

CITY OF FITCHBURG, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2016

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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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fitchburg, Massachusetts, as of June 30, 2016, 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, Schedule of OPEB Funding Progress, Schedule of Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2017 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

February 23, 2017

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, 2016.

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

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

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 \$16,150,050 (i.e., net position), a change of \$4,180,634 in comparison to the restated prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$30,987,970, a change of \$6,137,193 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$12,871,294, a change of \$1,941,935 in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$77,075,291, a change of \$9,908,394 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 \$5,447,258, which represents an increase of \$119,144 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	
	2016		2015 Restated		2015 Restated	
	2016	Restated	2016	Restated	2016	Restated
Current and other assets	\$ 56,388	\$ 53,026	\$ 19,326	\$ 15,229	\$ 75,714	\$ 68,255
Capital assets	93,988	90,698	114,308	114,443	208,296	205,141
Deferred outflows	5,656	327	395	13	6,051	340
Total assets and deferred outflows	156,032	144,051	134,029	129,685	290,061	273,736
Long-term liabilities outstanding	186,755	178,016	74,912	61,391	261,667	239,407
Other liabilities	8,369	8,071	3,390	13,669	11,759	21,740
Deferred inflows	485	620	-	-	485	620
Total liabilities and deferred inflows	195,609	186,707	78,302	75,060	273,911	261,767
Net position:						
Invested in capital assets, net	80,929	73,707	53,425	51,447	134,354	125,154
Restricted	13,195	11,463	-	-	13,195	11,463
Unrestricted	(133,701)	(127,826)	2,302	3,178	(131,399)	(124,648)
Total net position	\$ (39,577)	\$ (42,656)	\$ 55,727	\$ 54,625	\$ 16,150	\$ 11,969

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2016		2015 Restated		2015 Restated	
	2016	2015 Restated	2016	2015 Restated	2016	2015 Restated
Revenues:						
Program revenues:						
Charges for services	\$ 8,651	\$ 7,641	\$ 17,131	\$ 16,238	\$ 25,782	\$ 23,879
Operating grants and contributions	76,060	72,533	-	-	76,060	72,533
Capital grants and contributions	7,928	4,601	817	1,192	8,745	5,793
General revenues:						
Property taxes	48,287	45,844	-	-	48,287	45,844
Excises	3,547	3,460	-	-	3,547	3,460
Penalties, interest on taxes	1,120	999	-	-	1,120	999
Grants and contributions not restricted to specific programs	9,710	9,397	-	-	9,710	9,397
Investment income	236	125	14	29	250	154
Other	973	370	-	-	973	370
Total revenues	156,512	144,970	17,962	17,459	174,474	162,429
Expenses:						
General government	6,870	6,600	-	-	6,870	6,600
Public safety	16,466	14,821	-	-	16,466	14,821
Education	77,092	73,273	-	-	77,092	73,273
Public works	7,704	8,393	-	-	7,704	8,393
Health and human services	3,846	3,849	-	-	3,846	3,849
Culture and recreation	1,513	1,601	-	-	1,513	1,601
Employee benefits	33,490	27,812	-	-	33,490	27,812
Miscellaneous	737	751	-	-	737	751
Interest	495	639	-	-	495	639
Intergovernmental	5,220	5,351	-	-	5,220	5,351
Water operations	-	-	6,132	6,741	6,132	6,741
Sewer operations	-	-	10,728	10,697	10,728	10,697
Total expenses	153,433	143,090	16,860	17,438	170,293	160,528
Change in net position before transfers	3,079	1,880	1,102	21	4,181	1,901
Transfers, net	-	(250)	-	-	-	(250)
Change in net position after transfers	3,079	1,630	1,102	21	4,181	1,651
Net assets - beginning of year, as restated	(42,656)	(44,286)	54,625	54,604	11,969	10,318
Net assets - end of year	\$ (39,577)	\$ (42,656)	\$ 55,727	\$ 54,625	\$ 16,150	\$ 11,969

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 \$16,150,050, a change of \$4,180,634 from the restated prior year.

By far the largest portion of net position, \$134,354,103, 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, \$13,194,853, 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 \$(133,700,844) in the governmental activities and a surplus of \$2,301,938 in the business-type activities.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$3,078,917. Key elements of this change are as follows:

Consolidated General fund operations	\$ 2,599,616
Major fund - CDBG fund revenues in excess of expenditures	20,988
Major fund - City Grants fund revenues in excess of expenditures	537,428
Nonmajor funds revenues, bond proceeds and transfers in in excess of expenditures and transfers out	2,979,161
Depreciation expense in excess of principal debt service	(1,157,091)
Remove bond proceeds from fund basis income	(2,085,000)
Internal service fund operations	779,097
Capital assets purchased with tax levy and grant funds	8,564,607
Current year amortization of state (MSBA) reimbursements of school building projects, accrued in a prior year	(2,068,210)
Current year accrual of other post-employment benefit liability	(4,816,998)
Current year change in net pension liability, net of deferrals	(1,189,694)
Other	<u>(1,084,987)</u>
Total	\$ <u>3,078,917</u>

Business-Type Activities. Business-type activities for the year resulted in a change in net position of \$1,101,717. Key elements of this change are as follows:

Water enterprise	\$ (372,393)
Sewer enterprise	<u>1,474,110</u>
Total	\$ <u>1,101,717</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 \$30,987,970, a change of \$6,137,193 in comparison with the prior year. Key elements of this change are as follows:

Consolidated General fund operations	\$ 2,599,616
Major fund - CDBG fund revenues in excess of expenditures	20,988
Major fund - City Grants fund revenues in excess of expenditures	537,428
Nonmajor funds revenues, bond proceeds and transfers in in excess of expenditures and transfers out	<u>2,979,161</u>
Total	<u>\$ 6,137,193</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 \$12,871,294, while total fund balance was \$16,663,601. 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>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>	<u>% of Total 2016 General Fund Expenditures</u>
Unassigned - general fund	\$ 7,424,036	\$ 5,601,245	\$ 1,822,791	6.4%
Unassigned - stabilization fund	<u>5,447,258</u>	<u>5,328,114</u>	<u>119,144</u>	<u>4.7%</u>
Total unassigned fund balance	\$ 12,871,294	\$ 10,929,359	\$ 1,941,935	11.2%
Total fund balance	\$ 16,663,601	\$ 14,063,985	\$ 2,599,616	14.5%

The total fund balance of the general fund increased by \$2,599,616 during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:

Excess of tax collections compared to budget	\$ 547,002
Excess of state and local revenues over budget	3,304,183
Budgetary appropriations unspent by departments	1,574,683
Use of free cash (fund balance) and overlay surplus as a funding source/use	(3,603,077)
Use of prior year budget carryover as a funding source	(300,000)

Timing Differences:

Difference between prior year encumbrances spent in the current year and current year encumbrances to be spent in subsequent period	957,681
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Other:

Stabilization fund interest and transfers in	119,144
Total	<u>\$ 2,599,616</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 \$2,301,938, a change of \$(875,584) in comparison with the restated 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 \$1,348,077. Major reasons for these amendments include:

- \$250,000 increase for snow and ice appropriations.
- \$350,000 increase for community development appropriations.
- \$390,000 increase for health insurance appropriations.
- \$125,000 increase for fire department appropriations.
- \$133,077 increase in various other departmental appropriations.
- \$100,000 transfer to stabilization fund.

All of 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 \$208,295,479 (net of accumulated depreciation), an increase of \$3,154,271 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	\$ (5,889,413)
Depreciation expense - water fund	(1,873,288)
Depreciation expense - sewer fund	(2,117,588)
Loss on disposition of assets - water fund	(2,358)
Various building improvements, including school repairs, cemetery mausoleum roof replacement, and police station renovations	272,997
Machinery and equipment purchases for the Public Works department	218,319
Public safety equipment purchases, including vehicles for the Fire and Police departments	694,771
Airport terminal projects	2,001,297
Miscellaneous equipment and library books	455,822
Foreclosed properties and buildings	1,098,100
Streetscape improvements and street construction	4,437,729
Water main improvements / replacements and hydrant replacements	336,817
Vehicles purchased for the Water department	13,049
Sewer infrastructure, including sewer lines and storm drains, which are part of the Combined Sewer Separation and CMH projects (in process)	3,482,187
Vehicle purchased for the Sewer department	25,830
Total	\$ <u>3,154,271</u>

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$77,075,291, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the notes to the financial statements.

