

***CITY OF LOWELL, MASSACHUSETTS***

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

***FOR THE YEAR ENDED JUNE 30, 2017***

CITY OF LOWELL, MASSACHUSETTS

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JUNE 30, 2017

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## Independent Auditor's Report

To the Honorable Mayor and City Council  
City of Lowell, 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 Lowell, Massachusetts, as of and for the year ended June 30, 2017 (except for the Lowell Contributory Retirement System which is as of and for the year ended December 31, 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

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

## Auditor's Responsibility

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lowell, Massachusetts, as of June 30, 2017 (except for the Lowell Contributory Retirement System which is as of and for the year ended December 31, 2016), and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2018, on our consideration of the City of Lowell, Massachusetts' internal control over financial reporting and 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 the City of Lowell's internal control over financial reporting and compliance.

*Powers + Sullivan, LLC*

February 15, 2018

***Management's Discussion and Analysis***

## ***Management's Discussion and Analysis***

As management of the City of Lowell (the "City"), we offer readers of these basic financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2017. We encourage readers to consider the information presented in this report.

### ***Financial Highlights***

#### **Government-wide**

- The City's overall liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at the close of 2017, by \$67.5 million, an overall decrease of \$38.2 million from the prior year. The decrease is primarily the result of the recognition of pension and other postemployment expense totaling \$19.5 million and \$14.0 million, respectively.
- Governmental net position decreased by \$40.4 million. The decrease is attributable to the \$11.3 million increase in the net pension liability, a \$14.0 million increase in the other postemployment benefits (OPEB) liability, a net decrease in deferred outflows/(inflows) related to pensions of \$8.3 million and a decrease of \$4.1 million in the MSBA receivable related to a one-time payment received from the MSBA as part of a debt refunding.
- Business-type activities experienced a combined \$2.2 million increase in net position.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions Plans*, was implemented this year. This standard added Note disclosures and Required Supplemental Information for the City's OPEB Trust fund. Its sister standard, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment benefits Other Than Pensions*, is required to be implemented in FY2018. This standard will affect the financial statements themselves by requiring the City to record its OPEB assets, liabilities, and deferred financial statement elements for the first time.

#### **Fund Financial Statements**

- As of the close of the current year, the City's governmental funds reported combined ending fund balance of \$32.4 million, a decrease of \$8.6 million in comparison with the prior year. The decrease is primarily attributable to previously received grant revenues and the subsequent expenditure of these funds, offset by a decrease in the accrual for the Appellate Tax Board cases.
- Overall governmental long-term debt decreased by \$10.7 million and business-type long-term debt decreased by \$6.7 million, not including premiums. Please see Note 7 for more information on the City's long-term bonds.
- In order to take advantage of favorable interest rates, the City issued \$5.0 million of General Obligation Refunding Bonds on December 20, 2016. This advanced refunding was undertaken to reduce total debt service payments over the next 11 years by \$291,128, and resulted in an economic gain of \$257,547.
- Additionally, the City issued \$486,000 of current refunding obligation bonds. This current refunding was undertaken to reduce total debt service payments by \$320,416 and resulted in an economic gain of \$298,531.

### ***Overview of the Financial Statements***

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. These basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-wide financial statements** - The *government-wide financial statements* are designed to provide readers with a broad overview of the financial position of the City.

The government-wide financial statements are presented using the accrual basis of accounting, which presents a view of the City's financial position in a manner similar to private-sector business.

The *statement of net position* presents information on all assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

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

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

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

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

**Governmental funds** - *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains approximately 800 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. Data from the other funds are combined into a single, aggregate presentation under the caption *nonmajor governmental funds*. The general fund is the only major governmental fund reported.

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

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

*Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses the enterprise funds to account for its sewer, water, parking and auditorium operations. The City Council voted to rescind the operations of the Auditorium Fund as an enterprise fund during 2017.

*Internal service funds* are an accounting device used to accumulate and allocate costs internally among various functions. The City uses internal service funds to account for health insurance activities and workers compensation benefits. Because these services primarily benefit governmental rather than business-type activities, they have been included within *governmental activities* in the government-wide financial statements. In July 2012, the City entered the Group Insurance Commission and its health insurance activities are now premium based.

**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 statement because the resources of those funds are *not* available to support the City's own programs.

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: a pension trust fund, and other postemployment benefits trust fund, private purpose trust funds, and agency funds. Private purpose trust funds are used to account for trust arrangements that benefit individuals, private organizations, or other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Therefore, agency funds are not included within the statement of revenues, expenses and changes in net position.

The City is the trustee, or fiduciary, for its employees' pension plan. The City's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

The City established an OPEB trust fund to account for funds set aside to help offset future postemployment benefits for retirees. There were no contributions in the current year, only investment income. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

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

### ***Government-wide Financial Analysis***

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's overall liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$67.5 million at the close of 2017, an overall decrease of \$38.2 million from the prior year.

Net position of \$285.6 million reflects its net investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future

spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$21.8 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, a deficit of \$374.9 million, reflects the impact of the \$186.0 million liability associated with other postemployment benefit accrual and the \$273.2 net pension liability.

Details related to the City's governmental and business-type activities follow.

**Governmental Activities**

At the end of the current year, the City is able to report positive balances in two out of three categories of net position. The City's liabilities and deferred inflows of resources exceeded assets and deferred outflows by \$129.8 million at the close of 2017.

	<u>2017</u>	<u>2016</u>
<b>Assets:</b>		
Current assets.....	\$ 87,334,254	\$ 96,838,014
Noncurrent assets (excluding capital).....	7,949,989	15,040,496
Capital assets.....	<u>289,040,236</u>	<u>286,626,034</u>
Total assets.....	<u>384,324,479</u>	<u>398,504,544</u>
<b>Deferred Outflows of Resources:</b>		
Deferred outflows of resources related to pensions.....	37,669,372	45,333,878
Deferred charges on refunding.....	67,476	119,128
Total deferred charges.....	<u>37,736,848</u>	<u>45,453,006</u>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	33,874,927	34,930,163
Noncurrent liabilities (excluding debt).....	441,917,823	416,232,867
Current debt.....	14,836,110	11,038,475
Noncurrent debt.....	<u>60,567,058</u>	<u>71,054,604</u>
Total liabilities.....	<u>551,195,918</u>	<u>533,256,109</u>
<b>Deferred Inflows of Resources:</b>		
Deferred inflows of resources related to pensions.....	<u>709,383</u>	<u>104,619</u>
<b>Net Position:</b>		
Net investment in capital assets.....	225,673,044	227,071,832
Restricted.....	21,761,856	26,204,905
Unrestricted.....	<u>(377,278,874)</u>	<u>(342,679,915)</u>
Total net position.....	<u>\$ (129,843,974)</u>	<u>\$ (89,403,178)</u>

A significant portion of the City's governmental activities net position, \$225.7 million, reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding.

The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt it should be noted

that the resources to repay debt must be provided from other sources since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net position of \$21.8 million represents resources that are subject to external restrictions on how they may be used. The deficit balance of unrestricted net position in the amount of \$377.3 million is due to the net pension liability of \$254.2 million and the OPEB liability of \$180.0 million.

Included within the governmental activities noncurrent assets, unrelated to capital assets, are \$5.8 million in future year school construction reimbursement grants.

Governmental activity liabilities include \$67.1 million in general obligation bonds; \$8.3 million of notes payable; \$12.0 million in liabilities for unused vacation, special leave, and enhanced longevity benefits; and \$3.0 million in future workers' compensation benefits.

The key elements of governmental activities are as follows:

	<u>2017</u>	<u>2016</u>
<b>Program Revenues:</b>		
Charges for services.....	\$ 15,634,299	\$ 16,167,192
Operating grants and contributions.....	219,530,433	210,340,768
Capital grants and contributions.....	3,966,415	2,068,288
Total program revenues.....	<u>239,131,147</u>	<u>228,576,248</u>
<b>General Revenues:</b>		
Real estate and personal property taxes.....	124,746,518	115,902,937
Tax liens.....	1,604,108	785,172
Motor vehicle and other excise taxes.....	9,192,536	8,173,051
Penalties and interest on taxes.....	1,324,504	1,211,000
Payments in lieu of taxes.....	560,602	1,106,289
Grants and contributions not restricted to specific programs.....	26,532,544	25,195,854
Unrestricted investment income.....	417,438	464,263
Gain on sale of capital assets.....	263,132	155,503
Miscellaneous.....	162,873	280,774
Total general revenues.....	<u>164,804,255</u>	<u>153,274,843</u>
<b>Expenses:</b>		
General government.....	24,633,003	23,580,423
Public safety.....	88,429,037	78,846,900
Education.....	289,719,839	269,659,908
Public works.....	21,406,507	18,145,795
Human services.....	17,452,823	15,732,590
Culture and recreation.....	8,490,958	8,047,335
Interest.....	3,082,256	2,855,797
Total expenses.....	<u>453,214,423</u>	<u>416,868,748</u>
<b>Excess (Deficiency) before transfers.....</b>	(49,279,021)	(35,017,657)
<b>Transfers, net.....</b>	<u>8,838,225</u>	<u>6,595,572</u>
<b>Change in net position.....</b>	(40,440,796)	(28,422,085)
<b>Net position - beginning.....</b>	<u>(89,403,178)</u>	<u>(60,981,093)</u>
<b>Net position - ending.....</b>	<u>\$ (129,843,974)</u>	<u>\$ (89,403,178)</u>

The governmental activities net position decreased in the current year by \$40.4 million. The decrease in net position is due to several factors:

The net pension liability increased \$11.3 million, the OPEB liability increased \$14.0 million; depreciation on capital assets exceeded principal payments on long-term debt by \$6.4 million; there was a decrease in the deferred outflows/inflows related to pensions of \$8.3 million and there was a decrease of \$4.1 million in the MSBA receivable related to a one-time payment received from the MSBA as part of a debt refunding. All of this was offset by the recognition of \$4.0 million of capital grants.

**Business-type Activities**

The following summarizes the key financial components of the City’s Business-type Activities:

	<u>2017</u>	<u>2016</u>
<b>Assets:</b>		
Current assets.....	\$ 32,194,696	\$ 39,874,748
Capital assets.....	<u>222,034,049</u>	<u>214,588,469</u>
Total assets.....	<u>254,228,745</u>	<u>254,463,217</u>
<b>Deferred Outflows of Resources:</b>		
Deferred outflows of resources related to pensions.....	<u>2,826,621</u>	<u>3,459,447</u>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	5,170,796	6,634,272
Noncurrent liabilities (excluding debt).....	25,174,259	24,604,954
Current debt.....	27,640,332	22,438,840
Noncurrent debt.....	<u>136,717,551</u>	<u>144,186,925</u>
Total liabilities.....	<u>194,702,938</u>	<u>197,864,991</u>
<b>Deferred Inflows of Resources:</b>		
Deferred inflows of resources related to pensions.....	<u>53,231</u>	<u>7,984</u>
<b>Net Position:</b>		
Net investment in capital assets.....	59,905,476	53,624,150
Unrestricted.....	<u>2,393,721</u>	<u>6,425,539</u>
Total net position.....	<u>\$ 62,299,197</u>	<u>\$ 60,049,689</u>
<b>Program Revenues:</b>		
Charges for services and other.....	\$ 40,114,200	\$ 36,834,545
Capital grants and contributions.....	<u>774,470</u>	<u>589,131</u>
Total program revenues.....	<u>40,888,670</u>	<u>37,423,676</u>
<b>General Revenues:</b>		
Unrestricted investment income.....	<u>3,575</u>	<u>2,995</u>
<b>Expenses:</b>		
Sewer.....	17,025,575	16,317,014
Water.....	8,009,965	8,082,146
Parking.....	4,768,972	4,884,656
Auditorium.....	-	2,746,199
Total expenses.....	<u>29,804,512</u>	<u>32,030,015</u>
<b>Excess (Deficiency) before transfers.....</b>	<u>11,087,733</u>	<u>5,396,656</u>
<b>Transfers, net.....</b>	<u>(8,838,225)</u>	<u>(6,595,572)</u>
<b>Change in net position.....</b>	<u>2,249,508</u>	<u>(1,198,916)</u>
<b>Net position - beginning.....</b>	<u>60,049,689</u>	<u>61,248,605</u>
<b>Net position - ending.....</b>	<u>\$ 62,299,197</u>	<u>\$ 60,049,689</u>

Business type activities assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$62.3 million at the close of 2017.

Net position of \$59.9 million reflect its net investment in capital assets less any debt used to acquire those assets that are still outstanding. The remaining balance of *unrestricted net position* of \$2.4 million may be used to meet ongoing obligations.

The sewer enterprise fund net position increased by \$678 thousand during the current year. The increase is primarily attributable to an increase in sewer rates designed to assist in establishing reserves for future capital projects.

The water enterprise fund net position increased by \$326 thousand during the current year. The increase is primarily due to a decrease in the accrual related to the net pension liability of \$74 thousand and a decrease in the accrual related to the OPEB liability of \$212 thousand. Also contributing to the increase was the funds ability to control operational costs in the current year coupled with an increase in user fees.

The parking enterprise fund net position increased by \$1.2 million in the current year. The increase is primarily due to the second year of the parking kiosk program which has resulted in increased revenues, along with a decrease in repairs, maintenance, and supply costs in the current year.

The City voted on June 1, 2016, to rescind the auditorium enterprise fund. As a result, the fund was closed out to the general fund in the current year.

### ***Financial Analysis of the Government's Funds***

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

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

As of the end of the year, governmental funds reported combined ending fund balances of \$32.4 million, a decrease of \$8.6 million in comparison with the prior year. The decrease is primarily attributable to the timing of previously received grant revenues and the subsequent expenditure of these funds, offset by a decrease in the accrual related to appellate tax board cases of \$2.2 million due to the majority of telecom personal property cases being settled.

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund equaled \$18.7 million (which includes \$10.6 million set aside as stabilization), while total fund balance was \$23.7 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned and total fund balance represents 5.1% and 6.5% of general fund expenditures, respectively.

The general fund increased by \$1.5 million during 2017. This was primarily due to a decrease in the accrual related to appellate tax board cases due to the majority of telecom personal property cases being settled.

General fund revenues and other financing sources totaled \$371.6 million for 2017, an increase of \$20.9 million compared to the previous year.

Total general fund expenditures and other financing sources totaled \$370.0 million, an increase of \$18.4 million over the previous year. The increase in expenditures and other financing uses corresponds with the increase in revenues and other financing sources and is the result of an overall increased general fund budget for 2017.

The internal service fund had an ending fund balance of \$2.0 million, a decrease of \$245 thousand over the prior year. The decrease is the result of a payment of \$250 thousand to the mitigation stabilization fund offset by \$5 thousand of stop-loss reimbursements related to previous self-insured claims. In July of 2012, the City entered into the Group Insurance Commission (GIC) and its health insurance activities are now premium based. The City is now working to use the remaining balance in the internal service fund for health insurance related costs.

### ***General Fund Budgetary Highlights***

The difference between the original budget of \$333.0 million and the final amended budget of \$335.8 million amounted to a net increase of \$2.8 million. During 2017, the Council approved transfers from free cash totaling \$492,000 to the stabilization fund and \$1.6 million to the capital debt service stabilization fund. The Council also approved various supplemental appropriations of \$378,000 from other available funds, as well as transfers between departments representing minor increases and decreases in various budget line items. Revenues came in higher than budgeted by \$3.6 million; while expenditures came in \$2.9 million lower than budgeted.

