108 program. The note with the FRA is collateralized with a mortgage and assignment of lease/rental and other income on property known as Putnam Place Business and Industrial Center. The note carries an interest rate of 4.5 percent and is scheduled to mature in July 2015.

Loan balances as of June 30, 2013 consist of the following:

	Total	Less Loan Balance	Less Current Portion	Less Allowance for Uncollect.	Equals Long-term Portion, Net of Allowance
CDBG - consumer loans	\$ 70,619	\$ -	\$ -	\$ -	\$ 70,619
CDBG - mortgage/financing loans	1,174,625	(36,359)	(234,926)		903,340
CDBG - deferred payment loans	673,102	-	(673,102)		-
CDBG - HUD 108 loan to FRA	2,140,000	(676,000)	-		1,464,000
HOME - mortgage/financing loans	929,092	-	(185,818)		743,274
Other City grants - deferred payment loans	5,129,250	-	(5,129,250)		-
Total	\$ 10,116,688	\$ (712,359)	\$ (6,223,096)		\$ 3,181,233

9. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund re-

ceivable and payable accounts must be utilized. The following is an analysis of the June 30, 2013 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General fund	\$ 881,370	\$ -
City Grants fund	<u>-</u>	<u>881,370</u>
Total	<u>\$ 881,370</u>	<u>\$ 881,370</u>

10. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Convert CIP</u>	<u>Ending Balance</u>
Governmental Activities:					
Capital assets, being depreciated:					
Land improvements	\$ 12,910	\$ 121	\$ -	\$ 116	\$ 13,147
Buildings and improvements	75,298	88	(78)	7,324	82,632
Machinery, equipment, and furnishings	15,183	2,838	(181)	147	17,987
Infrastructure	<u>73,065</u>	<u>2,409</u>	<u>(798)</u>	<u>-</u>	<u>74,676</u>
Total capital assets, being depreciated	176,456	5,456	(1,057)	7,587	188,442
Less accumulated depreciation for:					
Land improvements	(3,809)	(348)	-	-	(4,157)
Buildings and improvements	(33,577)	(2,237)	-	-	(35,814)
Machinery, equipment, and furnishings	(11,704)	(1,012)	181	-	(12,535)
Infrastructure	<u>(43,983)</u>	<u>(1,858)</u>	<u>798</u>	<u>-</u>	<u>(45,043)</u>
Total accumulated depreciation	<u>(93,073)</u>	<u>(5,455)</u>	<u>979</u>	<u>-</u>	<u>(97,549)</u>
Total capital assets, being depreciated, net	83,383	1	(78)	7,587	90,893
Capital assets, not being depreciated:					
Land	4,059	-	-	-	4,059
Construction in progress (CIP)	<u>5,895</u>	<u>1,819</u>	<u>-</u>	<u>(7,587)</u>	<u>127</u>
Total capital assets, not being depreciated	<u>9,954</u>	<u>1,819</u>	<u>-</u>	<u>(7,587)</u>	<u>4,186</u>
Governmental activities capital assets, net	<u>\$ 93,337</u>	<u>\$ 1,820</u>	<u>\$ (78)</u>	<u>\$ -</u>	<u>\$ 95,079</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and Improvements	\$ 99,128	\$ 33	\$ -	\$ 99,161
Machinery, equipment, and furnishings	7,419	162	(29)	7,552
Infrastructure	<u>44,218</u>	<u>535</u>	<u>(15)</u>	<u>44,738</u>
Total capital assets, being depreciated	150,765	730	(44)	151,451
Less accumulated depreciation for:				
Buildings and improvements	(41,061)	(2,563)	-	(43,624)
Machinery, equipment, and furnishings	(2,147)	(460)	29	(2,578)
Infrastructure	<u>(15,491)</u>	<u>(611)</u>	<u>7</u>	<u>(16,095)</u>
Total accumulated depreciation	<u>(58,699)</u>	<u>(3,634)</u>	<u>36</u>	<u>(62,297)</u>
Total capital assets, being depreciated, net	92,066	(2,904)	(8)	89,154
Capital assets, not being depreciated:				
Land	1,285	-	-	1,285
Construction in progress (CIP)	<u>2,056</u>	<u>11,199</u>	<u>-</u>	<u>13,255</u>
Total capital assets, not being depreciated	<u>3,341</u>	<u>11,199</u>	<u>-</u>	<u>14,540</u>
Business-type activities capital assets, net	<u>\$ 95,407</u>	<u>\$ 8,295</u>	<u>\$ (8)</u>	<u>\$ 103,694</u>