REQUESTS FOR INFORMATION

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

Mr. 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, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 32,168,411	\$ 13,424,108	\$ 45,592,519
Investments	9,520,433	-	9,520,433
Receivables, net of allowance for uncollectibles:			
Property taxes	974,677	-	974,677
Excises	537,874	-	537,874
User fees	-	3,474,269	3,474,269
Departmental and other	144,904	-	144,904
Intergovernmental	5,615,629	2,428,060	8,043,689
Other assets	60,000	-	60,000
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	1,477,537	-	1,477,537
Intergovernmental, net of current portion	3,849,892	-	3,849,892
Loans	2,039,172	-	2,039,172
Land and construction in progress	8,536,383	16,812,086	25,348,469
Capital assets, net of accumulated depreciation	<u>85,451,532</u>	<u>97,495,478</u>	<u>182,947,010</u>
TOTAL ASSETS	150,376,444	133,634,001	284,010,445
DEFERRED OUTFLOWS OF RESOURCES	5,655,965	395,291	6,051,256
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	156,032,409	134,029,292	290,061,701
LIABILITIES			
Current:			
Warrants payable	2,037,457	1,001,562	3,039,019
Accounts payable	305,430	-	305,430
Accrued payroll and withholdings	4,299,876	-	4,299,876
Accrued interest payable	-	388,982	388,982
Accrued claims payable	808,117	-	808,117
Notes payable	500,000	2,000,000	2,500,000
Other current liabilities	418,379	-	418,379
Current portion of long-term liabilities:			
Bonds payable	3,845,000	5,104,498	8,949,498
Other liabilities	406,675	-	406,675
Noncurrent:			
Bonds payable, net of current portion	9,728,000	58,397,793	68,125,793
Other liabilities, net of current portion	57,630,131	3,362,369	60,992,500
Net pension liability	<u>115,145,279</u>	<u>8,047,412</u>	<u>123,192,691</u>
TOTAL LIABILITIES	195,124,344	78,302,616	273,426,960
DEFERRED INFLOWS OF RESOURCES	484,691	-	484,691
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	195,609,035	78,302,616	273,911,651
NET POSITION			
Invested in capital assets, net of related debt	80,929,365	53,424,738	134,354,103
Restricted for:			
Grants and other statutory restrictions	8,549,485	-	8,549,485
Permanent funds:			
Nonexpendable	2,147,169	-	2,147,169
Expendable	2,498,199	-	2,498,199
Unrestricted	<u>(133,700,844)</u>	<u>2,301,938</u>	<u>(131,398,906)</u>
TOTAL NET POSITION	\$ (39,576,626)	\$ 55,726,676	\$ 16,150,050

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

CITY OF FITCHBURG, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	<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	\$ 6,869,539	\$ 2,335,716	\$ 1,540,590	\$ 883,148	\$ (2,110,085)	\$ -	\$ (2,110,085)
Public safety	16,466,087	1,532,171	1,439,804	-	(13,494,112)	-	(13,494,112)
Education	77,091,984	592,664	66,782,990	-	(9,716,330)	-	(9,716,330)
Public works	7,704,004	870,186	233,335	7,022,833	422,350	-	422,350
Health and human services	3,846,496	3,223,621	871,294	-	248,419	-	248,419
Culture and recreation	1,513,507	96,657	145,904	21,610	(1,249,336)	-	(1,249,336)
Employee benefits	33,489,511	-	5,026,057	-	(28,463,454)	-	(28,463,454)
Miscellaneous	736,631	-	-	-	(736,631)	-	(736,631)
Interest	494,933	-	20,127	-	(474,806)	-	(474,806)
Intergovernmental	5,220,302	-	-	-	(5,220,302)	-	(5,220,302)
Total Governmental Activities	153,432,994	8,651,015	76,060,101	7,927,591	(60,794,287)	-	(60,794,287)
Business-Type Activities:							
Water services	6,132,266	5,364,515	-	393,904	-	(373,847)	(373,847)
Sewer services	10,728,062	11,766,782	-	422,823	-	1,461,543	1,461,543
Total Business-Type Activities	16,860,328	17,131,297	-	816,727	-	1,087,696	1,087,696
Total	\$ 170,293,322	\$ 25,782,312	\$ 76,060,101	\$ 8,744,318	(60,794,287)	1,087,696	(59,706,591)
General Revenues:							
Property taxes				48,287,567	-	48,287,567	
Excises				3,546,695	-	3,546,695	
Penalties, interest and other taxes				1,119,894	-	1,119,894	
Grants and contributions not restricted to specific programs				9,710,454	-	9,710,454	
Investment income				235,569	14,021	249,590	
Miscellaneous				973,025	-	973,025	
Total general revenues				63,873,204	14,021	63,887,225	
Change in Net Position				3,078,917	1,101,717	4,180,634	
Net Position:							
Beginning of year, as restated				(42,655,543)	54,624,959	11,969,416	
End of year				\$ (39,576,626)	\$ 55,726,676	\$ 16,150,050	

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

CITY OF FITCHBURG, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	<u>General</u>	Community Development Block Grant	City Grants Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and short-term investments	\$ 16,409,717	\$ 390,070	\$ -	\$ 9,129,114	\$ 25,928,901
Investments	5,111,538	-	-	4,408,895	9,520,433
Receivables:					
Property taxes	1,093,082	-	-	-	1,093,082
Tax title and demolition liens	6,071,120	-	-	-	6,071,120
Excises	1,045,657	-	-	-	1,045,657
Departmental and other, net of allowance	113,472	-	-	31,720	145,192
Intergovernmental	428,440	611,531	693,371	1,957,341	3,690,683
Loans, net of allowance for uncollectibles	-	1,740,420	7,886,408	-	9,626,828
Due from other funds	321,517	-	-	-	321,517
Other assets	60,000	-	-	-	60,000
TOTAL ASSETS	\$ 30,654,543	\$ 2,742,021	\$ 8,579,779	\$ 15,527,070	\$ 57,503,413
LIABILITIES					
Warrants payable	\$ 998,036	\$ 16,537	\$ 287,379	\$ 641,387	\$ 1,943,339
Accounts payable	-	-	-	78,379	78,379
Accrued payroll and withholdings	4,005,708	-	-	294,168	4,299,876
Due to other funds	-	-	321,517	-	321,517
Deposit held in custody	-	-	-	115,055	115,055
Notes payable	-	-	-	500,000	500,000
Other current liabilities	418,379	-	-	-	418,379
TOTAL LIABILITIES	5,422,123	16,537	608,896	1,628,989	7,676,545
DEFERRED INFLOWS OF RESOURCES					
Fund Balances:					
Nonspendable	-	-	-	2,147,169	2,147,169
Restricted	-	403,772	240,562	12,014,663	12,658,997
Assigned	3,792,307	-	-	-	3,792,307
Unassigned	12,871,294	(30,239)	(156,087)	(295,471)	12,389,497
TOTAL FUND BALANCES	16,663,601	373,533	84,475	13,866,361	30,987,970
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 30,654,543	\$ 2,742,021	\$ 8,579,779	\$ 15,527,070	\$ 57,503,413

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, 2016

Total Governmental Fund Balances	\$ 30,987,970
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	93,987,915
• Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds.	5,655,965
• 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.	11,802,021
• 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.	4,844,019
• Long-term liabilities, including bonds and loans payable, compensated absences, capital leases, other post-employment benefits (OPEB) and net pension liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(186,640,030)
• 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>(214,486)</u>
Net Position of Governmental Activities	\$ <u>(39,576,626)</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, 2016