### ***Capital Asset and Debt Administration***

**Capital Assets** - The City's investment in capital assets for governmental activities as of June 30, 2017, amounts to \$289.0 million, net of accumulated depreciation. The investment in capital assets includes land; buildings; improvements; infrastructure; vehicles; machinery and equipment; books; and software.

The City's investment in capital assets for business-type activities as of June 30, 2017, amounts to \$222.0 million, net of accumulated depreciation. The investment in capital assets for the business-type activities predominately relates to both sewer and water infrastructure and systems as well as the various parking garage facilities. Additional information on the City's capital assets may be found in Note 4 to the basic financial statements.

**Long-term debt** – At June 30, 2017, the City had total governmental bonded debt of \$64.4 million. Of this amount \$63.0 million is a general obligation of the City and the remaining \$1.4 million is guaranteed debt under the Section 108 Loan Program. The City issued general obligation bonds totaling \$1.9 million related to a debt refunding in 2017.

The sewer enterprise fund has \$83.4 million in long-term debt that is supported by the sewer rates and future MCWT principal and interest subsidies. Currently, the City has \$33.2 million in authorized and unissued long-term debt relating to future sewer projects.

The water enterprise fund has \$33.7 million in long-term debt that is supported by the water rates and future MCWT principal and interest subsidies. Currently, the City has \$1.7 million in authorized and unissued long-term debt relating to future water projects.

The parking enterprise fund has \$26.8 million in long-term debt that is supported by parking fees. Currently, the City has \$380,000 in authorized and unissued long-term debt relating to future parking projects.

In order to take advantage of favorable interest rates, the City issued \$5,019,000 of general obligation refunding bonds. This advance refunding was undertaken to reduce total debt service payments over the next 11 years by \$291,128 and resulted in an economic gain of \$257,547.

Additionally, the City issued \$486,000 of general obligation current refunding bonds. The proceeds of the refunding bonds, along with \$4,092,333 of funds received from the Massachusetts School Building Authority, were used to complete a current refunding of existing debt. The transaction resulted in an economic gain of \$298,531 and a reduction of \$320,416 in future debt service payments.

Please see NOTE 7 for more information related to long-term debt.

### **Next Year's Budget**

The Mayor and City Council of Lowell unanimously approved the City Manager's proposed FY2018 general fund operating budget of \$317.1 million on May 30, 2017.

The total increase in general fund appropriations over fiscal year 2017 was \$8.96 million. Notable drivers of increased expenditures include a \$1.3 million increase in the PERAC pension assessment over FY17 and a \$4.5 million increase in total education spending for the Lowell Public School District and the assessment from the Greater Lowell Regional Technical High School. In FY2018 the City of Lowell's assessment from the Commonwealth for charter school sending tuition increased by \$1.98 million. Personnel costs rose in FY18 based on a 3% cost of living adjustment negotiated with the municipal collective bargaining units. This represents the final year of negotiated increases of 0% (FY16) - 3% (FY17) - 3% (FY18).

Of the \$162.1 million appropriated by the City Council to the Lowell Public Schools, 88.9% of the revenue is from the Commonwealth in Chapter 70 education aid and the balance of \$18 million is funded through the tax levy in direct cash support. Costs for salaries and wages in all general fund supported functional areas other than education increased \$2.9 million. The City also had to raise the final amortization payment of \$134,063 for the \$5 million expense costs related to clean-up costs for the state of emergency declared by the Governor for Winter Storm Nemo in FY2015. Special legislation allowed municipalities to amortize the debt over a three-year period and the Lowell City Council voted to raise \$1.5 million total over the period of fiscal years 2016 through 2018.

In addition to the FY2018 budget for the general fund, the City Council approved the City Manager's budgets for City's three enterprise funds for water, wastewater, and parking in the amounts of \$9.5 million, \$17 million, and \$6.3 million, respectively. Appropriations for business-type activities increased by \$184 thousand in the water enterprise, decreased by \$282 thousand in the wastewater enterprise, and increased by \$154 thousand in the parking enterprise. Major contributing factors to increases in the water fund were related to a \$300 thousand operating expenses to for lagoon cleaning and the removal of sludge, as well as increased salary and wages expenses. In the parking enterprise, major components of increased operations were related to an increased management fee from the private entity which manages the various parking garage facilities in the city, as well as investment in equipment and system upgrades for the parking enforcement officers. The City Manager has also increased the investment in preventative maintenance of the garages by building in expenses to the operating budget to extend the useful life of the facilities. In the wastewater enterprise, the City Manager's Office is continuing to constrain operating expenses in anticipation of debt service which will come online over the next few years related to a \$40 million loan order approved in 2013 for sewer separation capital projects. All enterprise funds are supported by user charges and fees and not supported by the tax levy or local aid. They also reimburse the general fund for indirect costs associated with their operation. In FY2018, the amount reimbursed to the general fund for administrative overhead was \$9 million. The Lowell Memorial Auditorium enterprise fund, which had operated as an enterprise fund for the prior three fiscal years, was abolished by the City Council in May of 2016 and is included in the FY2017 budget as an appropriation in the City Manager's Office.

Several targeted investments were incorporated by the City Manager into the FY2018 operating budget to support the priorities of the City Council, such as public safety. Concurrent with the FY2018 operating budget, the City Council unanimously approved the City Manager's proposed five-year capital improvement plan and an \$11 million loan order in support of the plan's strategic investments. The loan order included funding for paving, traffic

signalization, building improvements, park improvements, and heavy equipment and vehicles, among other projects. Aside from the projects incorporated in the City Manager's capital improvement plan, two major capital ventures are nearing the construction phase and will play a critical role in the City's finances over the medium term: the Lowell High School project and the bridge repair project throughout the City's system of canal ways. Both projects will be funded using a combination of bond proceeds and state and federal grants. The financing plan for the bridge project includes a combination of bond proceeds from the City, reimbursements from the University of Massachusetts Lowell, and a federal TIGER grant in the amount of \$13.4 million. A match of \$3.3 million was required to secure the grant from the U.S. Department of Transportation. The City Council approved a \$2.6 million loan order on March 2, 2016, which represented the contribution of the City and the University of Massachusetts Lowell. The balance is to be paid by the bridges' former owner, a private entity. For the Lowell High School project, the City has progressed through the Feasibility Study stage with the Massachusetts School Building Authority (MSBA). A feasibility study agreement was executed with the MSBA and on August 25, 2015, the City Council approved a \$2 million loan order to fund the feasibility study.

The fiscal year 2018 tax levy was approved by the Department of Revenue on December 15, 2017 at \$128,507,951 million, a budgeted increase of 1.5% plus the 2018 certified new growth. Total appropriations in all funds including the general fund and enterprise funds totaled \$376,248,783, including \$24,703,156 in "cherry sheet" charges and a \$1,100,000 allowance for abatements and exemptions. The total estimated receipts and other revenue sources raised to support those appropriated and other unappropriated expenses totaled \$247,740,832. Of that total, \$175,300,994 came from local aid from the Commonwealth (Chapter 70, UGGA, and other "cherry sheet" receipts), \$1,192,791 from MSBA reimbursements for completed projects, and \$24,015,674 in local receipts. Of the \$41,658,814 raised in the enterprise funds to support the total approved 2018 budget, \$21,968,682 came from the sewer enterprise supported by an approved rate increase, \$12,174,536 from the water enterprise, and \$7,515,596 from the parking enterprise. Finally, the City Council appropriated \$4,665,349 in other available funds to support the budget and \$2,100,000 in overlay surplus to reduce the 2018 tax levy.

Management continued to make strides in improving internal controls and strengthening the overall financial management of the City in FY2017. The Finance Department and Office of the City Auditor have developed new practices, as well as strengthened existing systems throughout the financial operation. For example, in FY2017 the Office of the City Treasurer implemented a new integrated system through MUNIS to strengthen the overall cash reconciliation process. In a report issued by Standard & Poor's related to the issuance of bond anticipation notes in June of 2017, the ratings agency commented on Lowell "very strong management", "strong budgetary performance", and "strong debt and contingent liability profile". In the report, S&P wrote, "[w]e view the City's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable. City officials are conservative with revenue and expenditure assumptions, and consider historical trends when developing the budget. They have the flexibility to amend the budget as needed, and monitor performance regularly with budget-to-actual reports submitted to city councilors monthly. Management performs formal financial forecasting and maintains a five-year capital improvement plan that it updates annually."

### ***Requests for Information***

This financial report is designed to provide a general overview of the City of Lowell's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Auditor, City Hall 375 Merrimack Street, Lowell, MA 01852.

# ***Basic Financial Statements***

**STATEMENT OF NET POSITION**

JUNE 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 63,496,015	\$ 21,763,859	\$ 85,259,874
Investments.....	1,998,916	-	1,998,916
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	2,108,097	-	2,108,097
Tax liens.....	229,424	-	229,424
Motor vehicle excise taxes.....	841,948	-	841,948
User fees.....	-	9,417,542	9,417,542
Trash fees.....	662,538	-	662,538
Departmental and other.....	79,350	1,013,295	1,092,645
Intergovernmental.....	11,472,465	-	11,472,465
Loans.....	322,576	-	322,576
Tax foreclosures.....	5,911,425	-	5,911,425
Working capital deposit.....	211,500	-	211,500
<b>NONCURRENT:</b>			
Receivables, net of allowance for uncollectibles:			
Tax liens.....	917,693	-	917,693
Intergovernmental.....	5,842,296	-	5,842,296
Loans.....	1,190,000	-	1,190,000
Capital assets, nondepreciable.....	32,848,281	10,106,984	42,955,265
Capital assets, net of accumulated depreciation.....	256,191,955	211,927,065	468,119,020
<b>TOTAL ASSETS.....</b>	<b>384,324,479</b>	<b>254,228,745</b>	<b>638,553,224</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pensions.....	37,669,372	2,826,621	40,495,993
Deferred charges on refunding.....	67,476	-	67,476
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES.....</b>	<b>37,736,848</b>	<b>2,826,621</b>	<b>40,563,469</b>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	8,774,238	3,112,865	11,887,103
Accrued payroll.....	11,259,906	-	11,259,906
Tax refunds payable.....	565,919	-	565,919
Accrued interest.....	904,986	1,665,039	2,570,025
Other liabilities.....	5,170,529	-	5,170,529
Compensated absences.....	6,815,849	392,892	7,208,741
Workers' compensation.....	383,500	-	383,500
Notes payable.....	8,327,691	18,679,193	27,006,884
Bonds payable.....	6,508,419	8,961,139	15,469,558
<b>NONCURRENT:</b>			
Compensated absences.....	5,190,047	96,164	5,286,211
Workers' compensation.....	2,604,800	-	2,604,800
Other postemployment benefits.....	179,957,999	6,006,159	185,964,158
Net pension liability.....	254,164,977	19,071,936	273,236,913
Bonds payable.....	60,567,058	136,717,551	197,284,609
<b>TOTAL LIABILITIES.....</b>	<b>551,195,918</b>	<b>194,702,938</b>	<b>745,898,856</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Deferred inflows of resources related to pensions.....	709,383	53,231	762,614
<b>NET POSITION</b>			
Net investment in capital assets.....	225,673,044	59,905,476	285,578,520
Restricted for:			
Chapter 17 special reserve.....	1,150	-	1,150
Streets.....	1,738,370	-	1,738,370
Community development.....	7,577,155	-	7,577,155
Loans.....	1,512,576	-	1,512,576
Permanent funds:			
Expendable.....	179,303	-	179,303
Nonexpendable.....	1,825,048	-	1,825,048
Gifts and grants.....	8,928,254	-	8,928,254
Unrestricted.....	(377,278,874)	2,393,721	(374,885,153)
<b>TOTAL NET POSITION.....</b>	<b>\$ (129,843,974)</b>	<b>\$ 62,299,197</b>	<b>\$ (67,544,777)</b>

See accompanying notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 24,633,003	\$ 5,542,764	\$ 682,193	\$ 149,280	\$ (18,258,766)
Public safety.....	88,429,037	4,395,409	2,219,280	-	(81,814,348)
Education.....	289,719,839	724,531	204,762,838	684,892	(83,547,578)
Public works.....	21,406,507	3,579,062	649,815	3,041,105	(14,136,525)
Human services.....	17,452,823	958,804	10,221,152	91,138	(6,181,729)
Culture and recreation.....	8,490,958	433,729	995,155	-	(7,062,074)
Interest.....	3,082,256	-	-	-	(3,082,256)
Total Governmental Activities.....	<u>453,214,423</u>	<u>15,634,299</u>	<u>219,530,433</u>	<u>3,966,415</u>	<u>(214,083,276)</u>
<i>Business-Type Activities:</i>					
Sewer.....	17,025,575	22,147,352	-	199,920	5,321,697
Water.....	8,009,965	10,810,785	-	574,550	3,375,370
Parking.....	4,768,972	7,156,063	-	-	2,387,091
Total Business-Type Activities.....	<u>29,804,512</u>	<u>40,114,200</u>	<u>-</u>	<u>774,470</u>	<u>11,084,158</u>
Total Primary Government.....	<u>\$ 483,018,935</u>	<u>\$ 55,748,499</u>	<u>\$ 219,530,433</u>	<u>\$ 4,740,885</u>	<u>\$ (202,999,118)</u>

(Continued)

See accompanying notes to basic financial statements.

**STATEMENT OF ACTIVITIES (Continued)**

FOR THE YEAR ENDED JUNE 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net position:</b>			
Net (expense) revenue from previous page.....	\$ <b>(214,083,276)</b>	\$ <b>11,084,158</b>	\$ <b>(202,999,118)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	124,746,518	-	124,746,518
Tax liens.....	1,604,108	-	1,604,108
Motor vehicle and other excise taxes.....	9,192,536	-	9,192,536
Penalties and interest on taxes.....	1,324,504	-	1,324,504
Payments in lieu of taxes.....	560,602	-	560,602
Grants and contributions not restricted to specific programs.....	26,532,544	-	26,532,544
Unrestricted investment income.....	417,438	3,575	421,013
Gain on disposal of assets.....	263,132	-	263,132
Miscellaneous.....	162,873	-	162,873
<i>Transfers, net</i> .....	8,838,225	(8,838,225)	-
Total general revenues and transfers.....	<u>173,642,480</u>	<u>(8,834,650)</u>	<u>164,807,830</u>
Change in net position.....	(40,440,796)	2,249,508	(38,191,288)
<i>Net Position:</i>			
Beginning of year.....	<u>(89,403,178)</u>	<u>60,049,689</u>	<u>(29,353,489)</u>
End of year.....	\$ <u><u>(129,843,974)</u></u>	\$ <u><u>62,299,197</u></u>	\$ <u><u>(67,544,777)</u></u>

(Concluded)

See accompanying notes to basic financial statements.