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

Governmental Activities:	
General government	\$ 79
Public safety	685
Education	1,801
Public works	2,206
Human services	292
Culture and recreation	<u>392</u>
Total depreciation expense - governmental activities	<u>\$ 5,455</u>

Business-Type Activities:	
Water	\$ 1,854
Sewer	<u>1,780</u>
Total depreciation expense - business-type activities	<u>\$ 3,634</u>

11. Warrants and Accounts Payable

Warrants payable represent 2013 expenditures paid by July 15, 2013 as permitted by law. Accounts payable represent additional 2013 expenditures paid after July 15, 2013.

12. Notes Payable

The City had the following notes outstanding at June 30, 2013:

	Interest Rate(s) %	Date of <u>Issue</u>	Date of <u>Maturity</u>	Balance at <u>June 30, 2013</u>
MWPAT interim loan # 12-01	0.12	08/08/12	12/31/13	\$ 3,082,378
MWPAT interim loan # 12-02	0.12	08/08/12	12/31/13	5,951,346
Bond anticipation	1.00	06/28/13	06/27/14	1,200,000
State anticipation	0.60	06/28/13	06/27/14	<u>300,000</u>
				\$ <u>10,533,724</u>

The following summarizes activity in notes payable during fiscal year 2013:

	Balance <u>Beginning of Year</u>	New <u>Issues</u>	Maturities	Balance <u>End of Year</u>
MWPAT interim loan proceeds	\$ -	\$ 9,033,724	\$ -	\$ 9,033,724
Bond anticipation	4,000,187	1,200,000	(4,000,187)	1,200,000
State grant anticipation	<u>300,000</u>	<u>300,000</u>	<u>(300,000)</u>	<u>300,000</u>
Total	<u>\$ 4,300,187</u>	<u>\$ 10,533,724</u>	<u>\$ (4,300,187)</u>	<u>\$ 10,533,724</u>

13. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the City that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The deferred inflow of resources balance as of June 30, 2013 consists of deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The balance of the general fund deferred inflows account is equal to the total of all June 30, 2013 receivable balances, less property tax collected within 60 days of year-end.

On the government-wide basis financial statements, the deferred inflows balance represents fiscal year 2014 tax revenue received in advance and (in the Internal Service Fund) teachers' withholdings to be applied over July and August 2013.