	General	Community Development Block Grant	City Grants Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 47,202,010	\$ -	\$ -	\$ -	\$ 47,202,010
Excises	3,769,006	-	-	-	3,769,006
Penalties, interest and other taxes	1,119,894	-	-	-	1,119,894
Charges for services	6,017,574	-	62,924	1,587,444	7,667,942
Intergovernmental	58,309,960	883,148	5,795,836	16,553,965	81,542,909
Licenses and permits	879,755	-	-	-	879,755
Fines and forfeitures	167,957	-	-	-	167,957
Investment income	73,914	-	-	159,236	233,150
Miscellaneous	172,957	147,611	274,914	-	595,482
Total Revenues	117,713,027	1,030,759	6,133,674	18,300,645	143,178,105
Expenditures:					
Current:					
General government	4,662,446	1,009,771	1,464,543	489,418	7,626,178
Public safety	14,722,098	-	1,311,928	153,336	16,187,362
Education	52,047,266	-	-	12,269,036	64,316,302
Public works	3,325,106	-	1,694,495	4,146,066	9,165,667
Health and human services	3,469,967	-	315,865	79,939	3,865,771
Culture and recreation	1,063,761	-	38,288	176,732	1,278,781
Employee benefits	25,744,491	-	-	-	25,744,491
Miscellaneous	736,631	-	-	-	736,631
Debt service	4,213,300	-	771,127	-	4,984,427
Intergovernmental	5,220,302	-	-	-	5,220,302
Total Expenditures	<u>115,205,368</u>	<u>1,009,771</u>	<u>5,596,246</u>	<u>17,314,527</u>	<u>139,125,912</u>
Excess (deficiency) of revenues over expenditures	2,507,659	20,988	537,428	986,118	4,052,193
Other Financing Sources (Uses):					
Bond proceeds	-	-	-	2,085,000	2,085,000
Proceeds of refunding bond	1,099,204	-	-	-	1,099,204
Payment to refunding agent	(1,099,204)	-	-	-	(1,099,204)
Transfers in	236,957	-	-	145,000	381,957
Transfers out	(145,000)	-	-	(236,957)	(381,957)
Total Other Financing Sources (Uses)	<u>91,957</u>	<u>-</u>	<u>-</u>	<u>1,993,043</u>	<u>2,085,000</u>
Change in fund balance	2,599,616	20,988	537,428	2,979,161	6,137,193
Fund Equity, at Beginning of Year	<u>14,063,985</u>	<u>352,545</u>	<u>(452,953)</u>	<u>10,887,200</u>	<u>24,850,777</u>
Fund Equity, at End of Year	<u>\$ 16,663,601</u>	<u>\$ 373,533</u>	<u>\$ 84,475</u>	<u>\$ 13,866,361</u>	<u>\$ 30,987,970</u>

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

CITY OF FITCHBURG, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2016

Net Changes in Fund Balances - Total Governmental Funds	\$ 6,137,193
• Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Capital outlay purchases, net of dispositions	8,564,607
Depreciation	(5,889,413)
• 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.	(3,173,459)
• The issuance of long-term debt (e.g., bonds and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position:	
Issuance of debt (bonds and loans)	(2,085,000)
Repayments of debt (bonds and loans)	4,732,322
Amortization of deferred gain / (loss) on early retirement of debt	71,494
• Some expenses reported in the statement of activities, such as compensated absences, other post-employment benefits (OPEB), and net pension liability do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.	(6,057,924)
• 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.	779,097
Changes in Net Position of Governmental Activities	<u>\$ 3,078,917</u>

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

CITY OF FITCHBURG, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues and Transfers In:				
Taxes	\$ 46,655,008	\$ 46,655,008	\$ 46,655,008	\$ -
Excises	3,120,652	3,120,652	3,769,006	648,354
Penalties, interest and other taxes	780,000	780,000	1,119,894	339,894
Charges for services	4,260,610	4,260,610	6,017,574	1,756,964
Intergovernmental	58,189,428	58,189,428	58,309,960	120,532
Licenses and permits	664,000	664,000	879,755	215,755
Fines and forfeitures	124,000	124,000	167,957	43,957
Investment income	45,000	45,000	54,770	9,770
Miscellaneous	4,000	4,000	172,957	168,957
Transfers in	236,957	236,957	236,957	-
Total Revenues and Transfers In	114,079,655	114,079,655	117,383,838	3,304,183
Expenditures and Transfers Out:				
General government	4,755,820	4,800,417	4,556,639	243,778
Public safety	14,581,140	14,706,140	14,340,640	365,500
Education	53,374,211	53,374,211	53,374,168	43
Public works	3,154,350	3,434,350	3,379,087	55,263
Health and human services	3,554,263	3,554,263	3,428,459	125,804
Culture and recreation	801,390	1,209,870	1,145,921	63,949
Employee benefits	25,478,000	25,868,000	25,753,138	114,862
Miscellaneous	754,900	754,900	751,395	3,505
Debt service	4,213,300	4,213,300	4,213,300	-
Intergovernmental	5,822,281	5,822,281	5,220,302	601,979
Transfers out	145,000	245,000	245,000	-
Total Expenditures and Transfers Out	116,634,655	117,982,732	116,408,049	1,574,683
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(2,555,000)	(3,903,077)	975,789	4,878,866
Other Financing Sources/Uses:				
Use of free cash:				
Operating budget	1,555,000	2,803,077	-	(2,803,077)
Transfer to Stabilization fund	-	100,000	-	(100,000)
Overlay surplus	700,000	700,000	-	(700,000)
Other sources	300,000	300,000	-	(300,000)
Total Other Financing Sources/Uses	2,555,000	3,903,077	-	(3,903,077)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 975,789	\$ 975,789

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

CITY OF FITCHBURG, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2016

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Funds
ASSETS				
Current:				
Cash and short-term investments	\$ 1,085,896	\$ 12,338,212	\$ 13,424,108	\$ 6,239,510
User fees, net of allowance for uncollectibles	1,261,242	2,213,027	3,474,269	-
Intergovernmental receivables	-	2,428,060	2,428,060	-
Total current assets	2,347,138	16,979,299	19,326,437	6,239,510
Noncurrent:				
Land and construction in progress	1,251,000	15,561,086	16,812,086	-
Capital assets, net of accumulated depreciation	44,218,476	53,277,002	97,495,478	-
Total noncurrent assets	45,469,476	68,838,088	114,307,564	-
TOTAL ASSETS	47,816,614	85,817,387	133,634,001	6,239,510
DEFERRED OUTFLOWS OF RESOURCES	156,555	238,736	395,291	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	47,973,169	86,056,123	134,029,292	6,239,510
LIABILITIES				
Current:				
Warrants payable	70,640	930,922	1,001,562	94,118
Accounts payable	-	-	-	227,051
Accrued interest payable	77,712	311,270	388,982	-
Accrued claims payable	-	-	-	808,117
Notes payable	-	2,000,000	2,000,000	-
Current portion of long-term liabilities:				
Bonds payable	2,032,528	3,071,970	5,104,498	-
Total current liabilities	2,180,880	6,314,162	8,495,042	1,129,286
Noncurrent:				
Bonds payable, net of current portion	13,507,755	44,890,038	58,397,793	-
Other liabilities	1,489,231	1,873,138	3,362,369	-
Net pension liability	3,187,169	4,860,243	8,047,412	-
Total noncurrent liabilities	18,184,155	51,623,419	69,807,574	-
TOTAL LIABILITIES	20,365,035	57,937,581	78,302,616	1,129,286
DEFERRED INFLOWS OF RESOURCES	-	-	-	266,205
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	20,365,035	57,937,581	78,302,616	1,395,491
NET POSITION				
Invested in capital assets, net of related debt	30,564,502	22,860,236	53,424,738	-
Unrestricted	(2,956,368)	5,258,306	2,301,938	4,844,019
TOTAL NET POSITION	\$ 27,608,134	\$ 28,118,542	\$ 55,726,676	\$ 4,844,019