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2017

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents.....	\$ 44,309,713	\$ 17,219,951	\$ 61,529,664
Investments.....	-	1,998,916	1,998,916
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	2,108,097	-	2,108,097
Tax liens.....	1,147,117	-	1,147,117
Motor vehicle & other excise taxes.....	841,948	-	841,948
Trash fees.....	662,538	-	662,538
Departmental and other.....	79,350	-	79,350
Intergovernmental.....	7,010,756	10,304,005	17,314,761
Loans.....	-	1,512,576	1,512,576
Tax foreclosures.....	5,911,425	-	5,911,425
Working capital deposit.....	211,500	-	211,500
<b>TOTAL ASSETS.....</b>	<b>\$ 62,282,444</b>	<b>\$ 31,035,448</b>	<b>\$ 93,317,892</b>
<b>LIABILITIES</b>			
Warrants payable.....	\$ 4,101,523	\$ 4,663,483	\$ 8,765,006
Accrued payroll.....	11,259,906	-	11,259,906
Tax refunds payable.....	565,919	-	565,919
Other liabilities.....	5,170,529	-	5,170,529
Notes payable.....	-	8,327,691	8,327,691
<b>TOTAL LIABILITIES.....</b>	<b>21,097,877</b>	<b>12,991,174</b>	<b>34,089,051</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue.....	17,472,808	9,315,525	26,788,333
<b>FUND BALANCES</b>			
Nonspendable.....	-	1,825,048	1,825,048
Restricted.....	1,150	13,914,634	13,915,784
Committed.....	4,035,971	-	4,035,971
Assigned.....	963,359	-	963,359
Unassigned.....	18,711,279	(7,010,933)	11,700,346
<b>TOTAL FUND BALANCES.....</b>	<b>23,711,759</b>	<b>8,728,749</b>	<b>32,440,508</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....</b>	<b>\$ 62,282,444</b>	<b>\$ 31,035,448</b>	<b>\$ 93,317,892</b>

See accompanying notes to basic financial statements.

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

JUNE 30, 2017

Total governmental fund balances.....		\$ 32,440,508
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		289,040,236
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		26,788,333
Certain changes in the net pension liability are required to be included in pension expense over future periods. These changes are reported as deferred outflows of resources or (deferred inflows of resources) related to pensions.....		36,959,989
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.....		1,957,119
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(904,986)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds payable.....	(67,075,477)	
Workers compensation.....	(2,988,300)	
Other postemployment benefits.....	(179,957,999)	
Net pension liability.....	(254,164,977)	
Compensated absences.....	<u>(12,005,896)</u>	
Net effect of reporting long-term liabilities.....		(516,192,649)
In the statement of activities, deferred charges are reported for refundings of debt, which are amortized over the shorter of the remaining life of the refunding bonds or refunded bonds. In governmental funds, defeasances of debt are expensed when the refunding bonds are issued.....		<u>67,476</u>
Net position of governmental activities.....		<u>\$ (129,843,974)</u>

See accompanying notes to basic financial statements.

**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>			
Real estate and personal property taxes, net of tax refunds.....	\$ 124,474,447	\$ -	\$ 124,474,447
Tax liens.....	1,150,353	-	1,150,353
Motor vehicle and other excise taxes.....	9,431,194	-	9,431,194
Trash disposal.....	3,184,930	-	3,184,930
Penalties and interest on taxes.....	1,324,504	-	1,324,504
Payments in lieu of taxes.....	560,602	-	560,602
Fines and forfeitures.....	-	159,155	159,155
Intergovernmental.....	209,621,769	47,761,893	257,383,662
Departmental and other.....	9,147,063	4,296,833	13,443,896
Contributions.....	-	164,878	164,878
Investment income.....	379,505	37,933	417,438
<b>TOTAL REVENUES.....</b>	<b>359,274,367</b>	<b>52,420,692</b>	<b>411,695,059</b>
<b>EXPENDITURES:</b>			
Current:			
General government.....	15,447,569	525,247	15,972,816
Public safety.....	44,898,386	3,857,503	48,755,889
Education.....	151,959,252	35,963,170	187,922,422
Public works.....	14,546,153	10,896,140	25,442,293
Human services.....	3,443,881	9,061,665	12,505,546
Culture and recreation.....	4,014,211	1,057,452	5,071,663
Pension benefits.....	55,942,760	-	55,942,760
Employee benefits.....	41,516,339	-	41,516,339
State and county charges.....	22,351,582	-	22,351,582
Debt service:			
Principal.....	6,414,162	170,000	6,584,162
Interest.....	3,328,551	17,427	3,345,978
<b>TOTAL EXPENDITURES.....</b>	<b>363,862,846</b>	<b>61,548,604</b>	<b>425,411,450</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(4,588,479)</b>	<b>(9,127,912)</b>	<b>(13,716,391)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Proceeds from refunding bonds.....	1,877,500	-	1,877,500
Premium from issuance of bonds and notes.....	83,890	-	83,890
Premium from issuance of refunding bonds.....	120,344	-	120,344
Payments to refunded bond escrow agent.....	(6,090,177)	-	(6,090,177)
Sale of assets.....	4,975	258,157	263,132
Transfers in.....	10,234,085	20,000	10,254,085
Transfers out.....	(94,092)	(1,321,768)	(1,415,860)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>6,136,525</b>	<b>(1,043,611)</b>	<b>5,092,914</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>1,548,046</b>	<b>(10,171,523)</b>	<b>(8,623,477)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>22,163,713</b>	<b>18,900,272</b>	<b>41,063,985</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 23,711,759</b>	<b>\$ 8,728,749</b>	<b>\$ 32,440,508</b>

See accompanying notes to basic financial statements.

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

FOR THE YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds.....		\$ (8,623,477)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay.....	15,355,946	
Depreciation expense.....	<u>(12,941,744)</u>	
Net effect of reporting capital assets.....		2,414,202
<p>Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue.....</p>		
		(11,081,049)
<p>The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Proceeds from refunding bonds.....	(1,877,500)	
Payments to refunded bond escrow agent.....	6,090,177	
Premium from issuance of refunding bonds.....	(120,344)	
Deferred charges on refunding.....	14,617	
Debt service principal payments.....	<u>6,584,162</u>	
Net effect of reporting long term debt.....		10,691,112
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	(1,100,801)	
Net change in accrued interest on long-term debt.....	400,857	
Net change in workers compensation accrual.....	355,700	
Net change in postemployment benefits accrual.....	(14,047,229)	
Net change in pension liability.....	(11,265,981)	
Net change in unamortized bond premiums.....	381,863	
Net change in deferred outflow/(inflow) of resources related to pensions.....	(8,269,270)	
Amortization of deferred charge on refunding.....	<u>(51,652)</u>	
Net effect of recording long-term liabilities and amortizing deferred charges.....		(33,596,513)
<p>Internal service funds are used by management to account for health insurance and workers' compensation activities.</p>		
The net activity of internal service funds is reported with Governmental Activities.....		<u>(245,071)</u>
Change in net position of governmental activities.....		\$ <u>(40,440,796)</u>

See accompanying notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**

JUNE 30, 2017

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Parking	Total	
<b>ASSETS</b>					
<b>CURRENT:</b>					
Cash and cash equivalents.....	\$ 2,772,750	\$ 13,253,570	\$ 5,737,539	\$ 21,763,859	\$ 1,966,351
Receivables, net of allowance for uncollectibles:					
User fees.....	5,818,666	3,598,876	-	9,417,542	-
Departmental and other.....	-	-	1,013,295	1,013,295	-
Total current assets.....	<u>8,591,416</u>	<u>16,852,446</u>	<u>6,750,834</u>	<u>32,194,696</u>	<u>1,966,351</u>
<b>NONCURRENT:</b>					
Capital assets, nondepreciable.....	4,293,252	1,723,144	4,090,588	10,106,984	-
Capital assets, net of accumulated depreciation.....	<u>130,882,602</u>	<u>46,131,532</u>	<u>34,912,931</u>	<u>211,927,065</u>	<u>-</u>
Total noncurrent assets.....	<u>135,175,854</u>	<u>47,854,676</u>	<u>39,003,519</u>	<u>222,034,049</u>	<u>-</u>
<b>TOTAL ASSETS.....</b>	<u>143,767,270</u>	<u>64,707,122</u>	<u>45,754,353</u>	<u>254,228,745</u>	<u>1,966,351</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred outflows of resources related to pensions.....	<u>1,660,336</u>	<u>1,000,251</u>	<u>166,034</u>	<u>2,826,621</u>	<u>-</u>
<b>LIABILITIES</b>					
<b>CURRENT:</b>					
Warrants payable.....	2,381,462	488,467	242,936	3,112,865	9,232
Accrued interest.....	971,548	403,822	289,669	1,665,039	-
Compensated absences.....	261,532	119,273	12,087	392,892	-
Notes payable.....	5,908,984	12,770,209	-	18,679,193	-
Bonds payable.....	<u>4,177,153</u>	<u>2,814,591</u>	<u>1,969,395</u>	<u>8,961,139</u>	<u>-</u>
Total current liabilities.....	<u>13,700,679</u>	<u>16,596,362</u>	<u>2,514,087</u>	<u>32,811,128</u>	<u>9,232</u>
<b>NONCURRENT:</b>					
Compensated absences.....	58,826	33,990	3,348	96,164	-
Net pension liability.....	11,202,713	6,748,952	1,120,271	19,071,936	-
Other postemployment benefits.....	3,327,108	1,821,759	857,292	6,006,159	-
Bonds payable.....	<u>79,226,095</u>	<u>31,486,712</u>	<u>26,004,744</u>	<u>136,717,551</u>	<u>-</u>
Total noncurrent liabilities.....	<u>93,814,742</u>	<u>40,091,413</u>	<u>27,985,655</u>	<u>161,891,810</u>	<u>-</u>
<b>TOTAL LIABILITIES.....</b>	<u>107,515,421</u>	<u>56,687,775</u>	<u>30,499,742</u>	<u>194,702,938</u>	<u>9,232</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>					
Deferred inflows of resources related to pensions.....	<u>31,267</u>	<u>18,837</u>	<u>3,127</u>	<u>53,231</u>	<u>-</u>
<b>NET POSITION</b>					
Net investment in capital assets.....	45,915,855	2,425,203	11,564,418	59,905,476	-
Unrestricted.....	<u>(8,034,937)</u>	<u>6,575,558</u>	<u>3,853,100</u>	<u>2,393,721</u>	<u>1,957,119</u>
<b>TOTAL NET POSITION.....</b>	<u>\$ 37,880,918</u>	<u>\$ 9,000,761</u>	<u>\$ 15,417,518</u>	<u>\$ 62,299,197</u>	<u>\$ 1,957,119</u>

See accompanying notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Water	Parking	Auditorium	Total	
<b>OPERATING REVENUES:</b>						
Charges for services .....	\$ 21,990,316	\$ 10,802,611	\$ 7,156,063	\$ -	\$ 39,948,990	\$ -
Other .....	157,036	8,174	-	-	165,210	4,929
<b>TOTAL OPERATING REVENUES .....</b>	<b>22,147,352</b>	<b>10,810,785</b>	<b>7,156,063</b>	<b>-</b>	<b>40,114,200</b>	<b>4,929</b>
<b>OPERATING EXPENSES:</b>						
Cost of services and administration .....	10,125,906	4,121,735	2,065,915	-	16,313,556	-
Depreciation .....	4,487,102	2,723,918	1,631,554	-	8,842,574	-
Payment to mitigation fund .....	-	-	-	-	-	250,000
<b>TOTAL OPERATING EXPENSES .....</b>	<b>14,613,008</b>	<b>6,845,653</b>	<b>3,697,469</b>	<b>-</b>	<b>25,156,130</b>	<b>250,000</b>
<b>OPERATING INCOME (LOSS) .....</b>	<b>7,534,344</b>	<b>3,965,132</b>	<b>3,458,594</b>	<b>-</b>	<b>14,958,070</b>	<b>(245,071)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>						
Investment income .....	-	-	3,575	-	3,575	-
Interest expense .....	(2,412,567)	(1,164,312)	(1,071,503)	-	(4,648,382)	-
Intergovernmental .....	199,920	574,550	-	-	774,470	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET .....</b>	<b>(2,212,647)</b>	<b>(589,762)</b>	<b>(1,067,928)</b>	<b>-</b>	<b>(3,870,337)</b>	<b>-</b>
<b>INCOME (LOSS) BEFORE TRANSFERS .....</b>	<b>5,321,697</b>	<b>3,375,370</b>	<b>2,390,666</b>	<b>-</b>	<b>11,087,733</b>	<b>(245,071)</b>
<b>TRANSFERS:</b>						
Transfers in .....	-	-	-	94,092	94,092	-
Transfers out .....	(4,643,336)	(3,049,297)	(1,239,684)	-	(8,932,317)	-
<b>TOTAL OPERATING TRANSFERS .....</b>	<b>(4,643,336)</b>	<b>(3,049,297)</b>	<b>(1,239,684)</b>	<b>94,092</b>	<b>(8,838,225)</b>	<b>-</b>
<b>CHANGE IN NET POSITION .....</b>	<b>678,361</b>	<b>326,073</b>	<b>1,150,982</b>	<b>94,092</b>	<b>2,249,508</b>	<b>(245,071)</b>
<b>NET POSITION AT BEGINNING OF YEAR .....</b>	<b>37,202,557</b>	<b>8,674,688</b>	<b>14,266,536</b>	<b>(94,092)</b>	<b>60,049,689</b>	<b>2,202,190</b>
<b>NET POSITION AT END OF YEAR .....</b>	<b>\$ 37,880,918</b>	<b>\$ 9,000,761</b>	<b>\$ 15,417,518</b>	<b>\$ -</b>	<b>\$ 62,299,197</b>	<b>\$ 1,957,119</b>