14. Long-Term Debt

A. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds

have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>June 30, 2013</u>
<u>Governmental Activities:</u>			
Multi-purpose (2003 refunding)	08/01/13	3.0 - 4.25	\$ 180,000
Section 108 Loan (through U.S. HUD)	08/01/15	4.5	2,140,000
Multi-purpose (2008)	06/01/16	3.5 - 5.5	375,000
Multi-purpose (2006 refunding)	11/15/18	3.0 - 4.0	2,690,000
Multi-purpose - refunding (2012)	12/01/18	2.0 - 4.0	15,505,000
Multi-purpose (2011)	06/15/21	3.0 - 4.0	1,305,000
Multi-purpose (2013)	06/15/23	3.0 - 3.5	<u>2,405,000</u>
Total Governmental Activities			\$ <u>24,600,000</u>
<u>Business-Type Activities:</u>			
<u>Water Fund:</u>			
General obligation 2004 - water portion	03/15/14	2.5 - 5.0	\$ 100,000
Water treatment (MWPAT 99-06)	08/01/20	1.0 - 2.0	5,730,000
Water treatment (MWPAT 00-10)	08/01/20	1.0 - 2.0	3,105,000
General obligation 2011 - water portion	06/15/21	3.0 - 4.0	800,000
Water treatment (MWPAT 00-10A)	08/01/24	1.0 - 2.0	3,914,795
Water treatment (MWPAT 01-16)	07/15/25	-	6,077,870
General obligation 2013 - water portion	06/15/33	3.0 - 3.5	<u>1,750,000</u>
Total Water Fund			21,477,665
<u>Sewer Fund:</u>			
Equipment and CSO project 2006	06/01/15	4	220,000
2006 refunding - sewer portion	11/15/15	3.0 - 4.0	870,000
Sewer inflow (MWPAT 97-30)	08/01/18	1.0 - 2.0	875,300
General obligation 2004 - sewer portion	03/15/19	2.5 - 5.0	980,000
Sewer inflow (MWPAT 03-12)	08/01/24	2	438,963
Sewer (MWPAT 03-12A)	07/15/25	2	4,338,515
Sewer (MWPAT 03-12B)	07/15/26	2	1,206,992
Multi-purpose 2008 - sewer portion	06/01/28	3.5 - 5.5	5,250,000
Sewer (MWPAT 08-03)	07/15/28	2	6,088,684
Sewer (MWPAT 08-03A)	07/15/30	2	896,372
Sewer (MWPAT 03-12C)	07/15/30	2	298,032
General obligation 2011 - sewer portion	06/15/31	3.0 - 4.0	1,800,000
General obligation 2013 - sewer portion	06/15/33	3.0 - 3.5	<u>1,900,000</u>
Total Sewer Fund			25,162,858
Total Business-Type Activities			\$ <u>46,640,523</u>

B. State Revolving Loan

The U.S. Environmental Protection Agency sponsors a low-interest rate loan program. The loans are administered by the Massachusetts Water Pollution Abatement Trust (MWPAT) and are used by local communities to improve their sewer and water systems.

The City's loan authorizations and status are as follows:

<u>Purpose</u>	<u>Authorized</u>	<u>Issued</u>
Sewer inflow project (#97-30)	\$ 2,437,500	\$ 2,437,500
Water treatment facility (#99-06)	11,959,500	11,959,500
Water treatment facility (#00-10)	12,712,000	6,471,885
Water treatment facility (#00-10A)	5,804,788	5,804,788
Water treatment facility (#01-16)*	11,903,000	9,605,810
Sewer inflow project (#03-12)	640,716	640,716
Sewer project (#03-12A)	6,221,670	6,221,670
Sewer project (#08-03)	9,650,000	8,525,439
Sewer project (#03-12C)	325,000	325,000

In addition to offering these loans at a reduced interest rate, MWPAT has also subsidized certain loan's principal as follows:

	<u>Original Loan</u>	<u>Principal Subsidy</u>	<u>Net Repayments</u>	<u>Balance June 30, 2013</u>
Loan #97-30	\$ 2,437,500	\$ (513,780)	\$ 1,923,720	\$ 875,300
Loan #99-06	11,959,500	(3,177,704)	8,781,796	5,730,000
Loan #00-10	6,471,885	(1,718,182)	4,753,703	3,105,000
Loan #00-10A	5,804,788	(1,350,381)	4,454,407	3,914,795
Total	\$ 26,673,673	\$ (6,760,047)	\$ 19,913,626	\$ 13,625,095

C. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2013 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 4,396,000	\$ 832,277	\$ 5,228,277
2014	4,298,000	681,949	4,979,949
2015	4,411,000	526,948	4,937,948
2016	3,335,000	378,502	3,713,502
2017	3,455,000	247,602	3,702,602
2018 - 2021	<u>4,705,000</u>	<u>194,844</u>	<u>4,899,844</u>
Total	<u>\$ 24,600,000</u>	<u>\$ 2,862,122</u>	<u>\$ 27,462,122</u>
<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 4,127,744	\$ 960,434	\$ 5,088,178
2014	3,971,088	871,914	4,843,002
2015	3,919,379	770,489	4,689,868
2016	3,704,589	681,515	4,386,104
2017	3,780,018	596,027	4,376,045
2018 - 2022	<u>15,943,861</u>	<u>1,991,355</u>	<u>17,935,216</u>
2023 - 2027	9,323,870	815,425	10,139,295
2028 and thereafter	<u>1,869,974</u>	<u>130,323</u>	<u>2,000,297</u>
Total	<u>\$ 46,640,523</u>	<u>\$ 6,817,482</u>	<u>\$ 53,458,005</u>

D. Changes in General Long-Term Liabilities

During the year ended June 30, 2013, the following changes occurred in long-term liabilities (in thousands):

	Total Balance July 1, 2012	Additions	Reductions	Total Balance June 30, 2013	Less Current Portion	Long-Term Portion June 30, 2013
<u>Governmental Activities</u>						
Bonds payable	\$ 26,254	\$ 2,405	\$ (4,059)	\$ 24,600	(4,396)	20,204
Deferred gain (loss) on early retirement of debt	500	-	(71)	429	(72)	357
Other:						
Loan payable	59	1,573	(24)	1,608	(316)	1,292
Accrued employee benefits	4,762	-	(1,540)	3,222	-	3,222
Other post-employment benefits	<u>29,125</u>	<u>7,099</u>	<u>-</u>	<u>36,224</u>	<u>-</u>	<u>36,224</u>
Totals	<u>\$ 60,700</u>	<u>\$ 11,077</u>	<u>\$ (5,694)</u>	<u>\$ 66,083</u>	<u>\$ (4,784)</u>	<u>\$ 61,299</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 46,819	\$ 3,650	\$ (3,828)	\$ 46,641	\$ (4,128)	\$ 42,513
Other:						
Accrued employee benefits	460	-	(24)	436	-	436
Other post-employment benefits	<u>1,468</u>	<u>428</u>	<u>-</u>	<u>1,896</u>	<u>-</u>	<u>1,896</u>
Totals	<u>\$ 48,747</u>	<u>\$ 4,078</u>	<u>\$ (3,852)</u>	<u>\$ 48,973</u>	<u>\$ (4,128)</u>	<u>\$ 44,845</u>

E. Deferred Gain (Loss) on Early Retirement of Debt

This balance represents the unamortized net decrease in long-term debt outstanding resulting from the City's issuance of refunding bonds in fiscal years 2006 and 2012. The balance will be amortized (as a credit to annual interest expense of \$71,494) until fiscal year 2019.

15. Loans Payable

In fiscal year 2008, capital improvements valued at \$164,815 were made to certain Fitchburg Airport buildings, and were paid for by a company that leases space at the Airport. In exchange, the City entered into an agreement with the company to repay the cost of the improvements over a 7 year period by reducing the amount of rent charged. The agreement began in November 2007 and calls for the equivalent of an annual rent reduction of approximately \$23,500. In the event the lease agreement is terminated prematurely, the City agrees to pay the unamortized balance over the following 5 years. The total balance due to the company at June 30, 2013 was \$35,318, (\$23,545 current and \$11,773 non-current).

In fiscal year 2013, the City obtained approximately 27,000 trash/recycling carts through their waste removal contractor. These carts were distributed to residential and commercial customers by the contractor but they are owned by the City. The City will fund the purchase of these carts by making predetermined, interest-free payments to the waste removal contractor, over a six year period beginning in fiscal year 2013. The total cost of the carts / initial loan amount was \$1,856,969 and the City made its first payment of \$283,500 in fiscal year 2013. The total balance due to the contractor at June 30, 2013 was \$1,573,469, (\$293,423 current and \$1,280,046 non-current).

16. Transfers In/Out

The City's routine transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the general fund to other funds based on budgetary authorization, and (2) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them.

