

CITY OF LOWELL, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2014

CITY OF LOWELL, MASSACHUSETTS

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JUNE 30, 2014

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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, 2014 (except for the Lowell Contributory Retirement System which is as of and for the year ended December 31, 2013), and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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, 2014 (except for the Lowell Contributory Retirement System which is as of and for the year ended December 31, 2013), 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 January 30, 2015, 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

January 30, 2015

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, 2014. We encourage readers to consider the information presented in this report.

Financial Highlights

Government-wide

- The City's assets and deferred outflows of resources exceeded its liabilities at the close of 2014 by \$217.5 million.
- Governmental net position decreased by \$26.6 million. The decrease is attributable to a \$12.1 million increase in the other postemployment benefits (OPEB) liability; the use of \$4.0 million of fund balance to fund the general fund operation budget, depreciation on capital assets exceeding principal payments on long-term debt by \$2.6 million, and the decrease in internal service funds of \$8.6 million which was primarily the result of funding the OPEB Trust and the mitigation stabilization fund.
- Business-type activities experienced a combined \$3.3 million increase in net position.

Fund Financial Statements

- As of the close of the current year, the City's governmental funds reported combined ending fund balance of \$32.6 million, a decrease of \$7.4 million in comparison with the prior year. The decrease is primarily attributable to the \$1.0 million deficit in the general fund, \$6.7 million of capital project expenditures which have not been permanently financed, offset by bond proceeds of \$900 thousand.
- The City issued new debt of \$900 thousand for various governmental capital projects during 2014. Overall governmental long-term debt decreased by \$9.3 million and business-type long-term debt decreased by \$10.7 million.
- The City established an auditorium enterprise fund in 2014.
- The City established an OPEB trust fund in 2014, initially funding it with a \$7.8 million transfer from the remaining balance in the internal service fund resulting from when the City was self-insured for its health insurance activities.

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 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.

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, an 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. The City contributed \$7.8 million to the fund in 2014. 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 assets and deferred outflows of resources exceeded liabilities by \$217.5 million at the close of 2014, an overall decrease of \$23.3 million from the prior year.

Net position of \$292.0 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, \$24.5 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 \$99.0 million, represents the impact of the \$141.0 million governmental and the \$4.8 million enterprise liability associated with GASB #45.

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

Governmental Activities

The assets and deferred outflows of resources of governmental activities exceeded liabilities by \$141.5 million at the close of 2014. Key components of the City's governmental financial position are listed below.

	<u>2014</u>	<u>2013</u>
Assets:		
Current assets.....	\$ 84,253,843	\$ 96,655,548
Noncurrent assets (excluding capital).....	25,618,318	32,286,811
Capital assets.....	<u>290,933,371</u>	<u>291,760,929</u>
Total assets.....	<u>400,805,532</u>	<u>420,703,288</u>
Deferred Outflows of Resources:		
Deferred charges on refunding.....	<u>328,703</u>	<u>503,484</u>
Liabilities:		
Current liabilities (excluding debt).....	31,891,741	26,626,651
Noncurrent liabilities (excluding debt).....	148,027,317	138,527,557
Current debt.....	12,771,913	12,631,775
Noncurrent debt.....	<u>66,989,932</u>	<u>75,335,380</u>
Total liabilities.....	<u>259,680,903</u>	<u>253,121,363</u>
Net Position:		
Net investment in capital assets.....	238,185,444	236,493,757
Restricted.....	24,503,403	26,349,227
Unrestricted.....	<u>(121,235,515)</u>	<u>(94,757,575)</u>
Total net position.....	<u>\$ 141,453,332</u>	<u>\$ 168,085,409</u>

A significant portion of the City's governmental activities net position, \$238.2 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 \$24.5 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 \$121.2 million is due to the OPEB liability which at year-end totaled \$141.0 million.

Included within the governmental activities noncurrent assets, unrelated to capital assets, are \$20.1 million in future year school construction reimbursement grants.

Governmental activity liabilities include \$76.2 million in general obligation bonds and intergovernmental loans; \$10.4 million in liabilities for unused vacation, special leave, and enhanced longevity benefits; and \$3.7 million in future year's workers' compensation benefits.

The key elements of governmental activities are as follows:

	<u>2014</u>	<u>2013</u>
Program Revenues:		
Charges for services.....	\$ 12,730,809	\$ 15,302,666
Operating grants and contributions.....	207,965,308	205,512,198
Capital grants and contributions.....	<u>4,534,561</u>	<u>4,775,726</u>
Total program revenues.....	<u>225,230,678</u>	<u>225,590,590</u>
General Revenues:		
Real estate and personal property taxes.....	107,227,639	106,124,770
Tax liens.....	1,110,090	2,011,832
Motor vehicle and other excise taxes.....	7,209,084	7,318,198
Penalties and interest on taxes.....	1,642,988	2,114,566
Payments in lieu of taxes.....	936,859	823,163
Grants and contributions not restricted to specific programs.....	23,612,749	22,991,652
Unrestricted investment income.....	500,887	341,904
Gain on sale of capital assets.....	172,483	427,907
Miscellaneous.....	<u>415,842</u>	<u>991,623</u>
Total general revenues.....	<u>142,828,621</u>	<u>143,145,615</u>
Expenses:		
General government.....	21,877,005	21,573,027
Public safety.....	70,393,652	65,316,957
Education.....	263,199,808	245,483,473
Public works.....	17,776,949	18,704,973
Human services.....	15,499,772	16,981,505
Culture and recreation.....	7,203,371	6,684,905
Interest.....	<u>3,235,701</u>	<u>3,789,776</u>
Total expenses.....	<u>399,186,258</u>	<u>378,534,616</u>
Excess (Deficiency) before transfers.....	(31,126,959)	(9,798,411)
Transfers, net.....	<u>4,494,882</u>	<u>4,215,915</u>
Change in net position.....	(26,632,077)	(5,582,496)
Net position - beginning.....	<u>168,085,409</u>	<u>173,667,905</u>
Net position - ending.....	<u>\$ 141,453,332</u>	<u>\$ 168,085,409</u>

The governmental activities net position decreased in the current year by \$26.6 million. The decrease in net position is due to several factors:

The OPEB liability increased \$12.1 million; \$4.0 million of fund balance was used to fund the general fund operation budget, depreciation on capital assets exceeded principal payments on long-term debt by \$2.6 million, and an \$8.6 million decrease in the internal service funds which was primarily the result of funding the OPEB Trust and the mitigation stabilization fund.

Business-type Activities

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

	<u>2014</u>	<u>2013</u>
Assets:		
Current assets.....	\$ 34,139,502	\$ 38,888,615
Capital assets.....	202,642,131	204,462,551
Total assets.....	<u>236,781,633</u>	<u>243,351,166</u>
Liabilities:		
Current liabilities (excluding debt).....	4,935,130	4,641,765
Noncurrent liabilities (excluding debt).....	4,888,087	4,368,162
Current debt.....	7,507,580	7,112,908
Noncurrent debt.....	143,403,096	154,530,447
Total liabilities.....	<u>160,733,893</u>	<u>170,653,282</u>
Net Position:		
Net investment in capital assets.....	53,772,364	50,340,440
Unrestricted.....	22,275,376	22,357,444
Total net position.....	<u>\$ 76,047,740</u>	<u>\$ 72,697,884</u>
Program Revenues:		
Charges for services.....	\$ 38,531,729	\$ 32,294,891
Capital grants and contributions.....	2,251,246	1,379,672
Total program revenues.....	<u>40,782,975</u>	<u>33,674,563</u>
General Revenues:		
Unrestricted investment income.....	<u>1,037</u>	<u>-</u>
Expenses:		
Sewer.....	17,063,417	16,948,584
Water.....	7,637,669	7,665,986
Parking.....	5,582,599	5,576,031
Auditorium.....	2,655,589	-
Total expenses.....	<u>32,939,274</u>	<u>30,190,601</u>
Excess (Deficiency) before transfers	7,844,738	3,483,962
Transfers, net	<u>(4,494,882)</u>	<u>(4,215,915)</u>
Change in net position	<u>3,349,856</u>	<u>(731,953)</u>
Net position - beginning	<u>72,697,884</u>	<u>73,429,837</u>
Net position - ending	<u>\$ 76,047,740</u>	<u>\$ 72,697,884</u>

Business type activities assets exceeded liabilities by \$76.0 million at the close of 2014.