See accompanying notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2017

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Water	Parking	Auditorium	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from customers and users.....	\$ 21,132,543	\$ 10,937,545	\$ 7,080,903	\$ -	\$ 39,150,991	\$ -
Receipts from insurance reimbursements.....	-	-	-	-	-	4,929
Payments to vendors.....	(5,776,838)	(2,233,070)	(1,603,048)	(111,081)	(9,724,037)	9,232
Payments to employees.....	(3,214,920)	(1,744,989)	(344,462)	-	(5,304,371)	-
Payment to mitigation fund.....	-	-	-	-	-	(250,000)
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>12,140,785</b>	<b>6,959,486</b>	<b>5,133,393</b>	<b>(111,081)</b>	<b>24,122,583</b>	<b>(235,839)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Transfers in.....	-	-	-	94,092	94,092	-
Transfers out.....	(4,643,336)	(3,049,297)	(1,239,684)	-	(8,932,317)	-
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....</b>	<b>(4,643,336)</b>	<b>(3,049,297)</b>	<b>(1,239,684)</b>	<b>94,092</b>	<b>(8,838,225)</b>	<b>-</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Proceeds from the issuance of bonds and notes.....	5,908,984	2,293,577	-	-	8,202,561	-
Proceeds from the issuance of refunding bonds.....	2,565,500	1,062,000	-	-	3,627,500	-
Payments to refunded bond escrow agent.....	(2,729,944)	(1,130,072)	-	-	(3,860,016)	-
Premium from the issuance of refunding bonds.....	164,444	68,072	-	-	232,516	-
Acquisition and construction of capital assets.....	(7,705,853)	(4,943,692)	(4,852,576)	-	(17,502,121)	-
Principal payments on bonds and notes.....	(5,381,694)	(2,560,317)	(1,594,939)	-	(9,536,950)	-
Interest expense.....	(2,430,946)	(1,305,581)	(1,358,157)	-	(5,094,684)	-
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(9,609,509)</b>	<b>(6,516,013)</b>	<b>(7,805,672)</b>	<b>-</b>	<b>(23,931,194)</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Investment income.....	-	-	3,575	-	3,575	-
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>(2,112,060)</b>	<b>(2,605,824)</b>	<b>(3,908,388)</b>	<b>(16,989)</b>	<b>(8,643,261)</b>	<b>(235,839)</b>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	4,884,810	15,859,394	9,645,927	16,989	30,407,120	2,202,190
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>	<b>\$ 2,772,750</b>	<b>\$ 13,253,570</b>	<b>\$ 5,737,539</b>	<b>\$ -</b>	<b>\$ 21,763,859</b>	<b>\$ 1,966,351</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</b>						
Operating income (loss).....	\$ 7,534,344	\$ 3,965,132	\$ 3,458,594	\$ -	\$ 14,958,070	\$ (245,071)
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation.....	4,487,102	2,723,918	1,631,554	-	8,842,574	-
Deferred inflows (outflows) related to pensions.....	352,236	289,153	36,684	-	678,073	-
Changes in assets and liabilities:						
Accounts receivable.....	(1,014,809)	126,760	-	-	(888,049)	-
Departmental and other.....	-	-	(75,160)	-	(75,160)	-
Warrants payable.....	187	185,579	18,685	(18,888)	185,563	9,232
Accrued payroll.....	(24,308)	(32,439)	(4,223)	-	(60,970)	-
Other liabilities.....	-	-	-	(92,193)	(92,193)	-
Net pension liability.....	562,320	(74,494)	48,389	-	536,215	-
Other postemployment benefits.....	239,286	(211,541)	18,157	-	45,902	-
Accrued compensated absences.....	4,427	(12,582)	713	-	(7,442)	-
<b>Total adjustments.....</b>	<b>4,606,441</b>	<b>2,994,354</b>	<b>1,674,799</b>	<b>(111,081)</b>	<b>9,164,513</b>	<b>9,232</b>
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>\$ 12,140,785</b>	<b>\$ 6,959,486</b>	<b>\$ 5,133,393</b>	<b>\$ (111,081)</b>	<b>\$ 24,122,583</b>	<b>\$ (235,839)</b>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>						
Principal and interest long-term debt subsidy.....	\$ 199,920	\$ 341,161	\$ -	\$ -	\$ 541,081	\$ -

See accompanying notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	Pension Trust Fund (as of December 31, 2016)	Other Postemployment Benefits Trust	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>				
<b>CURRENT:</b>				
Cash and cash equivalents.....	\$ 9,048,763	\$ 22,839	\$ 27,235	\$ 732,701
Investments:				
PRIT general allocation funds.....	319,582,459	-	-	-
Pooled alternative investments.....	653,098	1,720,114	-	-
Pooled real estate funds.....	140,499	-	-	-
Equity mutual funds.....	-	3,225,017	140,779	-
Bond mutual funds.....	-	3,353,061	-	-
<b>TOTAL ASSETS.....</b>	<b>329,424,819</b>	<b>8,321,031</b>	<b>168,014</b>	<b>732,701</b>
<b>LIABILITIES</b>				
Warrants payable.....	-	-	-	61,158
Liabilities due depositors.....	-	-	-	671,543
<b>TOTAL LIABILITIES.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>732,701</b>
<b>NET POSITION</b>				
Restricted for other postemployment benefits.....	-	8,321,031	-	-
Restricted for pension benefits.....	329,424,819	-	-	-
Held in trust for:				
Other purposes.....	-	-	168,014	-
<b>TOTAL NET POSITION.....</b>	<b>\$ 329,424,819</b>	<b>\$ 8,321,031</b>	<b>\$ 168,014</b>	<b>\$ -</b>

See accompanying notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	Pension Trust Fund (as of December 31, 2016)	Other Postemployment Benefits Trust	Private Purpose Trust Funds
<b>ADDITIONS:</b>			
Contributions:			
Employer contribution.....	\$ 24,701,289	\$ -	\$ -
Employer contribution to pay for OPEB benefits.....	-	18,020,360	-
Employee contributions.....	8,776,323	-	-
Retirement benefits - 3(8)c contributions from other systems.....	621,846	-	-
Workers compensation settlements.....	18,628	-	-
	<u>34,118,086</u>	<u>18,020,360</u>	<u>-</u>
Total contributions.....			
Net investment income (loss):			
Net change in fair value of investments.....	20,898,729	-	-
Interest.....	2,501,538	288,646	2,550
	<u>23,400,267</u>	<u>288,646</u>	<u>2,550</u>
Total investment income (loss).....			
Less: investment expense.....	(1,688,210)	-	-
	<u>21,712,057</u>	<u>288,646</u>	<u>2,550</u>
Net investment income (loss).....			
Intergovernmental.....	600,820	-	-
Transfers from other systems.....	376,481	-	-
	<u>56,807,444</u>	<u>18,309,006</u>	<u>2,550</u>
TOTAL ADDITIONS.....			
<b>DEDUCTIONS:</b>			
Administration.....	367,633	-	-
Transfers to other systems.....	948,630	-	-
Retirement benefits - 3(8)c payments to other systems.....	1,021,768	-	-
Retirement benefits and refunds.....	35,973,635	-	-
OPEB benefits.....	-	18,020,360	-
	<u>38,311,666</u>	<u>18,020,360</u>	<u>-</u>
TOTAL DEDUCTIONS.....			
CHANGE IN NET POSITION.....	18,495,778	288,646	2,550
NET POSITION AT BEGINNING OF YEAR.....	310,929,041	8,032,385	165,464
NET POSITION AT END OF YEAR.....	<u>\$ 329,424,819</u>	<u>\$ 8,321,031</u>	<u>\$ 168,014</u>

See accompanying notes to basic financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The City is a municipal corporation that is governed by an elected nine member City Council, of which one member serves as mayor, and an appointed City Manager.

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

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

The Lowell Contributory Retirement System (System) was established to provide retirement benefits to City employees and their beneficiaries. The System is governed by a five-member board comprised of the City Auditor (ex-officio), two elected members and two appointed members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

**Availability of Financial Information for Component Units**

The System issues a separate audited financial statement. The System also issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). These reports may be obtained by contacting the System located at 375 Merrimack Street, Lowell, Massachusetts, 01852.

**B. Government-Wide and Fund Financial Statements*****Government-Wide Financial Statements***

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

***Fund Financial Statements***

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

*Major Fund Criteria*

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

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

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

Internal service funds and fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation*Government-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

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

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

*Fund Financial Statements*

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

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

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

The following major governmental fund is reported:

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

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

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

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

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

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

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

The following major proprietary funds are reported:

The *sewer enterprise fund* is used to account for the sewer activities.

The *water enterprise fund* is used to account for the water activities.

The *parking fund* is used to account for the parking garage activities.

The *auditorium fund* is used to account for the activities of the Lowell Memorial Auditorium.

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to employees' health insurance. As of July 1, 2012, the City entered the Group Insurance Commission and its health insurance activities are now premium based. The City is working to utilize the remaining balance in this fund for health insurance related appropriations.

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

The following fiduciary fund types are reported:

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

The *other postemployment benefit trust fund* is used to accumulate resources to provide funding for future OPEB liabilities.

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

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

#### *Government-wide and Fund Financial Statements*

For the government-wide financial statements, and proprietary and fiduciary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

#### D. Cash and Investments

##### *Government-Wide and Fund Financial Statements*

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

#### E. Fair Value Measurements

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

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

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

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

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

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

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

#### F. Accounts Receivable

##### *Government-Wide and Fund Financial Statements*

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

##### ***Real Estate, Personal Property Taxes and Tax Liens***

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on August 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> of each year and are subject to penalties and interest if they are not paid by their respective due date. Real estate and personal property taxes levied are recorded as receivables in the year of the levy.

Real estate tax liens are processed during the fourth quarter of each year on delinquent properties and are recorded as receivables.

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

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

##### ***Motor Vehicle Excise***

Motor vehicle excise taxes are assessed annually for each vehicle registered in the City and are recorded as receivables in the year of the levy. The Commonwealth is responsible for reporting the number of vehicles

registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

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

### ***Water & Sewer***

Water and Sewer user fees are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by their respective due date. Liens are processed in December of every year and included as a lien on the property owner's tax bill. User charges and liens are recorded as receivables in the year of the levy.

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

### ***Trash***

Trash fees are levied quarterly with the water and sewer bills. These charges are based on a flat fee of \$18 per family unit up to six units. Trash liens are processed in December of each year and included as a lien on the property owner's tax bill. Trash charges and liens are recorded as receivables in the year of the levy.

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

### ***Departmental and Other***

Departmental and other receivables consist primarily of outstanding parking tickets and are recorded as receivables in the year accrued. The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

### ***Intergovernmental***

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

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

### ***Loans***

The Department of Planning and Development administers loan programs that provide housing assistance to residents and capital needs assistance for small businesses. Upon issuance, a receivable is recorded for the principal amount of the loan.

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

G. Inventories

*Government-Wide and Fund Financial Statements*

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

H. Capital Assets

*Government-Wide and Proprietary Fund Financial Statements*

Capital assets, which include land, land improvements, buildings, improvements, machinery and equipment, vehicles and infrastructure (e.g., roads, water mains, sewer mains, and similar items), books and software are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets; donated works of art; historical treasures and similar assets; and capital assets received in service concession arrangements are recorded at acquisition value. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

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

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings and improvements.....	20-40
Capital improvements (other than buildings)...	20
Infrastructure.....	40-50
Vehicles.....	5-15
Equipment.....	5-10
Books.....	3-10
Software.....	5

All purchases and construction costs in excess of \$25,000, with expected useful lives of greater than one year, are capitalized at the date of acquisition or construction, respectively.

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

*Governmental Fund Financial Statements*

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

### I. Deferred Outflows/Inflows of Resources

#### *Government-Wide Financial Statements (Net Position)*

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

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

#### *Governmental Fund Financial Statements*

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

### J. Interfund Receivables and Payables

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

#### *Government-Wide Financial Statements*

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

#### *Fund Financial Statements*

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

### K. Interfund Transfers

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

#### *Government-Wide Financial Statements*

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

*Fund Financial Statements*

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

L. Unavailable Revenue*Fund Financial Statements*

Unavailable revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Unavailable revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

M. Net Position and Fund Equity*Government-Wide Financial Statements (Net position)*

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

Net position reported as “net investment in capital assets” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital assets. Outstanding debt related to future reimbursements from the state’s school building program is not considered to be capital related debt.

Net position has been “restricted for” the following:

“Chapter 17 special reserve” represents amounts accumulated that can be used for unforeseen expenditures pursuant to Chapter 17 of the Acts of 1992.

“Streets” represents amounts committed by the Commonwealth for the repair and/or construction of streets.

“Community development” represents amounts committed by the federal Department of Housing and Urban Development (HUD) for various community development projects.

“Loans” represents community development outstanding loans receivable balances.

“Permanent funds - expendable” represents amounts held in trust for which the expenditures are restricted by various trust agreements.

“Permanent funds - nonexpendable” represents amounts held in trust for which only investment earnings may be expended.

“Gifts and grants” represents restrictions placed on assets from outside parties.

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

*Fund Financial Statements (Fund Balances)*

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

The governmental fund balance classifications are as follows:

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

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

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

“Assigned” fund balance includes amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The City Auditor has the authority to assign fund balance. Funds are assigned when the City has an obligation to purchase goods or services from the current years’ appropriation.

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

Sometimes the City will fund outlays for a particular purpose from different components of fund balance. In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balances in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. When different components of fund balance can be used for the same purpose, it is the City’s policy to consider restricted fund balance to have been depleted first, followed by committed fund balance, and assigned fund balance. Unassigned fund balance is applied last.

N. Long-term debt*Government-Wide and Proprietary Fund Financial Statements*

Long-term debt is reported as a liability in the government-wide and proprietary fund statement of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

*Governmental Fund Financial Statements*

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

O. Investment Income

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

P. Compensated Absences

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

*Government-Wide and Proprietary Fund Financial Statements*

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

*Governmental Fund Financial Statements*

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

Q. Pensions

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

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

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

S. Individual Fund Deficits

At June 30, 2017, there are several individual fund deficits within the Special Revenue and Capital Projects funds. These deficits will be funded through tax levy, available funds, grant and bond proceeds in future fiscal years.

T. Total Column*Government-Wide Financial Statements*

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

*Fund Financial Statements*

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

**NOTE 2 - CASH AND INVESTMENTS**

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents". The deposits and investments of the trust funds are held separately from those of other funds. Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

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

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment policy states that financial institutions shall be selected first and foremost with regard to safety as recognized by a top rating with the Veribanc or similar rating service. At year-end, the carrying amount of the City's deposits totaled \$86,042,649 and the bank balance totaled \$90,891,441. Of the bank balance, \$2,000,000 was covered by Federal Depository Insurance, \$19,527,861 was covered by the Depositors Insurance Fund, \$17,984,800 was collateralized, and \$51,378,780 was uninsured and uncollateralized.

At December 31, 2016, carrying amount of deposits for the System totaled \$9,048,763 and the bank balance totaled \$9,178,159. All of the bank balance was covered by the Federal Depository Insurance and none of the funds were exposed to custodial risk.

Investments

As of June 30, 2017, the City had the following investments:

Investment Type	Fair Value	Fair Value By Maturity		
		Under 1 Year	1-5 Years	6-10 Years
<u>Debt Securities</u>				
Federal Home Loans Mtg Corp.....	\$ 495,000	\$ -	\$ 495,000	\$ -
Governmental National Mortgage Association.....	30	30	-	-
U.S. Treasury Notes.....	283,562	-	283,562	-
Corporate Bonds.....	383,837	329,293	54,544	-
Municipal Bonds.....	11,088	-	11,088	-
Bond Mutual Funds (Domestic).....	2,810,638	-	1,061,978	1,748,660
Bond Mutual Funds (International).....	658,834	-	658,834	-
Total Debt Securities.....	4,642,989	\$ 329,323	\$ 2,565,006	\$ 1,748,660
<u>Other Investments</u>				
Equity Securities.....	374,867			
Equity Mutual Funds (Domestic).....	2,098,965			
Equity Mutual Funds (International).....	1,126,052			
Negotiable Certificates of Deposit.....	474,900			
Pooled Alternative Investments.....	1,720,114			
Total Investments.....	\$ 10,437,887			

The City’s investment in the Federal Home Loan Mortgage Corp, Federal, Governmental National Mortgage Association, and the U.S. Treasury Notes totaled \$778,592. These investments are all rated AA+ by Standard & Poor’s. Of the \$383,837 invested in corporate bonds, \$54,544 was rated A+, \$164,658 was rated A, \$99,700 was rated BBB+, and the remaining \$64,935 was rated BBB-. Of the \$11,088 invested in Municipal Bonds, \$5,452 was rated AA, and \$5,636 was rated AA-. Of the \$2,810,638 invested in Bond Mutual Funds (Domestic), \$116,411 was rated AAA, \$945,567 was rated BBB, \$939,246 was rated BB, \$310,451 was rated B and \$498,963 was unrated. Of the \$658,834 invested in Bond Mutual Funds (International), \$471,336 was rated BBB, and \$187,498 was rated BB.