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, 2016

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Fund
	Water Fund	Sewer Fund	Total	
Operating Revenues:				
Charges for services	\$ 5,364,515	\$ 11,766,782	\$ 17,131,297	\$ -
Employee contributions	-	-	-	5,026,057
Employer contributions	-	-	-	13,406,452
Miscellaneous	-	-	-	377,543
Total Operating Revenues	5,364,515	11,766,782	17,131,297	18,810,052
Operating Expenses:				
Salary and wages	1,600,201	2,741,902	4,342,103	-
Operating expenses	1,197,397	2,305,413	3,502,810	-
Depreciation	1,873,288	2,117,588	3,990,876	-
Administrative assessments	750,000	890,000	1,640,000	-
Employee benefits	-	-	-	18,033,374
Other	512,683	1,995,198	2,507,881	-
Total Operating Expenses	5,933,569	10,050,101	15,983,670	18,033,374
Operating Income (Loss)	(569,054)	1,716,681	1,147,627	776,678
Nonoperating Revenues (Expenses):				
Intergovernmental revenue	393,904	422,823	816,727	-
Investment income	1,454	12,567	14,021	2,419
Interest expense	(198,697)	(677,961)	(876,658)	-
Total Nonoperating Revenues (Expenses), Net	196,661	(242,571)	(45,910)	2,419
Change in Net Position	(372,393)	1,474,110	1,101,717	779,097
Net Position at Beginning of Year, as restated	27,980,527	26,644,432	54,624,959	4,064,922
Net Position at End of Year	\$ 27,608,134	\$ 28,118,542	\$ 55,726,676	\$ 4,844,019

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, 2016

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Fund
	Water Fund	Sewer Fund	Total	
Cash Flows From Operating Activities:				
Receipts from customers and users	\$ 5,300,151	\$ 11,844,236	\$ 17,144,387	\$ -
Payments to vendors and employees	(4,174,692)	(7,768,482)	(11,943,174)	-
Receipts from employees and employer	-	-	-	18,817,793
Payments of employee benefits and expenses	-	-	-	(16,796,444)
Net Cash Provided By Operating Activities	1,125,459	4,075,754	5,201,213	2,021,349
Cash Flows From Capital and Related Financing Activities:				
Receipts from governments	19,575	386,477	406,052	-
Proceeds of notes and governmental loans	-	16,388,219	16,388,219	-
Acquisition and construction of capital assets	(347,508)	(3,508,017)	(3,855,525)	-
Principal payments on bonds and notes	(1,613,200)	(14,047,807)	(15,661,007)	-
Interest expense paid	(210,246)	(599,988)	(810,234)	-
Net Cash (Used For) Capital and Related Financing Activities	(2,151,379)	(1,381,116)	(3,532,495)	-
Cash Flows From Investing Activities:				
Investment income	1,454	12,567	14,021	2,419
Net Cash Provided by Investing Activities	1,454	12,567	14,021	2,419
Net Change in Cash and Short-Term Investments	(1,024,466)	2,707,205	1,682,739	2,023,768
Cash and Short Term Investments, Beginning of Year	2,110,362	9,631,007	11,741,369	4,215,742
Cash and Short Term Investments, End of Year	\$ 1,085,896	\$ 12,338,212	\$ 13,424,108	\$ 6,239,510
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:				
Operating income (loss)	\$ (569,054)	\$ 1,716,681	\$ 1,147,627	\$ 776,678
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	1,873,288	2,117,588	3,990,876	-
Changes in assets and liabilities:				
User fee receivables	(64,364)	77,454	13,090	-
Overpayment of claims	-	-	-	1,087,918
Warrants and other payables	(287,760)	(560,360)	(848,120)	149,012
Accrued / other liabilities	113,440	246,220	359,660	7,741
Net pension liability, net of deferrals	59,909	478,171	538,080	-
Net Cash Provided By Operating Activities	\$ 1,125,459	\$ 4,075,754	\$ 5,201,213	\$ 2,021,349

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

CITY OF FITCHBURG, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	Pension Trust	
	OPEB	Fund (As of
	<u>Trust Fund</u>	<u>December 31, 2015</u>)
ASSETS		
Cash and short-term investments	\$ -	\$ 3,259,067
Investments	255,653	95,522,332
Accounts receivable	<u>-</u>	<u>179,310</u>
 Total Assets	 255,653	 98,960,709
LIABILITIES AND NET POSITION		
Accounts payable	<u>-</u>	<u>3,746</u>
 Total Liabilities	 <u>-</u>	 <u>3,746</u>
NET POSITION		
Total net position held in trust	<u>\$ 255,653</u>	<u>\$ 98,956,963</u>

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

CITY OF FITCHBURG, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2016

	OPEB Trust Fund	Pension Trust Fund (For the Year Ended December 31, 2015)
Additions:		
Contributions:		
Employers	\$ -	\$ 9,978,292
Other systems and Commonwealth of Massachusetts	- -	415,815
Plan members	<u>-</u>	<u>3,117,290</u>
Total contributions	- -	13,511,397
Investment Income:		
Interest and dividends	5,653	2,604,739
Gain on sale of investments	- -	3,025,965
Decrease in fair value of investments	- -	(4,620,720)
Less: management fees	<u>-</u>	<u>(508,746)</u>
Net investment income	<u>5,653</u>	<u>501,238</u>
Total additions	5,653	14,012,635
Deductions:		
Benefit payments to plan members and beneficiaries	- -	14,763,295
Refunds to plan members and other systems	- -	406,764
Administrative expenses	<u>-</u>	<u>168,818</u>
Total deductions	<u>-</u>	<u>15,338,877</u>
Net increase (decrease)	5,653	(1,326,242)
Net assets:		
Beginning of year	<u>250,000</u>	<u>100,283,205</u>
End of year	<u>\$ 255,653</u>	<u>\$ 98,956,963</u>

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

City of Fitchburg, Massachusetts

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The City is a municipal corporation governed by an elected City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2016, 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 legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment 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 City considers

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

The *OPEB trust fund* accumulates resources for health and life insurance benefits for retired employees.

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 are included under investment income.

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

E. Investments

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

Investments for the Contributory Retirement System and trust funds consist of Federal securities, corporate bonds, equity securities, mutual funds, the State investment fund and other investments. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2 ½" 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 2016 tax levy reflected an excess capacity of \$45,209.

G. Interfund Receivables and Payables

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

or “advances to/from other funds” (i.e., the non-current portion of interfund loans).

H. Capital Assets

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

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

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

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

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

I. Compensated Absences

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

J. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental

activities, business-type activities, or proprietary fund type statement of net position.

K. Fund Equity

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

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

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)	\$ 117,713,027	\$ 115,205,368
Other financing sources/uses (GAAP basis)	<u>1,336,161</u>	<u>1,244,204</u>
Subtotal (GAAP basis)	119,049,188	116,449,572
Remove effects of combining General and Stabilization funds	(19,144)	100,000
Adjust tax revenue to accrual basis	(547,002)	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(2,134,626)
Add end of year appropriation carryforwards to expenditures	-	3,092,307
Reverse the effect of debt refunding	<u>(1,099,204)</u>	<u>(1,099,204)</u>
Budgetary basis	<u>\$ 117,383,838</u>	<u>\$ 116,408,049</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2016:

Community Development Block Grant Major Fund	\$ (30,239)
City Grants Major Fund:	
Police 911 Training Grant	(30,583)
Shea Street Flood Hazard Mitigation Grant	(28,640)
Our Town - Main Street Art Grant	(23,122)
Bullet Proof Vest Grant	(51,942)
Community Develop - Transform Initiative Grant	<u>(21,800)</u>
Total City Grants Fund	(156,087)
Non Major Funds:	
United Way Afterschool Grant	(21,216)
Airport fund	<u>(274,255)</u>
Total Non Major Funds	<u>(295,471)</u>
Total All Funds	\$ <u>(481,797)</u>

The deficits in these funds will be eliminated through future departmental and intergovernmental revenues, bond issuances 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, 2016, \$215,646 of the City's bank balance of \$47,340,164 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. The City's total bank balance includes \$4,681,793 of overnight repurchase agreements that are secured by an underlying interest in the purchased securities, all of which are direct obligations of or guaranteed by the U.S. Government.