Net position of \$53.8 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 \$22.3 million may be used to meet ongoing obligations.

The sewer enterprise fund net position decreased by \$1.8 million during the current year. The decrease is primarily attributable to the restructuring of MCWT debt outstanding which was permanently financed in 2014 at an amount less than the original allotment.

The water enterprise fund net position increased by \$4.9 million during the current year. The increase is primarily due to water rates being designed to cover principal payments on long-term debt, direct and indirect costs and capital asset replacements. The fund also recognized capital grants of \$2.0 million associated with various MCWT projects.

The parking enterprise fund net position increased by \$371 thousand in the current year. The increase is primarily due to the parking rates being designed to cover principal payments on long-term debt, direct and indirect costs and capital asset replacements.

The auditorium enterprise fund was established during 2014 and had a deficit of \$77 thousand at year end.

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 \$32.6 million a decrease of \$7.4 million in comparison with the prior year. The decrease is primarily attributable to the \$1.0 million deficit in the general fund, \$6.7 million of capital project expenditures which have not been permanently financed, offset by bond proceeds of \$900 thousand. See Note 15 to the basic financial statements for additional information related to the capital project deficit.

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund equaled \$12.1 million (which includes \$8.6 million set aside as stabilization), while total fund balance was \$24.5 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 3.6% and 7.4% of general fund budgetary expenditures, respectively.

The general fund decreased by \$1.0 million during 2014. This was due to the planned use of free cash to balance the current year budget.

General fund revenues and other financing sources totaled \$332.8 million for 2014, an increase of \$6.8 million or 2.1% compared to the previous year. The change relates primarily to the budgeted increase for real estate and personal property taxes and an increase in intergovernmental revenues relating to School Ch70 receipts.

Total general fund expenditures and transfers to other funds totaled \$333.8 million, an increase of \$12.5 million or 3.9% over the previous year. The increase is primarily attributable to increases in employee benefit and pension expenditures, as well as salary increases across the board.

The internal service fund had an ending fund balance of \$3.1 million, a decrease of \$8.6 million over the prior year. The decrease is primarily the result of the use of \$7.8 million to fund the OPEB trust and \$750,000 for the mitigation stabilization fund. In July of 2012, the City entered into the Group Insurance Commission (GIC) and its health insurance activities are now premium based. The activity in the internal service fund relates to claims that had occurred prior to the date the City moved into the GIC and the workers compensation claims which the City continues to be self-insured for.

General Fund Budgetary Highlights

The difference between the original budget of \$304.3 million and the final amended budget of \$310.0 million amounted to a net increase of \$5.7 million. During 2014 the Council approved a \$3.1 million transfer to the pension stabilization fund, \$2.0 million for education appropriation increases, as well as transfers between departments representing minor increases and decreases in various budget line items. Revenues exceeded budget by \$143 thousand, while expenditures came in \$1.7 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, 2014, amounts to \$290.9 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, 2014 amounts to \$202.6 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, 2014, the City had total governmental bonded debt of \$76.2 million. Of this amount \$74.3 million is a general obligation of the City and the remaining \$1.9 million is guaranteed debt under the Section 108 Loan Program. The City issued general obligation bonds totaling \$900 thousand related to school and other projects in 2014.

The sewer enterprise fund has \$95.7 million in long-term debt that is supported by the sewer rates and future MCWT principal and interest subsidies. Currently, the City has \$40.0 million in authorized and unissued long-term debt relating to future sewer projects.

The water enterprise fund has \$31.1 million in long-term debt that is supported by the water rates and future MCWT principal and interest subsidies. Currently, the City has \$28.1 million in authorized and unissued long-term debt relating to future water projects.

The parking enterprise fund has \$24.1 million in long-term debt that is supported by parking fees. Currently, the City has \$1.5 million in authorized and unissued long-term debt relating to future parking projects.

Next Year's Budget

The Mayor and City Council have approved the original 2015 general fund operating budget of \$320 million. Major drivers of increased expenditures were a \$3 million increase in the appropriation for pensions and an additional capital assessment for the regional technical high school, as well as an increased local contribution to the Lowell School Department to mitigate an accumulated net school spending deficit. Exacerbating this issue is a 6% increase in the City's cherry sheet assessment for charter school sending tuition, coupled with a 4.2% reduction in state funding to offset those tuition costs. Management was, however, able to hold wage

increases to a minimum while negotiating important concessions that will affect the City's long term fiscal health, such as capping sick leave buy back provisions for current employees and eliminating the option for future employees, and cost saving measures like direct deposit and paperless payroll.

Furthermore, the City continues to reap the benefits of the decision to join the State's GIC health insurance and the increase in health insurance for 2015 was only 2% over the prior year. The average increase in insurance costs between 2009 and 2011 was 9%, on average. The new city administration has continued to examine expenditures by utilizing the LowellSTAT program, which has produced a net savings of over \$1.5 million in cost savings and revenue enhancements.

All of these initiatives will ease pressure on operating costs now and in the future. During the most recent ratings review by Standard and Poor's, the City's bond rating was upgraded to "AA-". Additionally, related to a subsequent issue of Bond Anticipation Notes, S&P assigned a SP-1+ rating, which is their highest short-term rating. Among the reasons for the upgrade the rating agency cited strong budgetary performance with management projecting positive results for 2014; very strong liquidity, strong cash levels to cover both debt service and expenditures; and very strong management conditions with strong financial management practices.

The growth in local property taxes in 2015 was 3.5%. Chapter 70 school aid increased by \$5.2 million, and Lowell increased its local contribution to the schools by \$2.9 million. Other general fund revenues have remained relatively flat, overall.

The FY15 budgeted enterprise revenues increased due to several factors. The City recently renegotiated the inter-municipal agreement (IMA) with the local communities serviced by the Lowell Regional Wastewater Utility, resulting in an increased assessment by participating towns to contribute to the utility's debt service expenses related to system improvements. Further, a 7% increase in the sewer rate was voted, with total revenues planned to increase by just under \$1 million. The Water revenue estimate increased by \$281,000. Parking revenues are estimated to increase by \$156,500, due mostly to the installation and expansion of kiosks in the downtown.

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*.