As of December 31, 2016, the System had the following investments:

<u>Other Investments</u>	
Pooled alternative investments.....	\$ 653,098
Pooled real estate funds.....	140,499
PRIT general allocation funds.....	319,582,459
Total Investments.....	\$ 320,376,056

Custodial Credit Risk – Investments

For the City’s investments, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the investments, \$495,000 in Federal Home Loan Mortgages, \$30 in Government National Mortgage Association, \$283,562 in U.S. Treasury Notes, \$383,837 in Corporate Bonds, \$11,088 in municipal bonds, and \$374,867 in Equity Securities, the City has a custodial credit risk exposure of \$1,548,384, because the related securities are uninsured, unregistered and held by the counterparty. The City’s investment policy states that with the exception of U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or Agencies, and State Investment Pools, that no more than 50% of the City’s investments shall be invested in a single institution.

For the System's investments, this is the risk that, in the event of a failure by the counterparty, the System will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The System does not have an investment policy related to custodial credit risk.

#### Interest Rate Risk

The City's investment policy limits investment maturities to a term of up to one year, as a means of managing its exposure to fair value losses arising from increasing interest rates.

The System does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, when managing assets the System at all times must be in accordance with the provisions of the Public Employee Retirement Administration Commission (PERAC), the Employee Retirement Income Security Act (ERISA), and Department of Labor regulations.

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from 0.45 to 22.60 years.

#### Credit Risk

The City's investment policy states that financial institutions shall be selected first and foremost with regard to safety of principal, as recognized by a banking rating service, such as Veribanc. Also, a listing of required information is to be received from any investment house the City would like to do business with.

The System has not adopted a formal policy related to credit risk. At December 31, 2016, the System did not have any rated investments.

#### Concentration of Credit Risk

The City's investment policy states that with the exception of U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or Agencies, and State Investment Pools, that no more than 5% of the City's investments shall be invested in a single institution. At June 30, 2017, the City's investment in any one issuer did not exceed 5% of the total amount invested as described within the guidelines of GASB #40.

The System has not adopted a formal policy related to the amount that may be invested in any one issuer. At December 31, 2016, the System's investment in any one issuer did not exceed 5% of the total amount invested.

#### Fair Market Value of Investments

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

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

The City has the following recurring fair value measurements as of June 30, 2017:

Investment Type	6/30/17	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments measured at fair value level:</b>				
<u>Debt Securities</u>				
Federal Home Loan Mortgage Corp.....	\$ 495,000	\$ 495,000	\$ -	\$ -
Governmental National Mortgage Association.....	30	30	-	-
United States Treasury.....	283,562	283,562	-	-
Corporate Bonds.....	383,837	-	383,837	-
Municipal Bonds.....	11,088	-	11,088	-
Bond Mutual Funds (Domestic).....	2,810,638	2,810,638	-	-
Bond Mutual Funds (International).....	658,834	658,834	-	-
Total debt securities.....	4,642,989	4,248,064	394,925	-
<u>Other investments</u>				
Equity Securities.....	374,867	374,867	-	-
Equity Mutual Funds (Domestic).....	2,098,965	2,098,965	-	-
Equity Mutual Funds (International).....	1,126,052	1,126,052	-	-
Negotiable Certificates of Deposit.....	474,900	474,900	-	-
Pooled Alternative Investments.....	1,720,114	-	-	1,720,114
Total other investments.....	5,794,898	4,074,784	-	1,720,114
Total investments measured at fair value level.....	\$ 10,437,887	\$ 8,322,848	\$ 394,925	\$ 1,720,114

U.S. government treasuries and government sponsored enterprises, bond mutual funds, equity securities, equity mutual funds, negotiable certificates of deposit classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Corporate bonds and municipal bonds classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Pooled alternative investments classified in level 3 are valued using either a discounted cash flow or market comparable companies technique.

### Retirement System

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

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The System has the following recurring fair value measurements as of December 31, 2016:

Investment Type	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments measured at fair value level:</b>			
<u>Other investments</u>			
Pooled alternative investments.....	\$ 653,098	\$ -	\$ 653,098
Pooled real estate funds.....	140,499	-	140,499
Total investments measured at fair value level:	793,597	\$ -	\$ 793,597
<b>Investments measured at the net asset value:</b>			
PRIT Investments.....	319,582,459		
Total investments.....	\$ 320,376,056		

Pooled Alternative investments classified in level 3 are valued using either a discounted cash flow or market comparable companies technique.

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

**NOTE 3 - RECEIVABLES**

At June 30, 2017, receivables for the individual major governmental funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Real estate and personal property taxes.....	\$ 3,222,185	\$ (1,114,088)	\$ 2,108,097
Tax liens.....	1,822,448	(675,331)	1,147,117
Motor vehicle and other excise taxes.....	2,023,587	(1,181,639)	841,948
Trash fees.....	662,538	-	662,538
Departmental and other.....	79,350	-	79,350
Intergovernmental.....	17,314,761	-	17,314,761
Loans.....	1,512,576	-	1,512,576
Total .....	\$ 26,637,445	\$ (2,971,058)	\$ 23,666,387

At June 30, 2017, receivables for the enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
User fees.....	\$ 9,417,542	\$ -	\$ 9,417,542
Departmental and other.....	1,013,295	-	1,013,295
Total .....	<u>\$ 10,430,837</u>	<u>\$ -</u>	<u>\$ 10,430,837</u>

Governmental funds report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

At the end of the current year, the various components of *unavailable revenue* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 1,819,674	\$ -	\$ 1,819,674
Tax liens.....	1,147,117	-	1,147,117
Motor vehicle and other excise taxes.....	841,948	-	841,948
Trash fees.....	662,538	-	662,538
Departmental and other.....	79,350	-	79,350
Intergovernmental.....	7,010,756	9,315,525	16,326,281
<u>Other asset type:</u>			
Tax foreclosures.....	5,911,425	-	5,911,425
Total.....	<u>\$ 17,472,808</u>	<u>\$ 9,315,525</u>	<u>\$ 26,788,333</u>

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017, was as follows:

<b>Governmental Activities:</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 30,833,623	\$ -	\$ -	\$ 30,833,623
Construction in progress.....	<u>716,440</u>	<u>1,495,496</u>	<u>(197,278)</u>	<u>2,014,658</u>
Total capital assets not being depreciated.....	<u>31,550,063</u>	<u>1,495,496</u>	<u>(197,278)</u>	<u>32,848,281</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	351,219,456	896,720	-	352,116,176
Capital improvements (other than buildings).....	27,771,639	1,528,025	-	29,299,664
Infrastructure.....	178,576,929	8,471,910	-	187,048,839
Vehicles.....	18,249,570	846,342	-	19,095,912
Equipment.....	6,431,567	2,018,105	-	8,449,672
Books.....	7,227,583	296,626	-	7,524,209
Software.....	<u>495,990</u>	<u>-</u>	<u>-</u>	<u>495,990</u>
Total capital assets being depreciated.....	<u>589,972,734</u>	<u>14,057,728</u>	<u>-</u>	<u>604,030,462</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(212,300,606)	(6,908,037)	-	(219,208,643)
Capital improvements (other than buildings).....	(13,165,448)	(1,070,041)	-	(14,235,489)
Infrastructure.....	(85,015,298)	(2,752,144)	-	(87,767,442)
Vehicles.....	(12,861,180)	(1,414,395)	-	(14,275,575)
Equipment.....	(4,767,898)	(525,943)	-	(5,293,841)
Books.....	(6,290,343)	(271,184)	-	(6,561,527)
Software.....	<u>(495,990)</u>	<u>-</u>	<u>-</u>	<u>(495,990)</u>
Total accumulated depreciation.....	<u>(334,896,763)</u>	<u>(12,941,744)</u>	<u>-</u>	<u>(347,838,507)</u>
Total capital assets being depreciated, net.....	<u>255,075,971</u>	<u>1,115,984</u>	<u>-</u>	<u>256,191,955</u>
Total governmental activities capital assets, net.....	<u>\$ 286,626,034</u>	<u>\$ 2,611,480</u>	<u>\$ (197,278)</u>	<u>\$ 289,040,236</u>

<b>Business-Type Activities:</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,844,420	\$ -	\$ -	\$ 2,844,420
Construction in progress.....	-	7,262,564	-	7,262,564
Total capital assets not being depreciated.....	<u>2,844,420</u>	<u>7,262,564</u>	<u>-</u>	<u>10,106,984</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	3,075,958	35,355	-	3,111,313
Capital improvements (other than buildings).....	25,996,832	1,540,008	-	27,536,840
Infrastructure.....	322,360,026	6,924,928	-	329,284,954
Vehicles.....	2,957,011	272,474	-	3,229,485
Equipment.....	<u>2,861,137</u>	<u>252,825</u>	<u>-</u>	<u>3,113,962</u>
Total capital assets being depreciated.....	<u>357,250,964</u>	<u>9,025,590</u>	<u>-</u>	<u>366,276,554</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(48,510)	(77,546)	-	(126,056)
Capital improvements (other than buildings).....	(7,989,579)	(1,295,484)	-	(9,285,063)
Infrastructure.....	(134,542,692)	(6,859,655)	-	(141,402,347)
Vehicles.....	(1,803,230)	(370,002)	-	(2,173,232)
Equipment.....	<u>(1,122,904)</u>	<u>(239,887)</u>	<u>-</u>	<u>(1,362,791)</u>
Total accumulated depreciation.....	<u>(145,506,915)</u>	<u>(8,842,574)</u>	<u>-</u>	<u>(154,349,489)</u>
Total capital assets being depreciated, net.....	<u>211,744,049</u>	<u>183,016</u>	<u>-</u>	<u>211,927,065</u>
Total business-type activities capital assets, net.....	<u>\$ 214,588,469</u>	<u>\$ 7,445,580</u>	<u>\$ -</u>	<u>\$ 222,034,049</u>

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

**Governmental Activities:**

General government.....	\$ 688,694
Public safety.....	1,614,077
Education.....	6,430,739
Public works.....	2,273,048
Human services.....	262,552
Culture and recreation.....	<u>1,672,634</u>
Total depreciation expense - governmental activities.....	<u>\$ 12,941,744</u>

**Business-Type Activities:**

Sewer.....	\$ 4,487,102
Water.....	2,723,918
Parking.....	<u>1,631,554</u>
Total depreciation expense - business-type activities.....	<u>\$ 8,842,574</u>

**NOTE 5 - INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2017, are summarized as follows:

Operating Transfers Out:	Operating Transfers In:			Total
	General Fund	Nonmajor Governmental Funds	Auditorium Enterprise Fund	
General Fund.....	\$ -	\$ -	\$ 94,092	\$ 94,092
Nonmajor Governmental Funds.....	1,321,768	-	-	1,321,768
Sewer Enterprise Fund.....	4,643,336	-	-	4,643,336
Water Enterprise Fund.....	3,049,297	-	-	3,049,297
Parking Enterprise Fund.....	1,219,684	20,000	-	1,239,684
Total.....	\$ 10,234,085	\$ 20,000	\$ 94,092	\$ 10,348,177

Transfers out of the general fund represent funds to close out the deficit balance of the Auditorium enterprise fund. Transfers into the general fund represent amounts voted to fund 2017 operations, including indirect cost transfers from the enterprise funds, as well as various budgeted transfers from non-major funds. Additionally, the parking enterprise fund transferred funds to the commission on disability non-major fund.

**NOTE 6 - SHORT-TERM FINANCING**

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

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).
- Current project costs and other approved expenditures incurred, that are approved to be reimbursed by the Commonwealth, through the issuance of state aid anticipation notes (SAANS).

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

Details related to the short-term debt activity for the year ended June 30, 2017, is as follows:

Type	Description	Maturity Date	Rate %	Balance at June 30 2016	Renewed/ Issued	Retired/ Redeemed	Balance at June 30 2017
BAN	Municipal Purpose.....	6/21/17	1.20 - 2.00%	\$ 2,712,627	\$ -	\$ (2,712,627)	\$ -
SAAN	State Aid Anticipation.....	8/12/16	0.55%	1,232,000	-	(1,232,000)	-
SAAN	State Aid Anticipation.....	8/11/17	1.75%	-	723,000	-	723,000
BAN	Municipal Purpose.....	3/23/18	2.00%	-	7,604,691	-	7,604,691
Subtotal Governmental Short Term Debt....				<u>3,944,627</u>	<u>8,327,691</u>	<u>(3,944,627)</u>	<u>8,327,691</u>
BAN	MCWT Interim Note.....	3/15/17	2.00%	1,926,113	-	(1,926,113)	-
BAN	MCWT Interim Note.....	3/15/18	2.00%	3,717,966	-	(183,709)	3,534,257
BAN	MCWT Interim Note.....	4/13/18	2.00%	4,766,360	992,218	-	5,758,578
BAN	MCWT Interim Note.....	4/13/18	2.00%	2,176,015	1,301,359	-	3,477,374
Subtotal Water Enterprise Fund.....				<u>12,586,454</u>	<u>2,293,577</u>	<u>(2,109,822)</u>	<u>12,770,209</u>
BAN	Municipal Purpose.....	6/21/17	1.20%	1,350,000	-	(1,350,000)	-
BAN	Municipal Purpose.....	3/23/18	2.00%	-	4,600,000	-	4,600,000
BAN	MCWT Interim Note.....	5/1/18	2.00%	-	1,308,984	-	1,308,984
Subtotal Sewer Enterprise Fund.....				<u>1,350,000</u>	<u>5,908,984</u>	<u>(1,350,000)</u>	<u>5,908,984</u>
Subtotal Business-Type Short-Term Debt....				<u>13,936,454</u>	<u>8,202,561</u>	<u>(3,459,822)</u>	<u>18,679,193</u>
Total Short-Term Debt.....				<u>\$ 17,881,081</u>	<u>\$ 16,530,252</u>	<u>\$ (7,404,449)</u>	<u>\$ 27,006,884</u>

On August 11, 2017, the City redeemed the \$723,000 SAAN.

#### NOTE 7 - LONG-TERM DEBT

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

On December 20, 2016, the City issued \$5,505,000 of general obligation refunding bonds, which was comprised of a \$5,019,000 advance refunding and a \$486,000 current refunding. See below for a description of each issuance.

In order to take advantage of favorable interest rates, the City issued \$5,019,000 of general obligation refunding bonds. \$5,175,000 of general obligation bonds was advance refunded by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments over the next 11 years by \$291,128 and resulted in an economic gain of \$257,547. At June 30, 2017, \$1,840,000 of governmental bonds and \$3,335,000 of enterprise bonds outstanding from the refunding are considered defeased.

Additionally, the City issued \$486,000 of general obligation refunding bonds. The proceeds of the refunding bonds, along with \$4,092,333 of funds received from the Massachusetts School Building Authority, were used to complete a current refunding of existing debt. The refunded bonds totaled \$4,565,000 and became callable on December 20, 2016. As a result of the transaction, the refunded bonds were paid down on the call date and the liability has been removed from the statement of net position. The transaction resulted in an economic gain of \$298,531 and a reduction of \$320,416 in future debt service payments.