As of December 31, 2015, none of the Retirement System's bank balance of \$3,421,9347 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 investments 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). Additionally, the City's investment policy limits the amount invested in any single financial institution (other than U.S. Treasury or State pooled funds) to 10%. The Library's investment policy requires they invest in a prudent manner, achieving growth and income through quality investments with minimal risk; all bonds should have a rating of BBB- or better.

Presented below (in thousands) is the actual rating as of June 30, 2016 for each investment of the City:

Investment Type	Fair Value	Exempt From Disclosure	Rating as of Year End				
			AAA	AA+ / AA-	A / A-	- BB	Not Rated
Certificates of deposit	\$ 1,642	\$ 1,642	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	1,886	-	56	145	525	1,150	10
Equity securities	599	599	-	-	-	-	-
Federal securities	4,938	-	4,938	-	-	-	-
Mutual funds	455	455	-	-	-	-	-
Pooled state funds	256	256	-	-	-	-	-
Total investments	\$ 9,776	\$ 2,952	\$ 4,994	\$ 145	\$ 525	\$ 1,150	\$ 10

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, 2015 (in thousands), none of which are subject to credit risk disclosure:

<u>Investment Type</u>	<u>Fair Value</u>
PRIT *	\$ 94,860
TA Associates Realty (equity investments)	662
Total investments	\$ <u>95,522</u>

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

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's policy manages custodial credit risk by the diversification and prudent selection of investment instruments and choice of depository. The Library's investment policy 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%). The Retirement System does not have a policy for custodial credit risk.

Of the total City investments of \$9,776,086, (which include Library funds) the City has a custodial credit risk exposure of \$9,270,433 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 is 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. The City does not have an investment in any one issuer (other than U.S. Treasuries) greater than 5% or more of total investments.

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 manages interest rate risk by the diversification and prudent selection of investment instruments and choice of depository. The Library's policy limits interest rate risk by requiring fixed income investments (bonds) to have an average maturity of 7 years or less. 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	Fair Value	Exempt From N/A	Investment Maturities (in Years)			
			Less Than 1	1-5	6-10	More Than 10
Certificates of deposit	\$ 1,642	\$ -	\$ 246	\$ 1,396	\$ -	\$ -
Corporate bonds	1,886	-	280	1,242	364	-
Equity securities	599	599	-	-	-	-
Federal securities	4,938	-	335	3,837	766	-
Mutual funds	455	455	-	-	-	-
Pooled state funds	256	256	-	-	-	-
Total investments	\$ <u>9,776</u>	\$ <u>1,310</u>	\$ <u>861</u>	\$ <u>6,475</u>	\$ <u>1,130</u>	\$ <u>-</u>

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. None of the City's investment policies address foreign currency risk specifically; however, Massachusetts General Laws prohibit foreign investment.

F. Fair Value

The City and System categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following fair value measurements as of June 30, 2016 (in thousands):

<u>Description</u>	<u>Value</u>	Fair Value Measurements Using:		
		Quoted prices in active markets for identical (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level:				
Debt securities				
Federal securities	\$ 4,938	\$ -	\$ 4,938	\$ -
Corporate bonds	1,886	-	1,886	-
Equity securities	599	599	-	-
Mutual funds	455	455	-	-
Investments measured at the net asset value (NAV):				
External investment pool	256	-	-	-
Total	\$ 8,134	\$ 1,054	\$ 6,824	\$ -
 Description				
	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
External investment pool	\$ 256	\$ -	Quarterly	30 days

The System has the following fair value measurements as of December 31, 2015 (in thousands):

Fair Value Measurements Using:					
<u>Description</u>	<u>Value</u>	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Investments by fair value level:					
Equity securities	\$ 662	\$ 662	\$ -	\$ -	
Investments measured at the net asset value (NAV):					
External investment pool	94,860	-	-	-	
Total	\$ 95,522	\$ 662	\$ -	\$ -	

<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
External investment pool	\$ 94,860	\$ -	Quarterly	30 days

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, 2016 consist of the following (in thousands):

Real Estate		
2016	\$ 866	
2015 and prior	27	
	<hr/>	
		893
Personal Property		
2016	20	
2015	27	
2014	23	
2013 and prior	85	
	<hr/>	
		155
Deferred Taxes		45
Total	\$ 1,093	

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 \$574,703 and \$117,873, 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	\$ 118	\$ -
Tax title and demolition liens	4,594	-
Excises	508	-
Water charges	-	254
Sewer charges	-	487

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 2016 and are expected to be reimbursed in fiscal year 2017.

The balance reported in the governmental activities statement of net position includes an additional amount (\$1,924,946 current and \$3,849,892 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.

Loan balances as of June 30, 2016 consist of the following:

	<u>Total Loan Balance</u>	<u>Less Allowance for Uncollect.</u>	<u>Equals Long-term Portion</u>
CDBG - consumer loans	\$ 960,424	\$ (192,085)	\$ 768,339
CDBG - mortgage/financing loans	21,093	-	21,093
CDBG - deferred payment loans	758,903	(758,903)	-
HOME - mortgage/financing loans	1,562,175	(312,435)	1,249,740
Other City grants - deferred payment loans	<u>6,324,233</u>	<u>(6,324,233)</u>	<u>-</u>
Total	<u>\$ 9,626,828</u>	<u>\$ (7,587,656)</u>	<u>\$ 2,039,172</u>

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 receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2016 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General fund	\$ 321,517	\$ -
City Grants fund	-	<u>321,517</u>
Total	<u>\$ 321,517</u>	<u>\$ 321,517</u>

10. Capital Assets

Capital asset activity for the year ended June 30, 2016 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	\$ 13,643	\$ -	\$ -	\$ -	\$ 13,643
Buildings and improvements	83,133	689	-	435	84,257
Machinery, equipment, and furnishings	19,708	1,304	(362)	-	20,650
Infrastructure	75,505	3,057	(1,053)	1,545	79,054
Total capital assets, being depreciated	191,989	5,050	(1,415)	1,980	197,604
Less accumulated depreciation for:					
Land improvements	(4,870)	(354)	-	-	(5,224)
Buildings and improvements	(40,313)	(2,282)	-	-	(42,595)
Machinery, equipment, and furnishings	(14,474)	(1,287)	362	-	(15,399)
Infrastructure	(48,021)	(1,967)	1,053	-	(48,935)
Total accumulated depreciation	(107,678)	(5,890)	1,415	-	(112,153)
Total capital assets, being depreciated, net	84,311	(840)	-	1,980	85,451
Capital assets, not being depreciated:					
Land	3,982	501	-	-	4,483
Construction in progress (CIP)	2,405	3,628	-	(1,980)	4,053
Total capital assets, not being depreciated	6,387	4,129	-	(1,980)	8,536
Governmental activities capital assets, net	\$ 90,698	\$ 3,289	\$ -	\$ -	\$ 93,987
Business-Type Activities:					
Capital assets, being depreciated:					
Buildings and improvements	\$ 109,441	\$ -	\$ -	\$ -	\$ 109,441
Machinery, equipment, and furnishings	7,813	39	-	-	7,852
Infrastructure	46,654	628	(79)	6,528	53,731
Total capital assets, being depreciated	163,908	667	(79)	6,528	171,024
Less accumulated depreciation for:					
Buildings and improvements	(48,884)	(2,753)	-	-	(51,637)
Machinery, equipment, and furnishings	(3,416)	(469)	-	-	(3,885)
Infrastructure	(17,314)	(770)	77	-	(18,007)
Total accumulated depreciation	(69,614)	(3,992)	77	-	(73,529)
Total capital assets, being depreciated, net	94,294	(3,325)	(2)	6,528	97,495
Capital assets, not being depreciated:					
Land	1,535	-	-	-	1,535
Construction in progress (CIP)	18,614	3,191	-	(6,528)	15,277
Total capital assets, not being depreciated	20,149	3,191	-	(6,528)	16,812
Business-type activities capital assets, net	\$ 114,443	\$ (134)	\$ (2)	\$ -	\$ 114,307