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Basic Financial Statements

STATEMENT OF NET POSITION

JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 55,994,315	\$ 22,497,796	\$ 78,492,111
Investments.....	1,956,329	-	1,956,329
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	2,070,999	-	2,070,999
Tax liens.....	447,332	-	447,332
Motor vehicle excise taxes.....	1,439,766	-	1,439,766
User fees.....	-	10,780,505	10,780,505
Trash fees.....	680,289	-	680,289
Departmental and other.....	4,100	861,201	865,301
Intergovernmental.....	17,340,844	-	17,340,844
Loans.....	375,426	-	375,426
Tax foreclosures.....	3,753,643	-	3,753,643
Working capital deposit.....	190,800	-	190,800
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Tax liens.....	3,839,322	-	3,839,322
Intergovernmental.....	20,078,996	-	20,078,996
Loans.....	1,700,000	-	1,700,000
Capital assets, nondepreciable.....	33,199,712	2,844,420	36,044,132
Capital assets, net of accumulated depreciation.....	<u>257,733,659</u>	<u>199,797,711</u>	<u>457,531,370</u>
TOTAL ASSETS.....	<u>400,805,532</u>	<u>236,781,633</u>	<u>637,587,165</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding.....	<u>328,703</u>	<u>-</u>	<u>328,703</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	7,654,382	2,654,548	10,308,930
Accrued payroll.....	10,129,567	-	10,129,567
Tax refunds payable.....	2,448,059	-	2,448,059
Accrued interest.....	809,389	1,812,288	2,621,677
Other liabilities.....	3,789,625	76,892	3,866,517
Compensated absences.....	6,283,719	391,402	6,675,121
Workers' compensation.....	777,000	-	777,000
Notes payable.....	1,920,000	-	1,920,000
Bonds payable.....	10,851,913	7,507,580	18,359,493
NONCURRENT:			
Compensated absences.....	4,078,339	114,296	4,192,635
Workers' compensation.....	2,936,000	-	2,936,000
Other postemployment benefits.....	141,012,978	4,773,791	145,786,769
Bonds payable.....	<u>66,989,932</u>	<u>143,403,096</u>	<u>210,393,028</u>
TOTAL LIABILITIES.....	<u>259,680,903</u>	<u>160,733,893</u>	<u>420,414,796</u>
NET POSITION			
Net investment in capital assets.....	238,185,444	53,772,364	291,957,808
Restricted for:			
Chapter 17 special reserve.....	2,243,308	-	2,243,308
Streets.....	3,470,661	-	3,470,661
Community development.....	7,785,007	-	7,785,007
Loans.....	2,075,426	-	2,075,426
Permanent funds:			
Expendable.....	198,518	-	198,518
Nonexpendable.....	1,796,484	-	1,796,484
Gifts and grants.....	6,933,999	-	6,933,999
Unrestricted.....	<u>(121,235,515)</u>	<u>22,275,376</u>	<u>(98,960,139)</u>
TOTAL NET POSITION.....	<u>\$ 141,453,332</u>	<u>\$ 76,047,740</u>	<u>\$ 217,501,072</u>

See accompanying notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 21,877,005	\$ 4,616,661	\$ 931,810	\$ -	\$ (16,328,534)
Public safety.....	70,393,652	3,090,173	2,814,902	-	(64,488,577)
Education.....	263,199,808	707,613	194,821,234	62,500	(67,608,461)
Public works.....	17,776,949	3,471,597	200,000	4,472,061	(9,633,291)
Human services.....	15,499,772	474,877	8,544,639	-	(6,480,256)
Culture and recreation.....	7,203,371	369,888	469,145	-	(6,364,338)
Interest.....	3,235,701	-	183,578	-	(3,052,123)
Total Governmental Activities.....	<u>399,186,258</u>	<u>12,730,809</u>	<u>207,965,308</u>	<u>4,534,561</u>	(173,955,580)
<i>Business-Type Activities:</i>					
Sewer.....	17,063,417	17,720,617	-	228,826	886,026
Water.....	7,637,669	12,084,951	-	2,022,420	6,469,702
Parking.....	5,582,599	6,397,464	-	-	814,865
Auditorium.....	2,655,589	2,328,697	-	-	(326,892)
Total Business-Type Activities.....	<u>32,939,274</u>	<u>38,531,729</u>	<u>-</u>	<u>2,251,246</u>	7,843,701
Total Primary Government.....	<u>\$ 432,125,532</u>	<u>\$ 51,262,538</u>	<u>\$ 207,965,308</u>	<u>\$ 6,785,807</u>	\$ (166,111,879)

See accompanying notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FOR THE YEAR ENDED JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ (173,955,580)	\$ 7,843,701	\$ (166,111,879)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	107,227,639	-	107,227,639
Tax liens.....	1,110,090	-	1,110,090
Motor vehicle and other excise taxes.....	7,209,084	-	7,209,084
Penalties and interest on taxes.....	1,642,988	-	1,642,988
Payments in lieu of taxes.....	936,859	-	936,859
Grants and contributions not restricted to specific programs.....	23,612,749	-	23,612,749
Unrestricted investment income.....	500,887	1,037	501,924
Gain on disposal of capital assets.....	172,483	-	172,483
Miscellaneous.....	415,842	-	415,842
<i>Transfers, net</i>	4,494,882	(4,494,882)	-
Total general revenues and transfers.....	147,323,503	(4,493,845)	142,829,658
Change in net position.....	(26,632,077)	3,349,856	(23,282,221)
<i>Net Position:</i>			
Beginning of year.....	168,085,409	72,697,884	240,783,293
End of year.....	\$ <u>141,453,332</u>	\$ <u>76,047,740</u>	\$ <u>217,501,072</u>

See accompanying notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2014

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents.....	\$ 46,521,619	\$ 6,340,143	\$ 52,861,762
Investments.....	-	1,956,329	1,956,329
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	2,070,999	-	2,070,999
Tax liens.....	4,286,654	-	4,286,654
Motor vehicle & other excise taxes.....	1,439,766	-	1,439,766
Trash fees.....	680,289	-	680,289
Departmental and other.....	4,100	-	4,100
Intergovernmental.....	24,904,426	12,515,414	37,419,840
Loans.....	-	2,075,426	2,075,426
Tax foreclosures.....	3,753,643	-	3,753,643
Working capital deposit.....	190,800	-	190,800
TOTAL ASSETS.....	\$ 83,852,296	\$ 22,887,312	\$ 106,739,608
LIABILITIES			
Warrants payable.....	\$ 6,042,839	\$ 1,611,543	\$ 7,654,382
Accrued payroll.....	10,129,567	-	10,129,567
Tax refunds payable.....	2,448,059	-	2,448,059
Accrued interest on short-term debt.....	16,502	-	16,502
Other liabilities.....	3,789,625	-	3,789,625
Notes payable.....	-	1,920,000	1,920,000
TOTAL LIABILITIES.....	22,426,592	3,531,543	25,958,135
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue.....	36,902,880	11,260,253	48,163,133
FUND BALANCES			
Nonspendable.....	-	1,796,484	1,796,484
Restricted.....	2,243,308	12,983,873	15,227,181
Committed.....	7,956,673	-	7,956,673
Assigned.....	2,267,905	-	2,267,905
Unassigned.....	12,054,938	(6,684,841)	5,370,097
TOTAL FUND BALANCES.....	24,522,824	8,095,516	32,618,340
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....	\$ 83,852,296	\$ 22,887,312	\$ 106,739,608

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, 2014

Total governmental fund balances.....	\$	32,618,340
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		290,933,371
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		48,163,133
Internal service funds are used by management to account for retirees' health insurance and workers' compensation activities.		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.....		3,132,553
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(792,887)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds payable.....	(77,841,845)	
Workers compensation.....	(3,713,000)	
Other postemployment benefits.....	(141,012,978)	
Compensated absences.....	<u>(10,362,058)</u>	
Net effect of reporting long-term liabilities.....		(232,929,881)
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>328,703</u>
Net position of governmental activities.....	\$	<u>141,453,332</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, 2014