Details related to the outstanding indebtedness as of June 30, 2017, and the debt service requirements are as follows:

### Bonds and Notes Payable Schedule – Governmental Funds

Project	Maturities Through	Interest Rate (%)	Outstanding at June 30, 2016	Issued	Refunded	Redeemed	Outstanding at June 30, 2017
Schools.....	2033	2.00-6.00	\$ 24,767,593	\$ 773,500	\$ 4,868,100	\$ 3,387,693	\$ 17,285,300
General.....	2033	2.00-6.00	46,630,894	1,078,300	1,090,725	2,853,969	43,764,500
Cawley Stadium.....	2018	3.00-5.41	48,125	25,700	25,625	22,500	25,700
Section 108.....	2025	variable	1,530,000	-	-	170,000	1,360,000
Lowell Memorial Auditorium...	2030	2.00-5.75	2,125,000	-	-	150,000	1,975,000
Total General Obligation Bonds.....			75,101,612	1,877,500	5,984,450	6,584,162	64,410,500
Unamortized Premium on Bonds.....			3,046,840	-	-	381,863	2,664,977
Total Long-Term Debt.....			\$ 78,148,452	\$ 1,877,500	\$ 5,984,450	\$ 6,966,025	\$ 67,075,477

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

Year	Principal	Interest	Total
2018.....	\$ 6,053,500	\$ 2,782,925	\$ 8,836,425
2019.....	6,227,000	2,476,375	8,703,375
2020.....	6,476,000	2,142,523	8,618,523
2021.....	6,336,000	1,827,288	8,163,288
2022.....	6,236,000	1,536,214	7,772,214
2023.....	4,645,000	1,287,803	5,932,803
2024.....	3,637,000	1,104,026	4,741,026
2025.....	3,637,000	946,914	4,583,914
2026.....	3,107,000	798,230	3,905,230
2027.....	3,091,000	654,820	3,745,820
2028.....	3,000,000	514,676	3,514,676
2029.....	3,000,000	388,004	3,388,004
2030.....	2,855,000	273,876	3,128,876
2031.....	1,785,000	171,491	1,956,491
2032.....	1,380,000	120,950	1,500,950
2033.....	900,000	83,216	983,216
2034.....	785,000	54,581	839,581
2035.....	680,000	29,898	709,898
2036.....	580,000	9,430	589,430
Total.....	\$ 64,410,500	\$ 17,203,240	\$ 81,613,740

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority (MSBA), provides resources for future debt service of general obligation school bonds outstanding. During 2017, \$3,585,000 of such assistance was received. Approximately \$7,157,000 will be received in future years. Of this amount, approximately \$146,000 represents reimbursement of long-term interest costs, and approximately \$7,011,000 represents reimbursement of approved construction costs. Accordingly, a \$7,011,000 intergovernmental receivable and corresponding unavailable

revenue have been reported in governmental fund financial statements. The unavailable revenue has been recognized as revenue in the conversion to the government-wide financial statements. During 2017, the City also received a lump sum payment from the MSBA of \$4,100,000 which was used to refund certain prior school construction long-term debt issues.

Beginning in 2005, the Commonwealth changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the City. Through the end of 2017, the City has recorded capital grant proceeds totaling \$457,000 related to the Lowell High School feasibility study, from the MSBA, which is equal to 79.95%, of approved construction costs submitted for reimbursement. The City anticipates receiving an additional \$228,000 related to the Lowell High School feasibility project. Accordingly, a \$228,000 intergovernmental receivable and corresponding deferred inflow of resources - unavailable revenue has been reported in the governmental fund financial statements. The unavailable revenue has been recognized as revenue in the conversion to the government-wide financial statements.

At June 30, 2017, the City carried \$1,360,000 of debt, issued in prior years, under the United States Department of Housing and Urban Development's (HUD) Section 108 Loan Guarantee Program. The purpose of the program is to enable local governments to provide financing to urban renewal projects operated by either the government or third party developers. Debt issued under this program is secured by future entitlement allocations to the City under HUD's Community Development Block Grant (CDBG) Program. The City expects to receive \$1,360,000 in future years as debt repayments from developers who were the recipients of the loan funds. Accordingly a receivable of \$1,360,000 has been recorded in the nonmajor governmental funds. The balance of the debt represents an amount attributable to a City owned renewal project for which principal payments have been programmed to be made from CDBG funds over the next five years. After such time, the City expects to sell the property and repay any remaining debt associated with the City owned project. At June 30, 2017, the interest rate on this debt remains variable and is determined quarterly based on three month London Interbank Offered Rate plus 20 basis points.

#### Bonds and Notes Payable Schedule – Enterprise Funds

Project	Maturities Through	Interest Rate (%)	Outstanding at June 30, 2016	Issued	Refunded	Redeemed	Outstanding at June 30, 2017
Sewer.....	2043	2.00-7.70	\$ 87,606,062	\$ 2,565,500	\$ 2,655,850	\$ 4,112,464	\$ 83,403,248
Water.....	2033	2.00-6.00	34,586,249	2,754,725	1,099,700	2,571,868	33,669,406
Parking.....	2028	4.00-5.00	28,394,939	-	-	1,594,939	26,800,000
Total General Obligation Bonds.....			150,587,250	5,320,225	3,755,550	8,279,271	143,872,654
Unamortized Premium on Bonds.....			2,102,061	-	-	296,025	1,806,036
Total Long-Term Debt.....			\$ 152,689,311	\$ 5,320,225	\$ 3,755,550	\$ 8,575,296	\$ 145,678,690

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

Year	Principal	Interest	Total
2018.....	\$ 8,814,627	\$ 4,183,691	\$ 12,998,318
2019.....	8,967,436	3,937,134	12,904,570
2020.....	9,196,390	3,666,147	12,862,537
2021.....	9,391,026	3,387,831	12,778,857
2022.....	8,937,391	3,083,015	12,020,406
2023.....	8,911,519	2,768,423	11,679,942
2024.....	8,514,451	2,471,370	10,985,821
2025.....	8,716,233	2,186,173	10,902,406
2026.....	8,044,903	1,924,931	9,969,834
2027.....	7,941,152	1,666,587	9,607,739
2028.....	7,951,274	1,404,794	9,356,068
2029.....	5,451,124	1,197,311	6,648,435
2030.....	5,255,576	1,048,501	6,304,077
2031.....	5,098,205	906,369	6,004,574
2032.....	4,245,249	779,389	5,024,638
2033.....	4,131,763	666,457	4,798,220
2034.....	3,856,938	556,423	4,413,361
2035.....	3,660,053	456,472	4,116,525
2036.....	3,635,138	361,391	3,996,529
2037.....	2,879,253	279,974	3,159,227
2038.....	2,652,875	213,733	2,866,608
2039.....	2,718,508	149,272	2,867,780
2040.....	1,585,070	97,746	1,682,816
2041.....	1,624,551	59,472	1,684,023
2042.....	835,315	30,201	865,516
2043.....	856,634	10,151	866,785
Total.....	\$ <u>143,872,654</u>	\$ <u>37,492,958</u>	\$ <u>181,365,612</u>

The City is scheduled to be subsidized by the Massachusetts Clean Water Trust (MCWT) on a periodic basis for principal in the amount of \$1,522,000 and interest costs for \$872,000. Thus, net MCWT loan repayments, including interest, are scheduled to be \$19,647,000. The principal subsidies are guaranteed. The interest subsidies are supported through future investment income and are expected to be made, although not guaranteed. Since the City is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The 2017 principal and interest subsidies totaled approximately \$276,000 and \$265,000, respectively.

The City is scheduled to be subsidized directly by the Department of the Treasury on a periodic basis for interest costs in the amount of \$485,000 related to the issuance of Qualified Energy Conservation Bonds. Thus net loan repayments, including interest, are scheduled to be \$2,126,000. Since the City is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The 2017 interest subsidy totaled approximately \$71,000.

Authorized and Unissued Debt

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2017, the City had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Hamilton Canal Garage Design.....	\$ 1,200,000
Water.....	1,689,415
Sewer.....	33,161,413
Streetlights.....	27,262
Energy Improvements.....	1,717,883
Police Equipment.....	500,000
LeLacheur Park.....	91,864
Parking Kiosks.....	380,061
Rogers Roof.....	110,000
Capital Plan.....	17,513,377
Bridge Repair.....	<u>2,600,000</u>
Total.....	<u>\$ 58,991,275</u>

Changes in Long-term Liabilities

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:

**Governmental Activities:**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds.....	\$ 75,101,612	\$ 1,877,500	\$ (12,568,612)	\$ 64,410,500	\$ 6,053,500
Add: unamortized premium.....	3,046,840	-	(381,863)	2,664,977	454,919
Total long-term debt.....	<u>78,148,452</u>	<u>1,877,500</u>	<u>(12,950,475)</u>	<u>67,075,477</u>	<u>6,508,419</u>
Workers' compensation.....	3,344,000	199,300	(555,000)	2,988,300	383,500
Compensated absences.....	10,905,095	7,371,795	(6,270,994)	12,005,896	6,815,849
Net pension liability.....	242,898,996	19,535,251	(8,269,270)	254,164,977	-
Other postemployment benefits.....	<u>165,910,770</u>	<u>31,076,309</u>	<u>(17,029,080)</u>	<u>179,957,999</u>	<u>-</u>
Total governmental activity long-term liabilities.....	<u>\$ 501,207,313</u>	<u>\$ 60,060,155</u>	<u>\$ (45,074,819)</u>	<u>\$ 516,192,649</u>	<u>\$ 13,707,768</u>

**Business-Type Activities:**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds.....	\$ 150,587,250	\$ 5,320,225	\$ (12,034,821)	\$ 143,872,654	\$ 8,740,133
Add: unamortized premium.....	2,102,061	-	(296,025)	1,806,036	221,006
Total long-term debt.....	<u>152,689,311</u>	<u>5,320,225</u>	<u>(12,330,846)</u>	<u>145,678,690</u>	<u>8,961,139</u>
Compensated absences.....	496,498	380,080	(387,522)	489,056	392,892
Net pension liability.....	18,535,721	1,214,288	(678,073)	19,071,936	-
Other postemployment benefits.....	<u>5,960,257</u>	<u>1,037,182</u>	<u>(991,280)</u>	<u>6,006,159</u>	<u>-</u>
Total business-type activity long-term liabilities.....	<u>\$ 177,681,787</u>	<u>\$ 7,951,775</u>	<u>\$ (14,387,721)</u>	<u>\$ 171,245,841</u>	<u>\$ 9,354,031</u>

Compensated absences, workers' compensation and other postemployment liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures, which consist of the general fund and the sewer, water, parking, and auditorium enterprise funds.

#### **NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

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

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

At year end, the balance of the General Stabilization Fund is \$10.6 million and is reported as unassigned fund balance within the General Fund. The Pension Assessment Stabilization, School Construction Stabilization, Capital Debt Service Stabilization, Employee benefits and mitigation fund, and Salary Reserve Stabilization funds, reported as committed fund balance within the General Fund, have year end balances of \$9,000, \$313,000, \$1.6 million, \$2.1 million and \$2,000, respectively.

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

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

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

As of June 30, 2017, fund balances consisted of the following:

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>FUND BALANCES</b>			
Nonspendable:			
Permanent fund principal..... \$	-	\$ 1,825,048	\$ 1,825,048
Restricted for:			
Chapter 17 special reserve.....	1,150	-	1,150
Gift and grant funds.....	-	7,979,727	7,979,727
Federal grant funds.....	-	948,527	948,527
Section 108 funds.....	-	1,565,338	1,565,338
Sale of city property funds.....	-	293,090	293,090
Capital project funds.....	-	2,237,333	2,237,333
Spendable permanent funds.....	-	179,303	179,303
Revolving funds.....	-	711,316	711,316
Committed to:			
Stabilization school construction .....	312,829	-	312,829
Pension assessment stabilization .....	8,872	-	8,872
Salary reserve stabilization .....	1,686	-	1,686
Capital debt service stabilization.....	1,591,973	-	1,591,973
Employee benefits and mitigation fund.....	2,120,611	-	2,120,611
Assigned to:			
General government.....	35,336	-	35,336
Education.....	906,350	-	906,350
Public works.....	4,125	-	4,125
Culture and recreation.....	17,548	-	17,548
Unassigned.....	<u>18,711,279</u>	<u>(7,010,933)</u>	<u>11,700,346</u>
<b>TOTAL FUND BALANCES..... \$</b>	<b><u>23,711,759</u></b>	<b><u>8,728,749</u></b>	<b><u>32,440,508</u></b>

**NOTE 9 - RISK FINANCING**

The City is self-insured for its workers' compensation. The workers' compensation activities are accounted for in the general fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

*Workers' Compensation* - Workers' compensation claims are administered by the City's Law Department and are funded on a pay-as-you-go basis from annual appropriations. The City handles all administration related to the workers' compensation program.

The City has recorded a liability of \$3.0 million at June 30, 2017, which represents an estimate of all outstanding claims as of that date.

Changes in the reported liability since July 1, 2015, are as follows:

	Balance at Beginning of Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Year-end
2016.....	\$ 3,503,000	\$ (19,116)	\$ (139,884)	\$ 3,344,000
2017.....	3,344,000	331,866	(687,566)	2,988,300

**NOTE 10 - PENSION PLAN**

*Plan Descriptions*

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

The City is a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multi-employer defined benefit plan. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for 100% of the contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives and Quincy College. The MTRS is part of the Commonwealth's reporting entity and the audited financial report may be obtained by visiting <http://www.mass.gov/osc/publications-and-reports/financial-reports/>.

*Special Funding Situation*

The Commonwealth is a nonemployer contributor and is required by statute to make 100% of all actuarially determined employer contributions on behalf of the City to the MTRS. Therefore, the City is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in MTRS. Since the City does not contribute directly to MTRS, there is no net pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based on each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2016. The City's portion of the collective pension expense, contributed by the Commonwealth, of \$32,948,084 is reported in the general fund as intergovernmental revenue and pension benefits in the current fiscal year. The portion of the Commonwealth's collective net pension liability associated with the City is \$322,399,676 as of the measurement date.

*Benefits Provided*

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

compensation, and group classification. Members become vested after ten years of creditable service. There were no reported changes in pension benefit terms that effect measurement of the total pension liability as of December 31, 2016.

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

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

At December 31, 2016, the LCRS membership consists of the following:

	<u>2016</u>
Inactive plan members or beneficiaries currently receiving benefits..	1,219
Inactive plan members entitled to but not yet receiving benefits.....	173
Active plan members.....	<u>1,822</u>
Total.....	<u><u>3,214</u></u>

*Contributions*

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the LCRS a legislatively mandated actuarial determined contribution that is apportioned among the employers based on active current payroll. The total member units' contribution for the year ended December 31, 2016, was \$24,701,000, 26.66% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City's proportionate share of the required contribution was \$23,096,000, which equaled its actual contribution.