The City reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2013:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 267,367	\$ 1,000,000
Stabilization fund	1,000,000	-
Nonmajor Governmental Funds:		
Special revenue funds	-	227,367
Expendable trust funds	<u>-</u>	<u>40,000</u>
Total	<u>\$ 1,267,367</u>	<u>\$ 1,267,367</u>

17. 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, 2013:

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 2013.

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 re-

sources 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 and deficit balances in non-general fund accounts.

Following is a breakdown of the City's fund balances at June 30, 2013:

	General Fund	Community Development Block Grant	City Grants Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Nonexpendable permanent funds	\$ <u> </u> -	\$ <u> </u> -	\$ <u> </u> -	\$ <u>2,077,970</u>	\$ <u>2,077,970</u>
Total Nonexpendable	-	-	-	2,077,970	2,077,970
Restricted					
Bonded projects	-	-	-	748,378	748,378
Special revenue funds	-	158,009	203,136	7,269,645	7,630,790
Expendable permanent funds	<u> </u> -	<u> </u> -	<u> </u> -	<u>2,382,634</u>	<u>2,382,634</u>
Total Restricted	-	158,009	203,136	10,400,657	10,761,802
Assigned					
Encumbrances	1,470,212	-	-	-	1,470,212
Reserved for expenditures	<u>992,000</u>	<u> </u> -	<u> </u> -	<u> </u> -	<u>992,000</u>
Total Assigned	2,462,212	-	-	-	2,462,212
Unassigned					
General fund	5,004,916	-	-	-	5,004,916
Stabilization fund	4,585,376	-	-	-	4,585,376
Deficit fund balances	<u> </u> -	<u> </u> -	<u>(232,759)</u>	<u>(61,297)</u>	<u>(294,056)</u>
Total Unassigned	<u>9,590,292</u>	<u> </u> -	<u>(232,759)</u>	<u>(61,297)</u>	<u>9,296,236</u>
Total Fund Balance	<u>\$ 12,052,504</u>	<u>\$ 158,009</u>	<u>\$ (29,623)</u>	<u>\$ 12,417,330</u>	<u>\$ 24,598,220</u>

18. Commitments and Contingencies

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

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

West Plant Lagoon - Groundwater Violations – In fiscal year 2005, the City incurred the final costs to comply with an EPA mandate to correct a violation of groundwater regulations for the west plant wastewater treatment facility lagoon by constructing an alternative facility. The total cost was approximately \$2.2 million, for which the City issued bonds in fiscal year 2004. The principal and interest payments were expected to be reimbursed by four local paper mills; however, one of these closed their Fitchburg location in fiscal year 2001. As a result, the City will receive reimbursement for approximately 55% of all related debt (principal and interest), estimated at \$1.4 million over a 10 year period, beginning in fiscal year 2005.

Combined Sewer Overflow (CSO) and Related Potential Liabilities – The City has been made aware of combined sewer overflow and inflow/infiltration environmental issues which may become a material liability of the City in the future. A final consent decree was issued by the Environmental Protection Agency on June 1, 2012 and includes a compliance schedule that lasts up to 20 years with a total cost of approximately \$104 million (in 2012 dollars). The City has established several projects to address different aspects of the sewer overflow/separation/treatment issues, including the NPDES Permit issue noted below. The City has authorized borrowing of approximately \$40.2 million and issued approximately \$34 million as of June 30, 2013, \$26.2 million of which was issued through the Massachusetts Water Pollution Abatement Trust (MWPAT). As of June 30, 2013, the City has incurred approximately \$35 million of engineering and construction costs related to these projects.

NPDES Permit – A Federal National Pollutant Discharge Elimination System (NPDES) permit enables and regulates the discharge of waste. It is renewable every 5 years and includes various limitations, including phosphorous limits. The City's permit expired in 2005, at which time the City compiled and submitted all necessary documentation for renewal; however, a draft permit was not issued until the summer of 2009. Under Federal guidelines, the City could continue to operate under the expired permit until a final permit was issued.