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Real estate and personal property taxes, net of tax refunds.....	\$ 107,176,901	\$ -	\$ 107,176,901
Tax liens.....	2,221,816	-	2,221,816
Motor vehicle and other excise taxes.....	8,358,081	-	8,358,081
Trash disposal.....	3,161,904	-	3,161,904
Penalties and interest on taxes.....	1,642,993	-	1,642,993
Payments in lieu of taxes.....	936,859	-	936,859
Intergovernmental.....	196,572,649	43,677,950	240,250,599
Departmental and other.....	7,101,884	3,324,563	10,426,447
Contributions.....	-	177,173	177,173
Investment income.....	411,033	89,854	500,887
Miscellaneous.....	-	192,569	192,569
TOTAL REVENUES.....	327,584,120	47,462,109	375,046,229
EXPENDITURES:			
Current:			
General government.....	14,862,007	1,667,438	16,529,445
Public safety.....	41,908,677	2,530,330	44,439,007
Education.....	138,315,099	31,843,178	170,158,277
Public works.....	13,753,636	8,093,510	21,847,146
Human services.....	3,797,956	10,125,048	13,923,004
Culture and recreation.....	3,928,021	972,960	4,900,981
Pension benefits.....	49,476,984	-	49,476,984
Employee benefits.....	38,198,596	-	38,198,596
State and county charges.....	15,444,047	-	15,444,047
Debt service:			
Principal.....	10,056,775	160,000	10,216,775
Interest.....	3,309,425	37,269	3,346,694
TOTAL EXPENDITURES.....	333,051,223	55,429,733	388,480,956
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(5,467,103)	(7,967,624)	(13,434,727)
OTHER FINANCING SOURCES (USES):			
Proceeds from bonds.....	-	900,000	900,000
Premium from issuance of bonds.....	313,432	-	313,432
Sale of capital assets.....	27,756	299,077	326,833
Transfers in.....	4,849,330	500,000	5,349,330
Transfers out.....	(730,000)	(124,448)	(854,448)
TOTAL OTHER FINANCING SOURCES (USES).....	4,460,518	1,574,629	6,035,147
NET CHANGE IN FUND BALANCES.....	(1,006,585)	(6,392,995)	(7,399,580)
FUND BALANCES AT BEGINNING OF YEAR.....	25,529,409	14,488,511	40,017,920
FUND BALANCES AT END OF YEAR.....	\$ 24,522,824	\$ 8,095,516	\$ 32,618,340

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, 2014

Net change in fund balances - total governmental funds..... \$ (7,399,580)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay.....	12,100,167	
Depreciation expense.....	(12,773,375)	
Net effect of reporting capital assets.....		(673,208)

In the Statement of Activities, only the *gain* on the sale of capital assets is reported, whereas in the governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net position differs from the change in fund balance by the cost of the capital assets sold..... (154,350)

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..... (7,766,720)

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.

Proceeds from bonds.....	(900,000)	
Debt service principal payments.....	10,216,775	
Amortization of premiums on refunding.....	359,844	
Net effect of reporting long term debt.....		9,676,619

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net change in compensated absences accrual.....	(667,548)	
Net change in accrued interest on long-term debt.....	219,805	
Net change in workers compensation accrual.....	928,000	
Other postemployment benefits.....	(12,068,607)	
Amortization of deferred charge on refunding.....	(174,781)	
Net effect of recording long-term liabilities and amortizing deferred charges.....		(11,763,131)

Internal service funds are used by management to account for health insurance and workers' compensation activities.

The net activity of internal service funds is reported with Governmental Activities..... (8,551,707)

Change in net position of governmental activities..... \$ (26,632,077)

See accompanying notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Water	Parking	Auditorium	Total	
ASSETS						
CURRENT:						
Cash and cash equivalents.....	\$ 14,251,872	\$ 6,298,659	\$ 1,896,092	\$ 51,173	\$ 22,497,796	\$ 3,132,553
Receivables, net of allowance for uncollectibles:						
User fees.....	5,809,191	4,971,314	-	-	10,780,505	-
Departmental and other.....	-	-	861,201	-	861,201	-
Total current assets.....	<u>20,061,063</u>	<u>11,269,973</u>	<u>2,757,293</u>	<u>51,173</u>	<u>34,139,502</u>	<u>3,132,553</u>
NONCURRENT:						
Capital assets, nondepreciable.....	1,235,798	746,856	861,766	-	2,844,420	-
Capital assets, net of accumulated depreciation.....	<u>128,140,058</u>	<u>36,973,944</u>	<u>34,683,709</u>	<u>-</u>	<u>199,797,711</u>	<u>-</u>
Total noncurrent assets.....	<u>129,375,856</u>	<u>37,720,800</u>	<u>35,545,475</u>	<u>-</u>	<u>202,642,131</u>	<u>-</u>
TOTAL ASSETS.....	<u>149,436,919</u>	<u>48,990,773</u>	<u>38,302,768</u>	<u>51,173</u>	<u>236,781,633</u>	<u>3,132,553</u>
LIABILITIES						
CURRENT:						
Warrants payable.....	1,245,884	1,124,716	232,775	51,173	2,654,548	-
Accrued interest.....	1,125,226	358,370	328,692	-	1,812,288	-
Other liabilities.....	-	-	-	76,892	76,892	-
Compensated absences.....	252,819	123,096	15,487	-	391,402	-
Bonds payable.....	<u>4,001,959</u>	<u>2,220,621</u>	<u>1,285,000</u>	<u>-</u>	<u>7,507,580</u>	<u>-</u>
Total current liabilities.....	<u>6,625,888</u>	<u>3,826,803</u>	<u>1,861,954</u>	<u>128,065</u>	<u>12,442,710</u>	<u>-</u>
NONCURRENT:						
Compensated absences.....	74,287	37,953	2,056	-	114,296	-
Other postemployment benefits.....	2,490,446	1,802,437	480,908	-	4,773,791	-
Bonds payable.....	<u>91,720,485</u>	<u>28,882,611</u>	<u>22,800,000</u>	<u>-</u>	<u>143,403,096</u>	<u>-</u>
Total noncurrent liabilities.....	<u>94,285,218</u>	<u>30,723,001</u>	<u>23,282,964</u>	<u>-</u>	<u>148,291,183</u>	<u>-</u>
TOTAL LIABILITIES.....	<u>100,911,106</u>	<u>34,549,804</u>	<u>25,144,918</u>	<u>128,065</u>	<u>160,733,893</u>	<u>-</u>
NET POSITION						
Net investment in capital assets.....	35,569,271	6,617,568	11,585,525	-	53,772,364	-
Unrestricted.....	<u>12,956,542</u>	<u>7,823,401</u>	<u>1,572,325</u>	<u>(76,892)</u>	<u>22,275,376</u>	<u>3,132,553</u>
TOTAL NET POSITION.....	<u>\$ 48,525,813</u>	<u>\$ 14,440,969</u>	<u>\$ 13,157,850</u>	<u>\$ (76,892)</u>	<u>\$ 76,047,740</u>	<u>\$ 3,132,553</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, 2014

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Water	Parking	Auditorium	Total	
OPERATING REVENUES:						
Charges for services	\$ 17,566,268	\$ 12,082,562	\$ 6,397,464	\$ 2,328,697	\$ 38,374,991	\$ -
Other	154,349	2,389	-	-	156,738	143
TOTAL OPERATING REVENUES	17,720,617	12,084,951	6,397,464	2,328,697	38,531,729	143
OPERATING EXPENSES:						
Cost of services and administration	10,496,087	4,434,426	3,030,746	2,655,589	20,616,848	-
Depreciation	4,008,823	2,120,721	1,441,841	-	7,571,385	-
Payment to OPEB trust	-	-	-	-	-	7,800,000
Payment to mitigation fund	-	-	-	-	-	750,000
Employee benefits	-	-	-	-	-	1,850
TOTAL OPERATING EXPENSES	14,504,910	6,555,147	4,472,587	2,655,589	28,188,233	8,551,850
OPERATING INCOME (LOSS)	3,215,707	5,529,804	1,924,877	(326,892)	10,343,496	(8,551,707)
NONOPERATING REVENUES (EXPENSES):						
Investment income	-	-	1,037	-	1,037	-
Interest expense	(2,558,507)	(1,082,522)	(1,110,012)	-	(4,751,041)	-
Intergovernmental	228,826	2,022,420	-	-	2,251,246	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET	(2,329,681)	939,898	(1,108,975)	-	(2,498,758)	-
INCOME (LOSS) BEFORE TRANSFERS	886,026	6,469,702	815,902	(326,892)	7,844,738	(8,551,707)
TRANSFERS:						
Transfers in	-	-	-	250,000	250,000	-
Transfers out	(2,695,975)	(1,604,341)	(444,566)	-	(4,744,882)	-
TOTAL OPERATING TRANSFERS	(2,695,975)	(1,604,341)	(444,566)	250,000	(4,494,882)	-
CHANGE IN NET POSITION	(1,809,949)	4,865,361	371,336	(76,892)	3,349,856	(8,551,707)
NET POSITION AT BEGINNING OF YEAR	50,335,762	9,575,608	12,786,514	-	72,697,884	11,684,260
NET POSITION AT END OF YEAR	\$ 48,525,813	\$ 14,440,969	\$ 13,157,850	\$ (76,892)	\$ 76,047,740	\$ 3,132,553