*Pension Liabilities*

The components of the net pension liability of the participating member units at June 30, 2017, were as follows:

Total pension liability.....	\$ 621,658,813
The pension plan's fiduciary net position.....	<u>(329,424,819)</u>
The net pension liability.....	<u><u>\$ 292,233,994</u></u>
The pension plan's fiduciary net position as a percentage of the total pension liability.....	52.99%

At June 30, 2017, the City reported a liability of \$273,236,913 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015. Accordingly, update procedures were used to roll forward the total pension liability to the measurement date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members. At December 31, 2016, the City's proportion was 93.50%, which changed from its proportion of 93.47% in the prior year.

*Pension Expense*

For the year ended June 30, 2017, the City recognized a pension expense of \$43,845,088. At June 30, 2017, the City reported deferred outflows of resources related to pensions of \$40,495,993 and deferred inflows of resources related to pensions of \$762,613.

The balances of deferred outflows and inflows at June 30, 2017, consist of the following:

<u>Deferred category</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Total</u>
Differences between expected and actual experience..... \$	3,602,405	\$	\$ 3,602,405
Difference between projected and actual earnings.....	15,725,307	-	15,725,307
Changes of assumptions.....	19,684,365	-	19,684,365
Changes in proportion.....	<u>1,483,916</u>	<u>(762,614)</u>	<u>721,302</u>
Total Deferred Outflows/(Inflows) of Resources..... \$	<u>40,495,993</u>	<u>(762,614)</u>	<u>\$ 39,733,379</u>

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

Year ended June 30:

2018.....	\$ 11,135,939
2019.....	11,135,940
2020.....	10,774,326
2021.....	6,332,379
2022.....	<u>354,795</u>
Total.....	<u>\$ 39,733,379</u>

*Actuarial Assumptions*

The total pension liability in the January 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2016:

Valuation date.....	January 1, 2015
Actuarial cost method.....	Entry Age Normal
Amortization method.....	<p>UAAL: Increasing dollar amount to reduce the Unfunded Actuarial Accrued Liability to zero on or before June 30, 2036</p> <p>2002 &amp; 2003 ERI Level dollar amount to reduce the 2002 and 2003 ERI Actuarial Accrued Liability to zero on or before June 30, 2017 and June 30, 2020, respectively</p>
Remaining amortization period.....	<p>20 years for the UAL as of December 31, 2016</p> <p>1 year for the 2002 ERI and 4 years for the 2003 ERI as of December 31, 2016</p>
Asset valuation method.....	<p>The Actuarial Value of Assets is the market value of assets as of the valuation date reduced by the sum of:</p> <ul style="list-style-type: none"> <li>a) 80% of gains and losses of the prior year,</li> <li>b) 60% of gains and losses of the second prior year,</li> <li>c) 40% of gains and losses of the third prior year and</li> <li>d) 20% of gains and losses of the fourth prior year.</li> </ul> <p>Investment gains and losses are determined by the excess or deficiency of the expected return over the actual return on the market value. The actuarial valuation of assets is further constrained to be not less than 90% or more than 110% of market value.</p>
Inflation rate.....	3.50%
Projected salary increases.....	4.25-6.0% for year for general employees and 4.75-7.0 percent per year for public safety, including longevity.
Cost of living allowances.....	Cost of living allowances are assumed to be 3% of the first \$17,000 of the annual retirement allowance capped at \$510 per year.
Rates of retirement.....	Varies based upon age for general employees, police and fire employees.
Rates of disability.....	<p>For general employees, it was assumed that 45% of all disabilities are ordinary (55% are accidental).</p> <p>For police and fire employees, 10% of all disabilities are assumed to be ordinary (90% are accidental).</p>
Mortality Rates.....	RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using scale BB. For disabled members, RP-2000 Mortality Table (base year 2015) with full generational mortality improvement using scale BB.
Investment rate of return/Discount rate.....	7.75%, net of pension plan investment expense, including inflation

*Investment policy*

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

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of December 31, 2016, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Long-Term Expected Asset Allocation
Global equity.....	7.97%	40.00%
Fixed income.....	3.85%	12.00%
Value added fixed income.....	7.02%	10.00%
Private equity.....	9.50%	11.00%
Real estate.....	6.50%	10.00%
Timber/natural resources.....	6.00%	4.00%
Hedge funds.....	6.48%	13.00%
Total.....		100.00%

*Rate of return*

For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.01%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Discount rate*

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the net pension liability to changes in the discount rate*

The following presents the net pension liability, calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
The City's proportionate share of the net pension liability.....	\$ <u>338,574,808</u>	\$ <u>273,236,913</u>	\$ <u>217,908,384</u>
LCRS total net pension liability.....	\$ <u>362,114,573</u>	\$ <u>292,233,994</u>	\$ <u>233,058,691</u>

*Non-contributory Retirement Allowance* – City employees with military veteran status and at least 30 years of service to the City, who began work prior to July 1, 1939, and others meeting eligibility criteria are entitled to a non-contributory pension benefit equal to 72% of their highest rate of pay. Employees covered by this section of the plan are not included in the actuarial valuation and there is no available estimate of the related actuarial liability. The City funds these benefits from an annual general fund appropriation. The general fund expenditure for 2017 was \$34,000.

*Changes in Assumptions*

- The discount rate changed from 8% as of the beginning of the measurement period to 7.75% as of the end of the measurement period.
- The mortality rates were updated from the rates in the RP-2000 Mortality Table projected to 2012 with Scale AA to the rates in the RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB.
- The annual rates of expected salary increases were modified and are based on service by Group.

*Changes in Plan Provisions*

None

**NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

*Plan Description* - The City of Lowell administers a single-employer defined benefit healthcare plan (“Plan”). The Plan provides lifetime healthcare, dental and life insurance for eligible retirees and their spouses through the City’s health insurance plan, which covers both active and retired members, including teachers. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the City and the unions representing City employees and are renegotiated each bargaining period. The Plan does not issue a publicly available financial report.

*Funding Policy* - The contribution requirements of Plan members and the City are established and may be amended through collective bargaining. The required contribution is based on projected pay-as-you-go financing requirements. The City contributes 75% of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 25 percent of their premium costs.

For 2017, the City contributed \$18,020,360 to the plan. For the year ended June 30, 2017, the City's average contribution rate was 26.66% of covered employee payroll.

The Commonwealth of Massachusetts passed special legislation that has allowed the City to establish a postemployment benefit trust fund and to enable the City to raise taxes necessary to begin pre-funding its OPEB liabilities. The Other Postemployment Benefit Fund is reported within the Fiduciary Funds financial statements. As of June 30, 2017, the balance of this fund totaled \$8.3 million.

The annual money-weighted rate of return on OPEB plan investments was 3.59%. The money-weighted rate of return expresses investment performance, net of OPEB plan investment expense, adjusted for the changing amounts actually invested.

*Plan Membership* – The following table represents the Plan's membership at July 1, 2016:

Active members.....	2,868
Inactive employees or beneficiaries currently receiving benefits.....	<u>2,326</u>
Total.....	<u>5,194</u>

*Components of OPEB Liability* – The following table represents the components of the Plan's OPEB liability as of June 30, 2017:

Total OPEB liability.....	\$ 606,209,254
Less: OPEB plan's fiduciary net position.....	<u>(8,321,031)</u>
Net OPEB liability.....	<u>\$ 597,888,223</u>
The OPEB plan's fiduciary net position as a percentage of the total OPEB liability.....	
	1.37%

*Significant Actuarial Methods and Assumptions* – The total OPEB liability in the July 1, 2016 actuarial valuation was determined by using the following actuarial assumptions, applied to all periods including the measurement date that was update to June 30, 2017 to be in accordance with GASB #74:

Valuation date.....	July 1, 2016
Actuarial cost method.....	Entry Age Normal, as a percentage of payroll
Asset valuation method.....	Market value of assets as of the reporting date, June 30, 2017
Amortization method.....	Level dollar, open basis
Remaining amortization period.....	30 years, as of July 1, 2016
Inflation rate.....	Assumed 2.0%
Discount rate.....	3.5%
Salary increases.....	3.0% per year
Healthcare cost trend rate.....	8.0%, decreasing by 0.5% per year to an ultimate rate of 5.0% for 2024 and later years.
Mortality rate.....	RP 2014 Healthy Male and Female Tables are based on the Combined Healthy table for both pre & post retirement projected with mortality improvements using Projection Scale AA for 2.5 years, (i.e. from date of table to the valuation date), plus seven years generational improvement.

*Investment Policy* – The City’s policy in regard to the allocation of invested assets is established and may be amended by the City Council with a majority vote of its members. The OPEB plan’s assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the plan.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The Plan’s expected future real rate of return of 3.91% is added to the expected inflation of 2.00% to produce the long-term expected nominal rate of return of 5.91%.

The City’s net other postemployment benefits liability was determined based on an average of the Bond Buyer 20-year General Obligation Bond, the S&P Municipal Bond 20-Year High Grade Rate Index, and the Fidelity GA AA 20-year Bond as of June 30, 2017, blended with the portion of the liability funded in the OPEB Trust which resulted in a selected discount rate of 3.50%. The blending is based on the sufficiency of projected assets to make projected benefit payments.

Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan’s target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic fixed income.....	35.00%	2.47%
Domestic equity.....	25.00%	5.05%
Alternatives.....	20.00%	4.80%
International equity.....	10.00%	5.80%
International fixed income.....	10.00%	2.40%
	<u>100.00%</u>	

*Sensitivity of the net position liability to changes in the discount rate* – The following table presents the net other postemployment benefit liability and service cost, calculated using the discount rate of 3.5%, as well as what the net other postemployment benefit liability and service cost would be if it were calculated using a discount rate that is 1-percentage-point lower (2.5%) or 1-percentage-point higher (4.5%) than the current rate.

	<u>1% Decrease (2.5%)</u>	<u>Current Discount Rate (3.5%)</u>	<u>1% Increase (4.5%)</u>
Net OPEB liability..... \$	750,626,717 \$	597,888,223 \$	476,564,725

*Sensitivity of the net position liability to changes in the healthcare trend* – The following table presents the net other postemployment benefit liability and service cost, calculated using the current healthcare trend rate of 8.0%, as well as what the net other postemployment benefit liability and service cost would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower (7.0%) or 1-percentage-point higher (9.0%).

	<u>1% Decrease</u> <u>(7.0%)</u>	<u>Current Trend</u> <u>(8.0%)</u>	<u>1% Increase</u> <u>(9.0%)</u>
Net OPEB liability.....	\$ 477,811,590	\$ 597,888,223	\$ 752,289,587

*Annual OPEB Cost and Net OPEB Obligation* - The City's annual OPEB cost (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 #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$ 42,029,149
Interest on net OPEB obligation.....	5,734,354
Adjustment to annual required contribution.....	<u>(15,650,012)</u>
Annual OPEB cost (expense).....	32,113,491
Contributions made.....	<u>(18,020,360)</u>
Increase/Decrease in net OPEB obligation.....	14,093,131
Net OPEB obligation - beginning of year.....	<u>171,871,027</u>
Net OPEB obligation - end of year.....	<u>\$ 185,964,158</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the previous two years was as follows:

<u>Year</u> <u>Ended</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/2017	\$ 32,113,491	56.1%	\$ 185,964,158
6/30/2016	28,534,040	51.6%	171,871,027
6/30/2015	27,152,680	54.8%	158,051,149

*Funded Status and Funding Progress* - As of July 1, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$593.6 million. The actuarial value of assets for the plan was \$8.0 million. The remaining \$585.5 million was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$185.3 million, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 322.6%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include 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 about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions* - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer 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 employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2016, actuarial valuation, actuarial liabilities were determined using the entry age normal method, as a percentage of payroll. The actuarial assumptions included a 3.5% discount rate and a healthcare cost trend rate of 8.0% initially, decreasing by 0.5% per year to an ultimate rate of 5.0% for 2024 and later years, and included a 2.0% inflation assumption. The UAAL is being amortized as a level dollar open basis. The remaining closed amortization period at June 30, 2017, was 30 years.

#### **NOTE 12 - COMMITMENTS**

The City has entered into, or is planning to enter into, contracts totaling approximately \$59.0 million for sewer projects, water projects, energy improvement projects, parking garage design, parking kiosks, and various other capital projects. These projects will be funded through the issuance of long-term debt, state grants, and federal grants.

#### **NOTE 13 - CONTINGENCIES**

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

Various other legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2017, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2017.

#### **NOTE 14 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 15, 2018, which is the date the financial statements were available to be issued.

**NOTE 15 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During 2017, the following GASB pronouncements were implemented:

- GASB Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The basic financial statements, related notes, and required supplementary information were updated to be in compliance with this pronouncement.
- GASB Statement #77, *Tax Abatement Disclosures*. This pronouncement did not impact the basic financial statements.
- GASB Statement #78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This pronouncement did not impact the basic financial statements.
- GASB Statement #80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement #14*. This pronouncement did not impact the basic financial statements.
- GASB Statement #82, *Pension Issues – an amendment of GASB Statements #67, #68, and #73*. The basic financial statements and related notes were updated to be in compliance with this pronouncement.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.
- The GASB issued Statement #81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in 2018.
- The GASB issued Statement #83, *Certain Asset Retirement Obligations*, which is required to be implemented in 2019.
- The GASB issued Statement #84, *Fiduciary Activities*, which is required to be implemented in 2020.
- The GASB issued Statement #85, *Omnibus 2017*, which is required to be implemented in 2018.
- The GASB issued Statement #86, *Certain Debt Extinguishment Issues*, which is required to be implemented in 2018.
- The GASB issued Statement #87, *Leases*, which is required to be implemented in 2021.