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

Governmental Activities:		
General government	\$	90
Public safety		835
Education		1,820
Public works		2,440
Human services		303
Culture and recreation		402
		<hr/>
Total depreciation expense - governmental activities	\$	<u>5,890</u>
Business-Type Activities:		
Water	\$	1,873
Sewer		2,119
		<hr/>
Total depreciation expense - business-type activities	\$	<u>3,992</u>

11. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net assets by the City that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

The following is a summary of deferred outflow of resources balances as of June 30, 2016 (in thousands):

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Pension related:		
Net difference between projected and actual earnings on pension plan investments	\$ 5,584	\$ 390
Changes in proportion and differences between contributions and proportionate share of contributions	<hr/> 72	<hr/> 5
Total	<hr/> <u>5,656</u>	<hr/> <u>395</u>

12. Warrants and Accounts Payable

Warrants payable represent 2016 expenditures paid by July 15, 2016 as permitted by law. Accounts payable represent additional 2016 expenditures paid after July 15, 2016.

13. Notes Payable

The City had the following note outstanding at June 30, 2016:

	Interest Rate(s) %	Date of Issue	Date of Maturity	Balance at June 30, 2016
Bond anticipation - sewer/airport	0.80	06/24/16	06/23/17	\$ <u>2,500,000</u>

The following summarizes activity in notes payable during fiscal year 2016:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
MWPAT interim loan proceeds	\$ 8,796,797	\$ -	\$ (8,796,797)	\$ -
Bond anticipation	<u>3,800,000</u>	<u>2,500,000</u>	<u>(3,800,000)</u>	<u>2,500,000</u>
Total	<u>\$ 12,596,797</u>	<u>\$ 2,500,000</u>	<u>\$ (12,596,797)</u>	<u>\$ 2,500,000</u>

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 Through	Interest Rate(s) %	Amount Outstanding as of June 30, 2016
<u>Governmental Activities:</u>			
Multi-purpose - refunding (2012)	12/01/18	2.0 - 4.0	\$ 8,210,000
Multi-purpose - refunding (2016)	06/30/19	2.0 - 4.0	1,083,000
Multi-purpose (2011)	06/15/21	3.0 - 4.0	525,000
Multi-purpose (2016)	06/30/21	2.0 - 4.0	2,085,000
Multi-purpose (2013)	06/15/23	3.0 - 3.5	<u>1,670,000</u>
Total Governmental Activities			<u>\$ 13,573,000</u>
<u>Business-Type Activities:</u>			
<u>Water Fund:</u>			
Water treatment (MCWT 99-06)	08/01/20	1.0 - 2.0	\$ 3,760,000
Water treatment (MCWT 00-10)	08/01/20	1.0 - 2.0	2,040,000
General obligation 2011 - water portion	06/15/21	3.0 - 4.0	500,000
Water treatment (MCWT 00-10A)	08/01/24	1.0 - 2.0	3,085,000
Water treatment (MCWT 01-16)	07/15/25	-	4,675,283
General obligation 2013 - water portion	06/15/33	3.0 - 3.5	<u>1,480,000</u>
Total Water Fund			<u>15,540,283</u>

<u>Sewer Fund:</u>			
Sewer inflow (MCWT 97-30)	08/01/18	1.0 - 2.0	457,000
General obligation 2004 - sewer portion	03/15/19	2.5 - 5.0	435,000
Sewer inflow (MCWT 03-12)	08/01/24	2	350,000
Sewer (MCWT 03-12A)	07/15/25	2	3,435,008
General obligation 2016 - sewer portion	06/30/26	2.0 - 4.0	2,868,000
Sewer (MCWT 03-12B)	07/15/26	2	976,016
Multi-purpose 2008 - sewer portion	06/01/28	3.5 - 5.5	700,000
2016 refunding - sewer portion	06/30/28	2.0 - 4.0	3,359,000
Sewer (MCWT 08-03)	07/15/28	2	5,090,346
Sewer (MCWT 08-03A)	07/15/30	2	768,157
Sewer (MCWT 03-12C)	07/15/30	2	255,502
General obligation 2011 - sewer portion	06/15/31	3.0 - 4.0	1,500,000
General obligation 2013 - sewer portion	06/15/33	3.0 - 3.5	1,615,000
Sewer (MCWT 12-01)	07/15/35	2	5,350,252
Sewer (MCWT 12-02)	07/15/35	2	6,854,448
Sewer (MCWT 12-01A)	07/15/36	2	721,426
Sewer (MCWT 13-01)	07/15/36	2	13,226,853
 Total Sewer Fund			<u>47,962,008</u>
 Total Business-Type Activities			<u>\$ 63,502,291</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2016 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 3,845,000	\$ 402,765	\$ 4,247,765
2018	3,940,000	296,347	4,236,347
2019	4,028,000	146,060	4,174,060
2020	650,000	54,902	704,902
2021	645,000	31,300	676,300
2022 - 2025	<u>465,000</u>	<u>20,842</u>	<u>485,842</u>
 Total	<u>\$ 13,573,000</u>	<u>\$ 952,216</u>	<u>\$ 14,525,216</u>
<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 5,104,498	\$ 1,340,043	\$ 6,444,541
2018	5,183,615	1,317,118	6,500,733
2019	5,270,673	1,059,177	6,329,850
2020	5,058,487	950,562	6,009,049
2021	5,135,879	864,422	6,000,301
2022 - 2026	<u>19,452,268</u>	<u>3,068,619</u>	<u>22,520,887</u>
2027 - 2031	<u>10,870,002</u>	<u>1,424,153</u>	<u>12,294,155</u>
2032 - 2036	<u>7,426,869</u>	<u>414,047</u>	<u>7,840,916</u>
 Total	<u>\$ 63,502,291</u>	<u>\$ 10,438,141</u>	<u>\$ 73,940,432</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2016, the following changes occurred in long-term liabilities (in thousands):

	Balance July 1, 2015 (Restated)	Additions	Reductions	Total Balance June 30, 2016	Less Current Portion	Long-Term Portion June 30, 2016
Governmental Activities						
Bonds payable	\$ 15,906	\$ 2,085	\$ (4,418)	\$ 13,573	(3,845)	9,728
Other:						
Loan payable	977	-	(314)	663	(325)	338
Accrued employee benefits	3,168	143	-	3,311	-	3,311
Capital lease liability	912	-	(93)	819	(81)	738
Other post-employment benefits	48,426	4,817	-	53,243	-	53,243
Net pension liability	<u>108,627</u>	<u>6,518</u>	<u>-</u>	<u>115,145</u>	<u>-</u>	<u>115,145</u>
Totals	<u>\$ 178,016</u>	<u>\$ 13,563</u>	<u>\$ (4,825)</u>	<u>\$ 186,754</u>	<u>\$ (4,251)</u>	<u>\$ 182,503</u>
Business-Type Activities						
Bonds payable	\$ 51,261	\$ 16,816	\$ (4,575)	\$ 63,502	\$ (5,104)	\$ 58,398
Other:						
Accrued employee benefits	387	9	-	396	-	396
Other post-employment benefits	2,616	350	-	2,966	-	2,966
Net pension liability	<u>7,127</u>	<u>920</u>	<u>-</u>	<u>8,047</u>	<u>-</u>	<u>8,047</u>
Totals	<u>\$ 61,391</u>	<u>\$ 18,095</u>	<u>\$ (4,575)</u>	<u>\$ 74,911</u>	<u>\$ (5,104)</u>	<u>\$ 69,807</u>

D. Advance and Current Refundings

Current Year

On June 23, 2016 the City issued general obligation bonds in the amount of \$9,395,000 (interest rate ranging from 2% - 4%), \$1,083,000 of which was used to refund \$1,090,000 of term bonds (for governmental activities) and \$3,359,000 of which was used to advance refund \$3,500,000 of term bonds (for the sewer fund), both with an interest rate of 3.5%. The governmental activities bond mature on November 15, 2018 and were callable at the time of refunding. The sewer-related term bonds mature on June 1, 2028 and are redeemable (with a premium) on June 1, 2018.