See accompanying notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED JUNE 30, 2014

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Water	Parking	Auditorium	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users.....	\$ 16,872,879	\$ 10,989,609	\$ 6,365,619	\$ 2,328,697	\$ 36,556,804	\$ -
Receipts from insurance reimbursements.....	-	-	-	-	-	143
Payments to vendors.....	(6,981,439)	(2,266,426)	(2,222,591)	(2,527,524)	(13,997,980)	-
Payments to employees.....	(3,032,812)	(2,049,121)	(440,957)	-	(5,522,890)	-
Payment to OPEB trust.....	-	-	-	-	-	(7,800,000)
Payment to mitigation fund.....	-	-	-	-	-	(750,000)
Payments for interfund services used.....	-	-	-	-	-	(1,850)
NET CASH FROM OPERATING ACTIVITIES.....	6,858,628	6,674,062	3,702,071	(198,827)	17,035,934	(8,551,707)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Transfers in.....	-	-	-	250,000	250,000	-
Transfers out.....	(2,695,975)	(1,604,341)	(444,566)	-	(4,744,882)	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(2,695,975)	(1,604,341)	(444,566)	250,000	(4,494,882)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Proceeds from the issuance of bonds.....	5,150,000	500,000	480,000	-	6,130,000	-
Acquisition and construction of capital assets.....	(1,887,656)	(2,323,391)	(1,595,097)	-	(5,806,144)	-
Principal payments on bonds and notes.....	(8,886,740)	(2,706,168)	(1,650,000)	-	(13,242,908)	-
Interest expense.....	(2,683,371)	(765,904)	(1,144,944)	-	(4,594,219)	-
Intergovernmental revenue.....	228,826	2,178,941	-	-	2,407,767	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(8,078,941)	(3,116,522)	(3,910,041)	-	(15,105,504)	-
CASH FLOWS FROM INVESTING ACTIVITIES:						
Investment income.....	-	-	1,037	-	1,037	-
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(3,916,288)	1,953,199	(651,499)	51,173	(2,563,415)	(8,551,707)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	18,168,160	4,345,460	2,547,591	-	25,061,211	11,684,260
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 14,251,872	\$ 6,298,659	\$ 1,896,092	\$ 51,173	\$ 22,497,796	\$ 3,132,553
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:						
Operating income (loss).....	\$ 3,215,707	\$ 5,529,804	\$ 1,924,877	\$ (326,892)	\$ 10,343,496	\$ (8,551,707)
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation.....	4,008,823	2,120,721	1,441,841	-	7,571,385	-
Changes in assets and liabilities:						
Accounts receivable.....	(847,738)	(1,095,342)	-	-	(1,943,080)	-
Departmental and other.....	-	-	(31,845)	-	(31,845)	-
Warrants payable.....	215,411	(7,882)	222,199	51,173	480,901	-
Other liabilities.....	-	-	-	76,892	76,892	-
Other postemployment benefits.....	245,850	140,099	139,728	-	525,677	-
Accrued compensated absences.....	20,575	(13,338)	5,271	-	12,508	-
Total adjustments.....	3,642,921	1,144,258	1,777,194	128,065	6,692,438	-
NET CASH FROM OPERATING ACTIVITIES.....	\$ 6,858,628	\$ 6,674,062	\$ 3,702,071	\$ (198,827)	\$ 17,035,934	\$ (8,551,707)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:						
Principal and interest long-term debt subsidy.....	\$ 228,826	\$ 384,332	\$ -	\$ -	\$ 613,158	\$ -

See accompanying notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

	Pension Trust Fund (as of December 31, 2013)	Other Postemployment Benefits Trust	Private Purpose Trust Funds	Agency Funds
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 7,846,496	\$ 7,800,000	\$ 29,247	\$ 718,763
Investments.....	278,921,100	-	130,984	-
Receivables, net of allowance for uncollectibles:				
Intergovernmental.....	9,155,684	-	-	-
TOTAL ASSETS.....	295,923,280	7,800,000	160,231	718,763
LIABILITIES				
Warrants payable.....	-	-	-	17,764
Liabilities due depositors.....	-	-	-	694,273
Other liabilities.....	-	-	-	6,726
TOTAL LIABILITIES.....	-	-	-	718,763
NET POSITION				
Held in trust for:				
Pension benefits.....	295,923,280	-	-	-
Other postemployment benefits.....	-	7,800,000	-	-
Other purposes.....	-	-	160,231	-
TOTAL NET POSITION.....	\$ 295,923,280	\$ 7,800,000	\$ 160,231	\$ -

See accompanying notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Pension Trust Fund (as of December 31, 2013)	Other Postemployment Benefits Trust	Private Purpose Trust Funds
ADDITIONS:			
Contributions:			
Employer.....	\$ 18,311,367	\$ 7,800,000	\$ -
Employee.....	8,401,855	-	-
Private donations.....	38,500	-	-
Total contributions.....	<u>26,751,722</u>	<u>7,800,000</u>	<u>-</u>
Net investment income (loss):			
Net change in fair value of investments.....	30,243,251	-	-
Interest.....	7,732,772	-	744
Total investment income (loss).....	37,976,023	-	744
Less: investment expense.....	<u>(1,574,668)</u>	<u>-</u>	<u>-</u>
Net investment income (loss).....	<u>36,401,355</u>	<u>-</u>	<u>744</u>
Intergovernmental.....	513,401	-	-
Transfers from other systems.....	800,370	-	-
TOTAL ADDITIONS.....	<u>64,466,848</u>	<u>7,800,000</u>	<u>744</u>
DEDUCTIONS:			
Administration.....	360,246	-	-
Transfers to other systems.....	1,272,998	-	-
Retirement benefits and refunds.....	31,733,089	-	-
TOTAL DEDUCTIONS.....	<u>33,366,333</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION.....	31,100,515	7,800,000	744
NET POSITION AT BEGINNING OF YEAR.....	<u>264,822,765</u>	<u>-</u>	<u>159,487</u>
NET POSITION AT END OF YEAR.....	<u>\$ 295,923,280</u>	<u>\$ 7,800,000</u>	<u>\$ 160,231</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 did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 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.

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. 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 1st of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st 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.

F. 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.

G. 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 are recorded at the estimated fair market value at the date of donation.

Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

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.

H. 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 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 does not have any items that qualify for reporting 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.

I. 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.

J. 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.

K. 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.

L. 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.

M. 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 an other financing source 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.

N. Investment Income

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

O. 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.

P. 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.

Q. Individual Fund Deficits

Several individual fund deficits exist at June 30, 2014, within the Special Revenue and Capital Project Funds. These deficits will be funded through grants, issuance of long-term debt and available fund balances.

The Auditorium ended with a \$77 thousand deficit which will be funded through tax levy and available funds. The City re-negotiated their agreement with the management company that limits the City's future subsidy to \$200 thousand per year through 2016.

R. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

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 \$86,931,003 and the bank balance totaled \$91,496,007. Of the

bank balance, \$1,806,170 was covered by Federal Depository Insurance, \$14,288,661 was covered by the Depositors Insurance Fund, \$54,902,340 was collateralized, and \$20,498,836 was uninsured and uncollateralized.

At December 31, 2013, carrying amount of deposits for the System totaled \$7,846,496 and the bank balance totaled \$8,092,845. 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, 2014, the City had the following investments:

Investment Type	Fair Value	Fair Value By Maturity		
		Under 1 Year	1-5 Years	6-10 Years
Debt Securities				
Federal Home Loans Mtg Corp.....	\$ 140,277	\$ -	\$ 140,277	\$ -
Federal Home Loan Bank.....	319,964	-	319,964	-
Federal National Mortgage Association.....	118,088	118,088	-	-
Governmental National Mortgage Association.....	1,763	-	1,763	-
U.S. Treasury Notes.....	152,215	-	152,215	-
Corporate Bonds.....	173,342	-	173,342	-
Municipal Bonds.....	245,397	40,520	199,389	5,488
Total Debt Securities.....	1,151,046	\$ 158,608	\$ 986,950	\$ 5,488
Other Investments				
Equity Securities.....	437,142			
Equity Mutual Funds.....	51,475			
Brokered CDs.....	447,650			
*MMDT.....	109,118			
Total Investments.....	\$ 2,196,431			

*MMDT is included within cash and cash equivalents on the financial statements.

The City’s investment in the Federal Home Loan Mortgage Corp, Federal Home Loan Bank, Federal National Mortgage Association, Governmental National Mortgage Association, and the U.S. Treasury Notes totaled \$732,307. These investments are all rated AA+ by Standard & Poor’s. Of the \$173,342 invested in corporate bonds, \$20,917 was rated AA+ and the remaining \$152,425 was rated A-. Of the investments in Municipal Bonds, \$50,958 was rated AA+, \$136,051 was rated AA, and \$58,388 was rated AA-.

As of December 31, 2013, the System had the following investments:

Other Investments	
Equity Securities.....	\$ 940,887
Alternative Investments.....	1,695,357
Real Estate Investments.....	1,570,283
PRIT Fund.....	274,714,573
Total Investments.....	\$ 278,921,100

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, \$140,277 in Federal Home Loan Mortgages, \$319,964 in Federal Home Loan Bank, \$118,088 in Federal National Mortgage Association, \$1,763 in Government National Mortgage Association, \$152,215 in U.S. Treasury Notes, \$173,342 in Corporate Bonds, \$245,397 in municipal bonds, and \$437,142 in Equity Securities, the City has a custodial credit risk exposure of \$1,588,188 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. Of the System's investments \$940,887 in Equity Securities, the System has custodial credit risk exposure of \$940,887 because the related securities are uninsured, unregistered and held by the counterparty. 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 City participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of ranging from 45 days to 55 days.

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 .25 to 10.78 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, 2013, 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, 2014 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, 2013 the System's investment in any one issuer did not exceed 5% of the total amount invested.

NOTE 3 - RECEIVABLES

At June 30, 2014, 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.....	\$ 3,176,934	\$ (1,105,935)	\$ 2,070,999
Tax liens.....	4,799,153	(512,499)	4,286,654
Motor vehicle and other excise taxes.....	3,436,151	(1,996,385)	1,439,766
Trash fees.....	680,289	-	680,289
Departmental and other.....	4,100	-	4,100
Intergovernmental.....	37,419,840	-	37,419,840
Loans.....	2,075,426	-	2,075,426
Total	<u>\$ 51,591,893</u>	<u>\$ (3,614,819)</u>	<u>\$ 47,977,074</u>

At June 30, 2014, receivables for the enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
User fees.....	\$ 10,780,505	\$ -	\$ 10,780,505
Departmental and other.....	861,201	-	861,201
Total	<u>\$ 11,641,706</u>	<u>\$ -</u>	<u>\$ 11,641,706</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.....	\$ 1,834,002	\$ -	\$ 1,834,002
Tax liens.....	4,286,654	-	4,286,654
Motor vehicle and other excise taxes.....	1,439,766	-	1,439,766
Trash fees.....	680,289	-	680,289
Departmental and other.....	4,100	-	4,100
Intergovernmental.....	24,904,426	11,260,253	36,164,679
<u>Other asset type:</u>			
Tax foreclosures.....	3,753,643	-	3,753,643
Total.....	<u>\$ 36,902,880</u>	<u>\$ 11,260,253</u>	<u>\$ 48,163,133</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

Governmental Activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 30,918,913	\$ 69,060	\$ (154,350)	\$ 30,833,623
Construction in progress.....	-	2,366,089	-	2,366,089
Total capital assets not being depreciated.....	<u>30,918,913</u>	<u>2,435,149</u>	<u>(154,350)</u>	<u>33,199,712</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	339,638,379	3,134,693	(555,104)	342,217,968
Capital improvements (other than buildings).....	24,112,052	653,893	-	24,765,945
Infrastructure.....	166,804,199	4,031,159	-	170,835,358
Vehicles.....	14,320,327	1,359,221	(454,349)	15,225,199
Equipment.....	5,905,980	144,109	-	6,050,089
Books.....	6,271,226	341,943	-	6,613,169
Software.....	495,990	-	-	495,990
Total capital assets being depreciated.....	<u>557,548,153</u>	<u>9,665,018</u>	<u>(1,009,453)</u>	<u>566,203,718</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(189,913,242)	(7,538,773)	555,104	(196,896,911)
Capital improvements (other than buildings).....	(10,148,120)	(964,798)	-	(11,112,918)
Infrastructure.....	(77,650,833)	(2,377,485)	-	(80,028,318)
Vehicles.....	(9,950,702)	(993,774)	454,349	(10,490,127)
Equipment.....	(3,402,749)	(488,582)	-	(3,891,331)
Books.....	(5,144,501)	(409,963)	-	(5,554,464)
Software.....	(495,990)	-	-	(495,990)
Total accumulated depreciation.....	<u>(296,706,137)</u>	<u>(12,773,375)</u>	<u>1,009,453</u>	<u>(308,470,059)</u>
Total capital assets being depreciated, net.....	<u>260,842,016</u>	<u>(3,108,357)</u>	<u>-</u>	<u>257,733,659</u>
Total governmental activities capital assets, net.....	<u>\$ 291,760,929</u>	<u>\$ (673,208)</u>	<u>\$ (154,350)</u>	<u>\$ 290,933,371</u>

Business-Type Activities:	<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
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	9,450	-	-	9,450
Capital improvements (other than buildings).....	25,046,876	949,956	-	25,996,832
Infrastructure.....	295,237,824	4,535,102	-	299,772,926
Vehicles.....	1,976,484	265,907	-	2,242,391
Equipment.....	1,020,336	-	-	1,020,336
Total capital assets being depreciated.....	<u>323,290,970</u>	<u>5,750,965</u>	<u>-</u>	<u>329,041,935</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(8,949)	(333)	-	(9,282)
Capital improvements (other than buildings).....	(4,280,876)	(1,220,402)	-	(5,501,278)
Infrastructure.....	(115,476,607)	(6,174,134)	-	(121,650,741)
Vehicles.....	(1,123,172)	(145,992)	-	(1,269,164)
Equipment.....	(783,235)	(30,524)	-	(813,759)
Total accumulated depreciation.....	<u>(121,672,839)</u>	<u>(7,571,385)</u>	<u>-</u>	<u>(129,244,224)</u>
Total capital assets being depreciated, net.....	<u>201,618,131</u>	<u>(1,820,420)</u>	<u>-</u>	<u>199,797,711</u>
Total business-type activities capital assets, net.....	<u>\$ 204,462,551</u>	<u>\$ (1,820,420)</u>	<u>\$ -</u>	<u>\$ 202,642,131</u>