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

# ***Required Supplementary Information***

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

FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 122,469,134	\$ 122,469,134	\$ 122,541,775
Tax liens.....	-	-	-	-
Motor vehicle and other excise taxes.....	-	8,572,739	8,572,739	8,572,739
Trash disposal.....	-	3,266,202	3,266,202	3,266,202
Penalties and interest on taxes.....	-	1,360,051	1,360,051	1,360,051
Payments in lieu of taxes.....	-	1,000,000	1,000,000	1,000,000
Intergovernmental.....	-	171,430,147	171,430,147	171,430,147
Departmental and other.....	-	7,820,775	7,820,775	8,070,775
Investment income.....	-	451,292	451,292	451,292
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>316,370,340</b>	<b>316,370,340</b>	<b>316,692,981</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	216,548	17,290,947	17,507,495	16,240,185
Public safety.....	15,694	44,534,957	44,550,651	45,826,079
Education.....	1,936,702	151,095,292	153,031,994	152,340,198
Public works.....	54,589	12,938,377	12,992,966	14,927,038
Human services.....	7,117	3,464,603	3,471,720	3,523,164
Culture and recreation.....	22,013	4,277,137	4,299,150	4,308,862
Pension benefits.....	-	23,155,548	23,155,548	23,026,785
Employee benefits.....	-	40,664,328	40,664,328	40,744,286
State and county charges.....	-	22,839,574	22,839,574	22,454,574
Debt service:				
Principal.....	-	6,184,964	6,184,964	6,414,162
Interest.....	-	4,284,761	4,284,761	3,805,563
<b>TOTAL EXPENDITURES.....</b>	<b>2,252,663</b>	<b>330,730,488</b>	<b>332,983,151</b>	<b>333,610,896</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(2,252,663)</b>	<b>(14,360,148)</b>	<b>(16,612,811)</b>	<b>(16,917,915)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Premium from issuance of bonds.....	-	825,000	825,000	825,000
Sale of assets.....	-	7,500	7,500	7,500
Transfers in.....	-	11,776,456	11,776,456	12,081,611
Transfers out.....	-	-	-	(2,176,370)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>12,608,956</b>	<b>12,608,956</b>	<b>10,737,741</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(2,252,663)</b>	<b>(1,751,192)</b>	<b>(4,003,855)</b>	<b>(6,180,174)</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>-</b>	<b>9,228,987</b>	<b>9,228,987</b>	<b>9,228,987</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ (2,252,663)</b>	<b>\$ 7,477,795</b>	<b>\$ 5,225,132</b>	<b>\$ 3,048,813</b>

See accompanying notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
\$	122,579,521	\$ -	\$ 37,746
	1,150,353	-	1,150,353
	9,431,194	-	858,455
	3,184,930	-	(81,272)
	1,324,504	-	(35,547)
	560,602	-	(439,398)
	172,581,352	-	1,151,205
	9,147,063	-	1,076,288
	303,388	-	(147,904)
	<u>320,262,907</u>	<u>-</u>	<u>3,569,926</u>
	15,704,261	35,336	500,588
	44,898,386	-	927,693
	151,258,060	906,350	175,788
	14,546,153	4,125	376,760
	3,443,881	-	79,283
	4,014,211	17,548	277,103
	22,994,676	-	32,109
	40,812,342	-	(68,056)
	22,351,582	-	102,992
	6,414,162	-	-
	3,328,551	-	477,012
	<u>329,766,265</u>	<u>963,359</u>	<u>2,881,272</u>
	<u>(9,503,358)</u>	<u>(963,359)</u>	<u>6,451,198</u>
	83,890	-	(741,110)
	4,975	-	(2,525)
	12,081,611	-	-
	<u>(2,176,370)</u>	<u>-</u>	<u>-</u>
	<u>9,994,106</u>	<u>-</u>	<u>(743,635)</u>
	490,748	(963,359)	5,707,563
	9,228,987	-	-
\$	<u>9,719,735</u>	<u>(963,359)</u>	<u>5,707,563</u>

# ***Pension Plan Schedules - Retirement System***

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

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

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

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

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

	December 31, 2016	December 31, 2015	December 31, 2014
<b>Total pension liability:</b>			
Service cost.....	\$ 15,389,829	\$ 12,776,431	\$ 12,776,431
Interest.....	45,581,124	42,298,799	39,817,736
Changes in benefit terms.....	5,820,520	-	-
Differences between expected and actual experience.....	-	5,750,829	-
Changes in assumptions.....	-	31,423,849	-
Benefit payments, including refunds of employee contributions.....	<u>(35,772,737)</u>	<u>(35,136,789)</u>	<u>(33,577,831)</u>
Net change in total pension liability.....	31,018,736	57,113,119	19,016,336
Total pension liability, beginning.....	<u>590,640,077</u>	<u>533,526,958</u>	<u>514,510,622</u>
Total pension liability, ending <b>(a)</b> .....	<u>\$ 621,658,813</u>	<u>\$ 590,640,077</u>	<u>\$ 533,526,958</u>
<b>Plan fiduciary net position:</b>			
Member contributions.....	\$ 8,204,174	\$ 8,903,043	\$ 8,983,678
Employer contributions.....	24,701,289	21,837,654	21,880,170
Net investment income (loss).....	21,730,686	1,213,427	21,617,178
Retirement benefits and refunds.....	<u>(35,772,737)</u>	<u>(35,136,789)</u>	<u>(33,577,831)</u>
Administrative expenses.....	<u>(367,634)</u>	<u>(355,999)</u>	<u>(358,770)</u>
Net increase (decrease) in fiduciary net position.....	18,495,778	(3,538,664)	18,544,425
Fiduciary net position at beginning of year.....	<u>310,929,041</u>	<u>314,467,705</u>	<u>295,923,280</u>
Fiduciary net position at end of year <b>(b)</b> .....	<u>\$ 329,424,819</u>	<u>\$ 310,929,041</u>	<u>\$ 314,467,705</u>
<b>Net pension liability - ending (a) - (b)</b> .....	<u>\$ 292,233,994</u>	<u>\$ 279,711,036</u>	<u>\$ 219,059,253</u>
Plan fiduciary net position as a percentage of the total pension liability.....	52.99%	52.64%	58.94%
Covered-employee payroll.....	\$ 92,654,081	\$ 89,520,851	\$ 80,555,739
Net pension liability as a percentage of covered-employee payroll.....	315.40%	312.45%	271.94%

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

See notes to required supplementary information.

**SCHEDULE OF CONTRIBUTIONS  
LOWELL CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2016	December 31, 2015	December 31, 2014
Actuarially determined contribution.....	\$ 24,701,289	\$ 21,837,654	\$ 21,880,170
Contributions in relation to the actuarially determined contribution.....	<u>(24,701,289)</u>	<u>(21,837,654)</u>	<u>(21,880,170)</u>
Contribution deficiency (excess).....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll.....	\$ 92,654,081	\$ 89,520,851	\$ 80,555,739
Contributions as a percentage of covered- employee payroll.....	26.66%	24.39%	27.16%

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

See notes to required supplementary information.

**SCHEDULE OF INVESTMENT RETURN  
LOWELL CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2016	December 31, 2015	December 31, 2014
Annual money-weighted rate of return, net of investment expense.....	7.01%	0.48%	7.81%

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

The annual money-weighted rate of return has been calculated by the System's actuary.

See notes to required supplementary information.

# ***Pension Plan Schedules – City***

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

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

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

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

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

	December 31, 2016	December 31, 2015	December 31, 2014
City's proportion of the net pension liability (asset).....	93.50%	93.47%	93.01%
City's proportionate share of the net pension liability (asset)..... \$	273,236,913	\$ 261,434,717	\$ 203,753,583
City's covered employee payroll..... \$	87,048,509	\$ 84,104,839	\$ 74,927,309
Net pension liability as a percentage of City's covered-employee payroll.....	335.71%	332.57%	292.36%
Plan fiduciary net position as a percentage of the total pension liability.....	52.99%	52.64%	58.94%

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

See notes to required supplementary information.

**SCHEDULE OF CITY CONTRIBUTIONS  
LOWELL CONTRIBUTORY RETIREMENT SYSTEM**

	June 30, 2017	June 30, 2016	June 30, 2015
Actuarially determined contribution.....	\$ 23,095,548	\$ 20,410,761	\$ 20,351,365
Contributions in relation to the actuarially determined contribution.....	<u>(23,095,548)</u>	<u>(20,410,761)</u>	<u>(20,351,365)</u>
Contribution deficiency (excess).....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered-employee payroll.....	\$ 87,048,509	\$ 84,104,839	\$ 74,927,309
Contributions as a percentage of City covered- employee payroll.....	26.53%	24.27%	27.16%

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

See notes to required supplementary information.

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

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

Year	Commonwealth's 100% Share of the Net Pension Liability Associated with the City	City's Expense and Revenue Recognized for the Commonwealth's Support	Plan Fiduciary Net Position as a Percentage of the Total Liability
2017.....	\$ 322,999,676	\$ 32,948,084	52.73%
2016.....	303,469,832	24,614,104	55.38%
2015.....	240,400,372	16,701,768	61.64%

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

See notes to required supplementary information.

# ***Other Postemployment Benefit Plan Schedules***

The Schedule of Changes in the City's Net Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability, changes in the Plan's net position, and ending net OPEB liability. It also demonstrates the Plan's net position as a percentage of the total liability and the Plan's net other postemployment benefit liability as a percentage of covered employee payroll.

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

The Schedule of Investment Return presents multi-year trend information on the money-weighted investment return on the Plan's other postemployment benefit plan and related ratios.

The Schedule of Funding progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents multi-year trend information for required and actual contributions relating to the plan.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

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

	June 30, 2017
<b>Total OPEB Liability</b>	
Service Cost.....	\$ 10,192,342
Interest.....	17,960,577
Changes of benefit terms.....	-
Differences between expected and actual experience.....	-
Changes of assumptions.....	73,907,164
Benefit payments.....	<u>(18,020,360)</u>
Net change in total OPEB liability.....	84,039,723
Total OPEB liability- beginning.....	<u>522,169,531</u>
Total OPEB liability- ending (a).....	<u><u>606,209,254</u></u>
 <b>Plan fiduciary net position</b>	
Contributions- employer .....	\$ 18,020,360
Net investment income.....	288,646
Benefit payments.....	<u>(18,020,360)</u>
Net change in plan fiduciary net position.....	288,646
Plan fiduciary net position- beginning.....	8,032,385
Plan fiduciary net position- ending (b).....	<u><u>\$ 8,321,031</u></u>
 <b>City's net OPEB liability- ending (a)-(b).....</b>	 <u><u>\$ 597,888,223</u></u>
 Plan fiduciary net position as a percentage of the total OPEB liability.....	  1.37%
 Covered-employee payroll.....	 185,336,940
 Town's net OPEB liability as a percentage of covered-employee payroll.....	  322.60%

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

See notes to required supplementary information.

**SCHEDULE OF THE CITY'S CONTRIBUTIONS  
OTHER POSTEMPLOYMENT BENEFIT PLAN**

	June 30, 2017
Actuarially determined contribution.....	\$ 42,029,149
Contributions in relation to the actuarially determined contribution.....	(18,020,360)
Contribution deficiency (excess).....	\$ 24,008,789
Covered-employee payroll.....	\$ 185,336,940
Contributions as a percentage of covered- employee payroll.....	22.68%

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

See notes to required supplementary information.

**SCHEDULE OF INVESTMENT RETURNS**  
**OTHER POSTEMPLOYMENT BENEFIT PLAN**

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June 30, 2017

Annual money-weighted rate of return, net of investment expense.....	3.59%
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Note: This schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those  
years for which information is available.

See notes to required supplementary information.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
07/01/16	\$ 8,321,031	\$ 606,209,254	\$ 597,888,223	1.4%	\$ 185,336,940	322.6%
07/01/14	-	496,236,125	496,236,125	0.0%	N/A	N/A
07/01/12	-	520,007,997	520,007,997	0.0%	N/A	N/A
07/01/10	-	689,936,566	689,936,566	0.0%	177,396,732	388.9%
01/01/08	-	432,751,582	432,751,582	0.0%	170,183,191	254.3%

**Schedule of Employer Contributions**

Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2017	\$ 42,029,149	\$ 18,020,360	42.9%
6/30/2016	41,981,540	14,714,162	35.0%
6/30/2015	41,029,435	14,888,300	36.3%
6/30/2014	37,061,348	13,755,061	37.1%
6/30/2013	35,697,196	14,182,656	39.7%
6/30/2012	42,754,538	16,334,309	38.2%
6/30/2011	41,163,431	14,605,754	35.5%
6/30/2010	33,445,970	9,685,461	29.0%
6/30/2009	31,916,608	8,738,305	27.3%

See accompanying notes to required supplementary information.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**ACTUARIAL METHODS AND ASSUMPTIONS**

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Actuarial Methods:

Valuation date.....	July 1, 2016
Actuarial cost method.....	Entry Age Normal
Amortization method.....	Level dollar open basis
Remaining amortization period.....	30 years as of June 30, 2017
Asset valuation method.....	Market value of assets

Actuarial Assumptions:

Investment rate of return.....	3.5%, pay-as-you-go scenario
Inflation rate.....	Assumed 2.0%
Medical care cost trend rate.....	8.0%, decreasing by 0.5% per year to an ultimate rate of 5.0% for 2024 and later years.

Plan Membership:

Current retirees, beneficiaries, and dependents.....	2,326
Current active members.....	<u>2,868</u>
Total.....	<u><u>5,194</u></u>

See accompanying notes to required supplementary information.

**NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY****A. Budgetary Information**

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

Increases or transfers between and within departments subsequent to the approval of the annual budget, requires two-thirds vote or a majority Council, respectively, and the City Manager's approval via a supplemental appropriation or Council order.

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original 2017 approved budget authorizing approximately \$330.7 million in current year appropriations, other financing uses, and other amounts to be raised and approximately \$2.3 million in encumbrances and appropriations carried over from previous years. During 2017, the Council approved also approved a net increase in appropriations of \$2.4 million.

The City Auditor's Office has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the City's accounting system.

**B. Budgetary - GAAP Reconciliation**

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting.

A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2017, is as follows:

Net change in fund balance - budgetary basis.....	\$ 490,748
<u>Perspective difference:</u>	
Stabilization Funds recorded in the General Fund for GAAP.....	310,869
Employee Benefit Trust recorded in the General Fund for GAAP.....	(703,997)
<u>Basis of accounting differences:</u>	
Net change in recording 60-day receipts accrual.....	(290,891)
Net change in recording tax refunds payable.....	2,185,817
Net change in unrecorded liabilities.....	(444,500)
Increase in revenues due to on-behalf payments.....	32,948,084
Increase in expenditures due to on-behalf payments.....	<u>(32,948,084)</u>
Net change in fund balance - GAAP basis.....	<u>\$ 1,548,046</u>

C. Appropriation Deficits

Expenditures exceeded budgeted appropriations for employee benefits at year end. This deficit will be funded through tax levy and available funds in 2018.

**NOTE B – PENSION PLAN**

***Pension Plan Schedules – Retirement System***

A. Schedule of Changes in the Net Pension Liability and Related Ratios

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

B. Schedule of Contributions

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

### C. Schedule of Investment Return

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

### ***Pension Plan Schedules - City***

#### A. Schedule of the City's Proportionate Share of the Net Pension Liability

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

#### B. Schedule of City's Contributions

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

#### C. Schedule of the Special Funding Amounts of the Net Pension Liabilities

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

#### D. Changes in Assumptions

- The discount rate changed from 8% as of the beginning of the measurement period to 7.75% as of the end of the measurement period.
- The mortality rates were updated from the rates in the RP-2000 Mortality Table projected to 2012 with Scale AA to the rates in the RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB.
- The annual rates of expected salary increases were modified and are based on service by Group.

#### E. Changes in Plan Provisions

None

**NOTE C – OTHER POSTEMPLOYMENT BENEFITS**

The City of Lowell administers a single-employer defined benefit healthcare plan (“the Plan”). The plan provides lifetime healthcare, dental and life insurance for eligible retirees and their spouses through the City’s health insurance plan, which covers both active and retired members, including teachers.

**The Other Postemployment Benefit Plan**

The Schedule of Changes in the City’s Net Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan’s total OPEB liability, changes in the Plan’s net position, and ending net OPEB liability. It also demonstrates the Plan’s net position as a percentage of the total liability and the Plan’s net other postemployment benefit liability as a percentage of covered employee payroll.

The Schedule of the City’s Contributions includes the City’s annual required contribution to the Plan, along with the contribution made in relation to the actuarially determined contribution and the covered employee payroll. The City is not required to fully fund this contribution. It also demonstrates the contributions as a percentage of covered payroll.

The Schedule of Investment Return includes the money-weighted investment return on the Plan’s other postemployment assets, net of investment expense.

**The City**

The City currently finances its other post-employment benefits (OPEB) on a combined pre-funded and pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 1.4%. In accordance with Governmental Accounting Standards, the City has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

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

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents, over time, the ratio of the actual annual employer contributions to the annual required contribution.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.