A final permit was issued in September 2010; however, the City filed an appeal due to the significantly lower phosphorous limits contained in the permit, which are 1/5th of the current limits. The appeal was granted a stay while a consent decree was negotiated, with the understanding that phosphorous compliance will be addressed as part of the decree. Exceeding the limits of items under appeal is not considered a violation.

A final resolution was reached and a consent order issued in May 2012 and was signed by the Mayor in June 2012. The order requires the City to meet certain decreasing phosphorous limits, as measured over a period of time from June 2013 to June 2025.

New work at the plant, required by decree, has been completed and included upgrades to enable the City to meet the new lower phosphorus limits. The City is also moving forward with the final stage of upgrades required by the decree, including modifications to the secondary system, which are expected to further improve treatment capability at plant, possibly to the point of removing phosphorus to a level below what is currently being required.

The cost to comply with the final permit requirements as outlined in the consent decree (and included in the \$104 million noted in the CSO issue above), is estimated to be at least \$29 million. Funding for this project is expected to be a combination of MWPAT loans, City bonds and future sewer rate increases. Sewer rates were increased in July 2011, in large part to pay for the increased debt service to finance the projects currently planned or underway.

Central Steam Plant – The City took over maintenance of the oil booms in the Nashua River that are required because of oil that leaks from the abandoned Central Steam Plant. The City has an environmental firm change out the booms as needed, and was required by DEP to hire a Licensed Site Professional. The City Council appropriated \$37,000 for the work, which is in addition to \$22,000 that was expended from fiscal year 2012 funds for clean-up immediately after the oil leak was discovered.

In fiscal year 2013, the City was awarded a \$500,000 grant from Mass Development to demolish the building, and has been preparing specifications for the demolition of the building. The City hopes to award a contract for the demolition during the upcoming winter, for commencement of work in the spring of 2014. It is anticipated that the oil leak in the Nashua River will be fully abated as part of the demolition project, which should be completed during the summer/fall of 2014.

The site is being monitored by DEP and EPA.

Dam Repairs – The City owns and is responsible for 15 dams, 12 of which operate under the control of the Water Enterprise Fund, and 3 under the City's General Fund. In fiscal year 2009, it was noted that four of the fifteen had been classified by the Commonwealth as "high hazard" and in poor condition. In 2010 the City retained the services of a local professional engineer, qualified to perform dam inspections. This individual is responsible for performing all required follow-up inspections and reporting the results to the Office of Dam Safety.

As a result of initiatives, re-inspections and evaluations conducted by the engineering consultant and submitted to the State, as of fiscal year 2013, two of the dams were downgraded in the State's severity categories from "high hazard" to the less severe "significant hazard". The two remaining dams classified as "high hazard" are both under the control of the Water Enterprise Fund.

The City continues to diligently perform mandatory inspections on all dams and evaluate maintenance and repair options. Repairs will be prioritized and phased in over the next ten years in order to minimize the impact on Water Fund budgets. Since this is an ongoing process, the total estimated cost to comply and remedy all deficiencies in dams controlled by the Water Fund is undeterminable at the present time. The estimated cost to repair or possibly breach the three dams controlled by the General Fund ranges from \$375,000 to \$672,000.

19. Long-term Contracts

McKay Campus School – In July 1995, the City entered into an agreement with the Commonwealth of Massachusetts (acting through Fitchburg State College, FSC) whereby FSC would operate the elementary school located at the City's McKay school building. FSC 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 2013 was approximately \$820,000.

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.

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. Fixed base rent for the first space, consisting of approximately 8,400 square feet, is \$75,600 per year beginning January 1, 2013. This space was occupied by the City immediately. The fixed base rent for the 2nd space (approximately 6,150 square feet) is \$55,350 per year beginning March 1, 2013; however, this space is not expected to be fully useable until July 1, 2016. Until then, the City will receive a 100% credit against the rent to compensate for build out expenses the City expects to incur to renovate the space for its use.