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

Governmental Activities:	
General government.....	\$ 696,645
Public safety.....	1,155,627
Education.....	7,359,805
Public works.....	1,710,637
Human services.....	194,304
Culture and recreation.....	<u>1,656,357</u>
Total depreciation expense - governmental activities.....	<u>\$ 12,773,375</u>
Business-Type Activities:	
Sewer.....	\$ 4,008,823
Water.....	2,120,721
Parking.....	<u>1,441,841</u>
Total depreciation expense - business-type activities.....	<u>\$ 7,571,385</u>

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2014, are summarized as follows:

Operating Transfers Out:	Operating Transfers In:			Total
	General Fund	Nonmajor Governmental Funds	Auditorium Enterprise Fund	
General Fund.....	\$ -	\$ 480,000	\$ 250,000	\$ 730,000
Nonmajor Governmental Funds.....	124,448	-	-	124,448
Sewer Enterprise Fund.....	2,695,975	-	-	2,695,975
Water Enterprise Fund.....	1,604,341	-	-	1,604,341
Parking Enterprise Fund.....	424,566	20,000	-	444,566
Total.....	<u>\$ 4,849,330</u>	<u>\$ 500,000</u>	<u>\$ 250,000</u>	<u>\$ 5,599,330</u>

Transfers out of the General Fund represent a transfer to a Capital Projects Fund for a current year principal pay down of a BAN and a subsidy to the Auditorium Enterprise Fund. Transfers into the general fund represent amounts voted to fund 2014 operations, including indirect cost transfers from the enterprise funds as well as various budgeted transfers from nonmajor funds.

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, 2014, is as follows:

Type	Description	Maturity Date	Rate %	Balance at June 30 2013	Renewed/ Issued	Retired/ Redeemed	Balance at June 30 2014
BAN	Municipal Purpose.....	9/13/13	0.65%	\$ 675,000	\$ -	\$ (675,000)	\$ -
SAAN	State Aid Anticipation.....	8/16/13	1.25%	2,140,000	-	(2,140,000)	-
BAN	Municipal Purpose.....	9/13/13	.30%-1.00%	1,970,000	-	(1,970,000)	-
SAAN	State Aid Anticipation.....	8/15/14	1.25%	-	1,645,000	-	1,645,000
BAN	Municipal Purpose.....	9/12/14	.30%-1.00%	-	275,000	-	275,000
Subtotal Governmental Short Term Debt.....				<u>4,785,000</u>	<u>1,920,000</u>	<u>(4,785,000)</u>	<u>1,920,000</u>
BAN	Water Improvements.....	9/13/13	.30%-1.00%	500,000	-	(500,000)	-
BAN	Sewer Improvements.....	9/16/13	1.25%	5,150,000	-	(5,150,000)	-
BAN	Parking Improvements.....	9/13/13	.30%-1.00%	480,000	-	(480,000)	-
Subtotal Business-Type Short Term Debt.....				<u>6,130,000</u>	<u>-</u>	<u>(6,130,000)</u>	<u>-</u>
Total Short-Term Debt.....				<u>\$ 10,915,000</u>	<u>\$ 1,920,000</u>	<u>\$ (10,915,000)</u>	<u>\$ 1,920,000</u>

Subsequent to year end, \$275,000 of BAN's were rolled over for a period of one year at an interest rate of .7%. On August 15, 2014, the City redeemed the \$1,645,000 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 September 12, 2013, the City issued \$9,400,000 of general obligation debt. \$8,500,000 of the issuance was recognized in 2013 because it was used to pay down BAN's outstanding at June 30, 2013. The remaining \$900,000 of general obligation debt has been recognized as governmental bond proceeds in the current year.

In previous years, certain general obligation bonds and enterprise fund bonds were defeased by placing the proceeds of the bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2014, \$4,515,320 of Governmental and \$709,680 of Enterprise Fund bonds outstanding from the advance refunding are considered defeased.

Details related to the outstanding indebtedness as of June 30, 2014, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Maturities Through	Interest Rate (%)	Outstanding at June 30, 2013	Issued	Redeemed	Outstanding at June 30, 2014
Schools.....	2033	2.00-6.00	\$ 43,840,431	\$ 700,000	\$ 7,141,825	\$ 37,398,606
General.....	2033	2.00-6.00	37,336,229	200,000	2,752,775	34,783,454
Cawley Stadium.....	2018	3.00-5.41	125,495	-	27,175	98,320
Section 108.....	2025	variable	2,020,000	-	160,000	1,860,000
Lowell Memorial Auditorium...	2030	2.00-5.75	2,230,000	-	135,000	2,095,000
Total General Obligation Bonds.....			85,552,155	900,000	10,216,775	76,235,380
Unamortized Premium on Bonds.....			1,966,309	-	359,844	1,606,465
Total Long-Term Debt.....			\$ 87,518,464	\$ 900,000	\$ 10,576,619	\$ 77,841,845

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

Year	Principal	Interest	Total
2015.....	\$ 10,547,504	\$ 2,942,417	\$ 13,489,921
2016.....	9,672,743	2,536,867	12,209,610
2017.....	6,428,218	2,223,151	8,651,369
2018.....	6,462,508	1,975,681	8,438,189
2019.....	6,412,058	1,712,234	8,124,292
2020.....	6,484,058	1,443,371	7,927,429
2021.....	5,001,058	1,198,897	6,199,955
2022.....	5,031,298	975,916	6,007,214
2023.....	3,430,935	789,702	4,220,637
2024.....	2,380,000	668,838	3,048,838
2025.....	2,380,000	574,550	2,954,550
2026.....	2,095,000	482,479	2,577,479
2027.....	2,100,000	388,987	2,488,987
2028.....	2,005,000	298,408	2,303,408
2029.....	2,005,000	211,536	2,216,536
2030.....	1,875,000	127,032	2,002,032
2031.....	930,000	52,173	982,173
2032.....	685,000	25,312	710,312
2033.....	210,000	9,219	219,219
2034.....	100,000	2,500	102,500
Total.....	\$ 76,235,380	\$ 18,639,270	\$ 94,874,650

The Commonwealth has approved school construction assistance to the City. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During 2014, approximately \$5,763,000 of such assistance was received. Approximately \$24,904,000 will be received in future years. Of this amount, \$24,904,000 represents reimbursement of approved construction costs, and the long-term interest costs are considered immaterial. Accordingly, an intergovernmental receivable of \$24,904,000 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.

At June 30, 2014, the City carried \$1,860,000 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 \$1,860,000 in future years as debt repayments from developers who were the recipients of the loan funds. Accordingly a receivable of \$1,860,000 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, 2014 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, 2013	Issued	Redeemed	Outstanding at June 30, 2014
Sewer.....	2043	2.00-7.70	\$ 101,676,037	\$ -	\$ 5,953,593	\$ 95,722,444
Water.....	2033	2.00-6.00	34,712,318	-	3,609,086	31,103,232
Parking.....	2028	4.00-5.00	25,255,000	-	1,170,000	24,085,000
Total General Obligation Bonds.....			\$ 161,643,355	\$ -	\$ 10,732,679	\$ 150,910,676