The general obligation bonds were issued at 109.5% and, after paying issuance costs of \$133,084, the net proceeds of the refunding bonds were \$4,833,489. Of the net proceeds, \$1,099,204 was placed with a trustee (cash deposit) to pay the principal and interest due August 1, 2016 for the current refunding of the governmental activities bond and \$3,734,285 was used to purchase U.S. government securities and those securities were

deposited in an irrevocable trust with an escrow agent to provide debt service payments (and a redemption premium) until the sewer-related term bonds are called on June 1, 2018.

The refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the City's financial statements.

As a result of the advance refunding, the City reduced its total debt service cash flow requirements by \$461,022 which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$372,932.

Defeased debt still outstanding at June 30, 2016 is \$4,590,000.

15. Loan Payable

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, 2016 was \$662,032, (\$325,323 current and \$336,709 non-current).

16. Capital Lease

In November 2014 the City signed a lease-purchase agreement for approximately 3,000 street light fixtures for a total cost of \$1,175,000. Construction began on this project in fiscal year 2015 and will be complete in fiscal year 2017. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2016:

2017	\$ 104,122
2018	104,122
2019	104,122
2020	104,122
2021	104,122
2022-2025	<u>416,488</u>
Total minimum lease payments	937,098
Less amounts representing interest	<u>(118,009)</u>
Present Value of Minimum Lease Payments	\$ <u>819,089</u>

17. 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 in the fund basis financial statements as of June 30, 2016 consists of unearned 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, 2016 receivable balances, less property tax collected within 60 days of year-end.

On the government-wide basis financial statements, the deferred inflows balance represents the following:

- Amounts in the Internal Service Fund for teachers' withholdings to be applied over July and August 2016 of \$266,205.
- Unamortized net decrease in long-term debt outstanding resulting from the City's issuance of refunding bonds in fiscal years 2006 and 2012 of \$214,486. The balance will be amortized (as a credit to annual interest expense of \$71,494) until fiscal year 2019.

18. 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, 2016:

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 2016.

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

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

Following is a breakdown of the City's fund balances at June 30, 2016:

	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>2,147,169</u>	\$ <u>2,147,169</u>
Total Nonexpendable	-	-	-	2,147,169	2,147,169
Restricted					
Bonded projects	-	-	-	1,129,516	1,129,516
Special revenue funds	-	403,772	240,562	8,386,948	9,031,282
Expendable permanent funds	<u> -</u>	<u> -</u>	<u> -</u>	<u>2,498,199</u>	<u>2,498,199</u>
Total Restricted	-	403,772	240,562	12,014,663	12,658,997
Assigned					
Encumbrances	3,092,307	-	-	-	3,092,307
Reserved for expenditures	<u>700,000</u>	<u> -</u>	<u> -</u>	<u> -</u>	<u>700,000</u>
Total Assigned	3,792,307	-	-	-	3,792,307
Unassigned					
General fund	7,424,036	-	-	-	7,424,036
Stabilization fund *	<u>5,447,258</u>	<u> -</u>	<u> -</u>	<u> -</u>	<u>5,447,258</u>
Deficit fund balances	<u> -</u>	<u>(30,239)</u>	<u>(156,087)</u>	<u>(295,471)</u>	<u>(481,797)</u>
Total Unassigned	<u>12,871,294</u>	<u>(30,239)</u>	<u>(156,087)</u>	<u>(295,471)</u>	<u>12,389,497</u>
Total Fund Balance	<u>\$ 16,663,601</u>	<u>\$ 373,533</u>	<u>\$ 84,475</u>	<u>\$ 13,866,361</u>	<u>\$ 30,987,970</u>

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

19. Transfers In/Out

The City reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 236,957	\$ 145,000
Nonmajor Governmental Funds:		
Special revenue funds	-	236,957
Capital project funds	145,000	-
Total	<u>\$ 381,957</u>	<u>\$ 381,957</u>

20. Commitments and Contingencies

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

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

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

The City has established several projects to address different aspects of the sewer separation/overflow/treatment issues, including NPDES permit issues. As of June 30, 2016, the City has incurred approximately \$53.6 million of engineering and construction costs related to these projects, \$41.3 million of which was funded through the Massachusetts Clean Water Trust (MCWT).

21. Long-term Contracts

McKay Campus School – In July 1995, the City entered into an agreement with the Commonwealth of Massachusetts (acting through Fitchburg State University, FSU) whereby FSU would operate the elementary school located at the City's McKay school building. FSU provides staff and pays overhead costs, while the City provides textbooks, supplies, and use of the building. Per the terms of the agreement, the cost to the City is negotiated annually. The agreement can be terminated by either party, with two year's notice. The cost of this agreement for fiscal year 2016 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. In May 2015, the City signed a multi-year extension of this agreement through June 30, 2020 with annual guaranteed revenue of \$520,000.

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

In September 2012, the City entered into a lease with the Fitchburg Redevelopment Authority (FRA) for two spaces totaling approximately 14,550 square feet. The initial term of the lease is from September 15, 2012 – December 31, 2016, with provisions for 3 one-year extensions. 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 January 1, 2017. 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.

Net Metering Credit Agreement – In April 2014 the City entered into a 5 year net metering credit agreement with Hi-Gear Products, who owns and operates a solar electric generation facility in Fitchburg. Under the terms of the agreement, the City purchases energy credits from Hi-Gear at a 15% discount, which are to be applied to its electricity bill, up to a maximum annual

savings of \$210,000. Either party can terminate the agreement with three months' notice.

22. Subsequent Event

Debt

In September 2016 the City signed an interim anticipation note for a CSO project through the Massachusetts Clean Water Trust. The loan amount is \$1,231,951, carries an interim interest rate of 0.0% and must be converted to a permanent loan by December 31, 2017.

In September 2016, the City also signed a loan commitment agreement with the Massachusetts Clean Water Trust for wastewater treatment secondary system upgrades totaling \$27,536,300.

23. Post-Employment Health Care and Life Insurance Benefits

GASB Statement No. 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, 2015, the actuarial valuation date, 892 retirees and 790 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The City provides medical, prescription drug, 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 (50% 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 2016 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, 2016, 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, 2015:

	Governmental Funds	Water Fund	Sewer Fund	Total
Annual Required Contribution (ARC)	\$ 10,404,811	\$ 185,741	\$ 341,494	\$ 10,932,046
Interest on net OPEB obligation	1,892,757	33,347	62,342	1,988,446
Adjustment to ARC	(2,224,110)	(41,611)	(72,043)	(2,337,764)
Annual OPEB cost	10,073,458	177,477	331,793	10,582,728
Contributions made	(5,256,460)	(75,564)	(82,999)	(5,415,023)
Increase in net OPEB obligation	4,816,998	101,913	248,794	5,167,705
Net OPEB obligation - beginning of year	48,425,777	1,200,750	1,415,204	51,041,731
Net OPEB obligation - end of year	\$ 53,242,775	\$ 1,302,663	\$ 1,663,998	\$ 56,209,436

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
2016	\$ 10,582,728	51%	\$ 56,209,436
2015	\$ 10,079,847	51%	\$ 51,041,731
2014	\$ 14,559,002	45%	\$ 46,132,443
2013	\$ 13,785,776	45%	\$ 38,120,472
2012	\$ 14,287,830	46%	\$ 30,593,907

The City's net OPEB obligation as of June 30, 2016 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, 2015, the date of the most recent actuarial valuation was as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 129,060
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>129,060</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>66,402</u>
UAAL as a percentage of covered payroll	<u>194.4%</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.