20. Post-Employment Health Care and Life Insurance Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net position when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described in the following footnote, the City provides post-employment health care and life insurance benefits for retired employees through the City's insurance plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of January 1, 2013, the actuarial valuation date, approximately 1,084 retirees and 1,013 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

Retirees contribute 25% - 30% (depending on the plan) of the cost of the health plan (51% for surviving spouses), as determined by the City. The City contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The City's fiscal 2013 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over an initial period of thirty years. The following

table shows the components of the City's annual OPEB cost for the year ending June 30, 2013, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of January 1, 2013.

	Governmental Funds	Water Fund	Sewer Fund	Total
Annual Required Contribution (ARC)	\$ 13,100,907	\$ 342,155	\$ 405,171	\$ 13,848,233
Interest on net OPEB obligation	1,165,008	27,304	31,444	1,223,756
Adjustment to ARC	<u>(1,224,468)</u>	<u>(28,697)</u>	<u>(33,048)</u>	<u>(1,286,213)</u>
Annual OPEB cost	13,041,447	340,762	403,567	13,785,776
Contributions made	<u>(5,942,582)</u>	<u>(129,373)</u>	<u>(187,256)</u>	<u>(6,259,211)</u>
Increase in net OPEB obligation	7,098,865	211,389	216,311	7,526,565
Net OPEB obligation - beginning of year	<u>29,125,223</u>	<u>682,594</u>	<u>786,090</u>	<u>30,593,907</u>
Net OPEB obligation - end of year	<u>\$ 36,224,088</u>	<u>\$ 893,983</u>	<u>\$ 1,002,401</u>	<u>\$ 38,120,472</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Costs	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 13,158,849	41%	\$ 7,715,121
2010	\$ 14,013,681	41%	\$ 8,276,974
2011	\$ 13,498,415	49%	\$ 6,949,591
2012	\$ 14,287,830	46%	\$ 7,652,221
2013	\$ 13,785,776	45%	\$ 7,526,565

The City's net OPEB obligation as of June 30, 2013 is recorded as a component of the "other long-term liabilities" line item reported in the accompanying government wide financial statements.

E. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2013, the date of the most recent actuarial valuation was as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 179,048
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>179,048</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>56,141</u>
UAAL as a percentage of covered payroll	<u>318.9%</u>

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

F. Actuarial Methods and Assumptions

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

In the January 1, 2013 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advance funded its obligation. The actuarial assumptions included a 4% interest/discount rate and an annual healthcare cost trend rate of 3.31% for 2013, 8% in 2014, decreasing to a 5% - 6% long-term rate in 2020, depending on the type of healthcare coverage (managed care or indemnity). The UAAL is amortized over a period of 26 years (remainder of initial thirty year amortization), on a closed basis and using a level percent of payroll (using a 3.25% annual rate of increase).

21. Contributory Retirement System

A. Plan Description and Contribution Information

Substantially all employees of the City (except teachers and administrators under contract employed by the School Department) are members of the Fitchburg Contributory Retirement System (FCRS), a cost-sharing, multiple-employer defined benefit PERS. Eligible employees must participate in the FCRS. 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 FCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The FCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at January 1, 2012, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	540
Terminated plan members entitled to but not yet receiving benefits	92
Active plan members	<u>613</u>
Total	<u>1,245</u>
Number of participating employers	3

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

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

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC). The City's Schedule of Employer Contributions is as follows:

Schedule of Employer Contributions:

Year Ended <u>June 30</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2004	\$ 4,955,597	100%
2005	5,103,294	100%
2006	5,768,349	100%
2007	5,999,910	100%
2008	6,519,244	100%
2009	6,783,664	100%
2010	7,052,211	100%
2011	7,292,559	100%
2012	7,737,970	100%
2013	8,052,808	100%

B. Summary of Significant Accounting Policies

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported in accordance with PERAC requirements.

C. Funded Status and Funding Progress

The information presented below is from the Fitchburg Contributory Retirement System's most recent valuation (amounts in thousands).

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued			Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
		Actuarial Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>				
01/01/12	\$ 81,376	\$ 193,765	\$ 112,389		42.0%	\$ 27,049	415.5%

The Schedule of Funding Progress following the notes to the financial statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of approximately \$112 million was calculated. The actuarial assumptions included (a) 7.95% investment rate of return and (b) a projected salary increase of 4.25% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first \$12,000 of benefit payments. The actuarial value of assets is based on market value adjusted by accounts payable and receivables, adjusted to phase in investment gains or losses above or below the expected rate of investment return over a three-year rolling period. The actuarial value of assets must be no less than 85% of the adjusted market value nor more than 115% of the adjusted market value. As of the date of the valuation, the unfunded actuarially accrued liability is being amortized over 22 years for the fresh start retirement benefits and 7 years for the 2003 Early Retirement Incentive retirees. The amortization method used an approximate level percent of payroll on a closed basis.

E. Teachers

As required by State statutes, teachers of the City are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The City is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%*
January 1, 1984 - June 30, 1996	8%*
July 1, 1996 - June 30, 2001	9%*
Beginning July 1, 2001	11%

* Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$30,000.

The City's current year (calendar year 2012) covered payroll for teachers and administrators was \$28,862,949 (2011 was \$28,428,319).

In fiscal year 2013, the Commonwealth of Massachusetts contributed \$10,522,303 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

22. 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 \$110,000 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, 2013 are as follows:

Claims liability, July 1, 2012	\$ 1,100,778
Claims incurred/recognized in fiscal year 2013	17,663,337
Claims paid in fiscal year 2013	<u>(18,015,261)</u>
Claims liability, June 30, 2013	<u>\$ 748,854</u>

The claims liability at year end was comprised of the following:

Settlement for claims incurred in 4th quarter of fiscal year 2013 (over/(under) the level monthly premium contributions) and adjusted for in fiscal year 2014	\$ (212,072)
Estimated incurred but not reported claims	<u>960,926</u>
Total claims liability	<u>\$ 748,854</u>

23. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and

have been no material settlements in excess of coverage in any of the past three fiscal years.

24. Implementation of New GASB Standards

The GASB has issued Statement 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the City's basic financial statements by recognizing as a liability and expense, the City's applicable portion of the Fitchburg Contributory Retirement System's actuarially accrued liability.

CITY OF FITCHBURG, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
June 30, 2013
(Unaudited)
(Amounts Expressed in Thousands)

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/12	\$ 81,376	\$ 193,765	\$ 112,389	42.0%	\$ 27,049	415.5%
01/01/10	\$ 82,821	\$ 176,105	\$ 93,284	47.0%	\$ 26,151	356.7%
01/01/08	\$ 92,018	\$ 167,874	\$ 75,856	54.8%	\$ 28,371	267.4%
01/01/06	\$ 78,944	\$ 151,248	\$ 72,304	52.2%	\$ 28,483	253.8%
01/01/04	\$ 70,510	\$ 135,276	\$ 64,766	52.1%	\$ 24,357	265.9%
01/01/02	\$ 70,662	\$ 115,986	\$ 45,324	60.9%	\$ 26,518	170.9%
01/01/00	\$ 65,756	\$ 98,667	\$ 32,911	66.6%	\$ 21,970	149.8%
01/01/98	\$ 52,449	\$ 87,683	\$ 35,234	59.8%	\$ 19,536	180.4%
01/01/97	\$ 45,057	\$ 71,872	\$ 26,815	62.7%	\$ 18,818	142.5%
01/01/94	\$ 34,060	\$ 63,195	\$ 29,135	53.9%	\$ 13,902	209.6%

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/13	\$ -	\$ 179,048	\$ 179,048	0.0%	\$ 56,141	318.9%
01/01/11	\$ -	\$ 183,129	\$ 183,129	0.0%	\$ 55,766	328.4%
01/01/09	\$ -	\$ 177,764	\$ 177,764	0.0%	N/A	N/A

See Independent Auditors' Report.