In July 2015, the City formally voted to establish an OPEB Trust Fund under MGL Chapter 32B, Section 20. The balance in the trust fund is \$255,653 as of June 30, 2016.

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, 2015 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 at the time of the valuation. The actuarial assumptions included a 4% interest/discount rate and an annual healthcare cost trend rate of 9%, decreasing by 0.5% per year through year 8 to 5.5% thereafter. The UAAL is amortized over a period of 24 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).

24. Fitchburg Contributory Retirement System

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

A. Plan Description

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

Participant Retirement Benefits

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

upon a member's age, length of creditable service, level of compensation and group classification.

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

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

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

Participant Refunds

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

Participants Contributions

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

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

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

Employer Contributions

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

The City's contribution to the System for the year ended June 30, 2016 was \$9,672,142, which was slightly higher than annual required contribution of \$9,648,715.

B. Summary of Significant Accounting Policies

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

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

At June 30, 2016, the City reported a liability of approximately \$123 million for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the City's proportion was 96.6 percent.

For the year ended June 30, 2016, the City recognized pension expense of \$11,399,916. In addition, the City reported deferred outflows of resources related to pensions from the following sources (in thousands):

	<u>Deferred Outflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 5,974
Changes in proportion and differences between contributions and proportionate share of contributions	<u>77</u>
Total	<u><u>\$ 6,051</u></u>

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

Year ended June 30:

2017	\$ 1,532
2018	1,532
2019	1,532
2019	1,447
2020	<u>8</u>
Total	<u><u>\$ 6,051</u></u>

D. Actuarial Assumptions

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

Valuation Date	1/1/2014
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	7.95%
Projected salary increases	4.25%
Inflation rate	3.00%
Post-retirement cost-of-living adjustment	3% of first \$12,000

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

Mortality rates were based on pre-retirement rates that reflect the RP-2000 employees table with the generational mortality with scale BB.

During the fiscal year there were no changes in benefit terms or assumptions.

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Large cap equities	14.5%	4.37%
Small/mid cap equities	3.5%	4.67%
International equities	16.0%	4.85%
Emerging market equities	6.0%	6.31%
Core bonds	5.0%	0.76%
20+ year Treasuries	5.0%	0.49%
TIPS	3.0%	0.97%
High-Yield bonds	1.5%	2.67%
Bank loans	1.5%	2.91%
EMD (external)	1.0%	2.91%
EMD (local Currency)	2.0%	3.40%
Private debt	4.0%	4.85%
Private equity	10.0%	6.31%
Real estate	10.0%	3.40%
Timberland	4.0%	3.95%
Hedge funds	9.0%	3.40%
Portfolio completion	4.0%	3.09%
Total	<u><u>100.0%</u></u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.95%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all

projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity of the proportionate share of the net pension liability to changes in the discount rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.95%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.95%) or 1 percentage-point higher (8.95%) than the current rate (in thousands):

Fiscal Year Ended	1% Decrease (6.95%)	Current Discount Rate (7.95%)	1% Increase (8.95%)
June 30, 2016	\$147,197	\$123,193	\$104,589

G. Pension Plan Fiduciary Net Position

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

25. **Massachusetts Teachers' Retirement System (MTRS)**

A. Plan Description

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

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

Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

B. Benefits Provided

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

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

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

C. Contributions

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

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

D. Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015. This valuation used the following assumptions:

- (a) 7.50% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Mortality rates were as follows:
 - Pre-retirement – reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct)
 - Post-retirement – reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct)
 - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 set forward 4 years.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.0%	6.9%
Core fixed income	13.0%	2.4%
Private equity	10.0%	8.5%
Real estate	10.0%	6.5%
Value added fixed income	10.0%	5.8%
Hedge funds	9.0%	5.8%
Portfolio Completion Strategies	4.0%	5.5%
Timber/natural resources	4.0%	6.6%
Total	<u><u>100.0%</u></u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity Analysis

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

Fiscal Year Ended	1% Decrease to (6.5%)	Current Discount Rate (7.5%)	1% Increase to (8.5%)
June 30, 2015	\$25,449,000	\$204,896,430	\$16,221,000

G. Special Funding Situation

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

H. City Proportions

In fiscal year 2015 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense that is associated with the City was \$101,788,221 and \$8,255,931 respectively, based on a proportionate share of 0.497%. As required by GASB 68, the City has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide statement of activities.

26. Self Insurance

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

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

The City contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the City is liable for up to \$120,000 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, 2016 are as follows:

Claims liability, July 1, 2015	\$ 980,274
Claims incurred/recognized in fiscal year 2016	18,033,374
Claims paid in fiscal year 2016	<u>(18,205,531)</u>
Claims liability, June 30, 2016	\$ <u>808,117</u>

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

Estimated incurred but not reported claims	\$ 808,117
Total claims liability	\$ <u>808,117</u>

27. 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.

28. Beginning Net Position Restatement

The beginning (July 1, 2015), net position of the City has been restated as follows:

Government-Wide Financial Statements:

		Governmental Activities	Business-Type Activities	
			Water Fund	Sewer Fund
As previously reported, 6/30/15	\$	(45,187,661)	\$ 29,208,485	\$ 27,948,592
Adjust net pension liability allocation based on current year estimates		<u>2,532,118</u>	<u>(1,227,958)</u>	<u>(1,304,160)</u>
As restated, 6/30/15	\$	<u>(42,655,543)</u>	<u>\$ 27,980,527</u>	<u>\$ 26,644,432</u>

29. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, replacing Statement No. 43 and 57, which is required to be implemented for fiscal year 2017. Included are requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, 43, and 50. Management's current assessment is that this pronouncement will not have a significant impact on the Plan's financial statements, though the additional note disclosures and required supplementary information will be significant.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, replacing requirements of Statements No. 45 and 57, effective for the City beginning with its year ending June 30, 2018. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB. Management's current assessment is that this pronouncement will have an impact by increasing net OPEB liability, and as a result, decreasing the unrestricted net position on the government-wide financial statements.

CITY OF FITCHBURG, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB FUNDING PROGRESS

June 30, 2016

(Unaudited)

(Amounts expressed in thousands)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>[(b-a)/c]</u>
01/01/15	\$ -	\$ 129,060	\$ 129,060	0.0%	\$ 66,402	194.4%
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.

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

JUNE 30, 2016

(Unaudited)

(Amounts expressed in thousands)

Fitchburg Contributory Retirement System

<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	96.60%	\$123,193	\$29,175	422.3%	43.7%
June 30, 2015	96.55%	\$115,754	\$27,759	417.0%	45.6%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the City</u>	<u>Total Net Pension Liability Associated with the City</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	0.50%	\$0	\$101,788	\$101,788	\$31,490	-	55.4%
June 30, 2015	0.51%	\$0	\$81,168	\$81,168	\$31,335	-	61.6%

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

See Independent Auditors' Report.

CITY OF FITCHBURG, MASSACHUSETTS
SCHEDULE OF PENSION CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016

(Unaudited)

(Amounts expressed in thousands)

Fitchburg Contributory Retirement System

<u>Fiscal Year</u>	Contributions in Relation to the		<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
	<u>Contractually Required Contribution</u>	<u>Contractually Required Contribution</u>			
June 30, 2016	\$9,649	\$9,672	(\$23)	\$29,175	33.2%
June 30, 2015	\$9,096	\$9,118	(\$22)	\$27,759	32.8%

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

See Independent Auditors' Report.