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

Year	Principal	Interest	Total
2015.....	\$ 7,507,580	\$ 4,708,417	\$ 12,215,997
2016.....	7,685,492	4,416,633	12,102,125
2017.....	7,861,682	4,133,235	11,994,917
2018.....	8,040,598	3,848,827	11,889,425
2019.....	8,230,835	3,557,913	11,788,748
2020.....	8,410,234	3,243,216	11,653,450
2021.....	8,486,281	2,935,962	11,422,243
2022.....	7,980,782	2,647,966	10,628,748
2023.....	7,952,614	2,371,657	10,324,271
2024.....	7,541,787	2,112,006	9,653,793
2025.....	7,726,837	1,872,098	9,598,935
2026.....	7,378,739	1,648,019	9,026,758
2027.....	7,272,181	1,417,213	8,689,394
2028.....	7,279,456	1,134,871	8,414,327
2029.....	4,617,419	999,293	5,616,712
2030.....	4,414,943	874,682	5,289,625
2031.....	4,240,603	757,087	4,997,690
2032.....	3,375,634	655,542	4,031,176
2033.....	3,245,091	568,954	3,814,045
2034.....	2,956,857	486,120	3,442,977
2035.....	2,742,687	414,348	3,157,035
2036.....	2,810,138	347,984	3,158,122
2037.....	2,879,253	279,974	3,159,227
2038.....	2,652,875	213,733	2,866,608
2039 - 2043.....	7,620,078	346,842	7,966,920
Total.....	\$ <u>150,910,676</u>	\$ <u>45,992,592</u>	\$ <u>196,903,268</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 \$2,322,000 and interest costs for \$1,768,000. Thus, net MCWT loan repayments, including interest, are scheduled to be \$26,070,000. 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 2014 principal and interest subsidies totaled approximately \$229,000 and \$384,000, 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 \$708,000 related to the issuance of Qualified Energy Conservation Bonds. Thus net loan repayments, including interest, are scheduled to be \$2,605,000. 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 2014 interest subsidy totaled approximately \$80,000.

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, 2014, the City had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
School Construction.....	\$ 18,100,000
Water.....	28,055,005
Sewer.....	40,017,616
Streetlights.....	100,000
Energy Improvements.....	3,320,278
Land.....	1,730,000
Public Safety Center.....	25,000
LeLacheur Park.....	235,000
Parking Kiosks.....	1,520,000
Rogers Roof.....	110,000
Capital Plan.....	16,929,641
Green Repair.....	<u>2,862,788</u>
 Total.....	 <u>\$ 113,005,328</u>

Changes in Long-term Liabilities

During the year ended June 30, 2014, 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.....	\$ 85,552,155	\$ 900,000	\$ (10,216,775)	\$ 76,235,380	\$ 10,547,504
Add: unamortized premium.....	1,966,309	-	(359,844)	1,606,465	304,409
Total Long-Term Debt.....	<u>87,518,464</u>	<u>900,000</u>	<u>(10,576,619)</u>	<u>77,841,845</u>	<u>10,851,913</u>
Workers' compensation.....	4,641,000	723,000	(1,651,000)	3,713,000	777,000
Compensated absences.....	9,694,510	6,527,324	(5,859,776)	10,362,058	6,283,719
Other postemployment benefits.....	<u>128,944,371</u>	<u>25,418,632</u>	<u>(13,350,025)</u>	<u>141,012,978</u>	<u>-</u>
Total governmental activity long-term liabilities.....	<u>\$ 230,798,345</u>	<u>\$ 33,568,956</u>	<u>\$ (31,437,420)</u>	<u>\$ 232,929,881</u>	<u>\$ 17,912,632</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.....	\$ 161,643,355	\$ -	\$ (10,732,679)	\$ 150,910,676	\$ 7,507,580
Compensated absences.....	493,190	385,650	(373,142)	505,698	391,402
Other postemployment benefits.....	<u>4,248,114</u>	<u>930,713</u>	<u>(405,036)</u>	<u>4,773,791</u>	<u>-</u>
Total business-type activity long-term liabilities.....	<u>\$ 166,384,659</u>	<u>\$ 1,316,363</u>	<u>\$ (11,510,857)</u>	<u>\$ 156,190,165</u>	<u>\$ 7,898,982</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 \$8.6 million and is reported as unassigned fund balance within the General Fund. The Pension Assessment Stabilization, School Construction Stabilization, and Salary Reserve Stabilization funds, reported as committed fund balance within the General Fund, have year end balances of \$3.1 million, \$308 thousand, and \$100 thousand, 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, 2014, fund balances consisted of the following:

	GOVERNMENTAL FUNDS		
	General	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES			
Nonspendable:			
Permanent fund principal..... \$	-	\$ 1,796,484	\$ 1,796,484
Restricted for:			
Chapter 17 special reserve.....	2,243,308	-	2,243,308
Gift and grant funds.....	-	5,442,314	5,442,314
Federal grant funds.....	-	1,491,685	1,491,685
Section 108 funds.....	-	2,065,338	2,065,338
Sale of city property funds.....	-	891,299	891,299
Spendable permanent funds.....	-	198,518	198,518
Revolving funds.....	-	2,894,719	2,894,719
Committed to:			
Stabilization school construction	308,205	-	308,205
Pension assessment stabilization	3,067,048	-	3,067,048
Salary reserve stabilization	100,000	-	100,000
Employee benefits and mitigation fund.....	4,481,420	-	4,481,420
Assigned to:			
General government.....	56,327	-	56,327
Public safety.....	12,335	-	12,335
Education.....	2,196,635	-	2,196,635
Public works.....	334	-	334
Human services.....	469	-	469
Culture and recreation.....	1,805	-	1,805
Unassigned.....	12,054,938	(6,684,841)	5,370,097
TOTAL FUND BALANCES..... \$	<u>24,522,824</u>	<u>\$ 8,095,516</u>	<u>\$ 32,618,340</u>

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 \$3.7 million at June 30, 2014, which represents an estimate of all outstanding claims as of that date.

Changes in the reported liability since July 1, 2012 are as follows:

	Balance at Beginning of Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Year-End
2013.....	4,680,000	356,467	(395,467)	4,641,000
2014.....	4,641,000	(428,964)	(499,036)	3,713,000

NOTE 10 - PENSION PLAN

Plan Description - The City contributes to the Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Lowell Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$32,445,000 for the year ended June 30, 2014 are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. 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 Lowell Contributory Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth’s PERAC. That report may be obtained by contacting the System located at 375 Merrimack Street, Lowell, Massachusetts, 01852.

At December 31, 2013, the System’s membership consists of the following:

Active members.....	1,712
Inactive members.....	245
Retirees and beneficiaries currently receiving benefits.....	<u>1,166</u>
Total.....	<u><u>3,123</u></u>

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding years apportionment of the annual pension cost between the two employers required the City to contribute 91% of the total. Chapter 32 of the MGL governs the contributions of plan members and the City.

Annual Pension Cost - The City’s contributions to the System for the years ended June 30, 2014, 2013, and 2012 were \$16,997,936, \$16,160,771 and \$15,665,446, respectively, which equaled its required contribution for each year. At June 30, 2014, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2013 actuarial valuation using the entry age normal actuarial cost method.

The actuarial assumptions included an 8.00% investment rate of return and projected salary increases of 4.5% (Group 1) and 5% (Group 4) during the year. The actuarial value of the System’s assets is the market value of

assets of the valuation date reduced by the sum of: a) 80% of gains and losses of the prior year, b) 60% of gains and losses of the second prior year, c) 40% of gains and losses of the third prior year and d) 20% of gains and losses of the fourth prior year. The System's unfunded actuarial accrued liability is being amortized at 4% to reduce the Unfunded Actuarial Accrued Liability to zero on or before June 30, 2036. The remaining amortization period at January 1, 2013, was 23 years.

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/13	\$ 262,764,445	\$ 495,728,901	\$ 232,964,456	53.0%	\$ 80,555,739	289.2%
01/01/11	270,215,328	449,425,349	179,210,021	60.1%	76,217,796	235.1%
01/01/10	248,611,238	438,406,738	189,795,500	56.7%	77,383,209	245.3%

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 fiscal year 2014 was \$35,816.

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description - The City of Lowell administers a single-employer defined benefit healthcare plan (“the Retiree Health 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 Retiree Health 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 fiscal year 2014, the City contributed \$13,755,061 to the plan.

Annual OPEB Cost and Net OPEB Obligation - The City's annual other postemployment benefit (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.....	\$ 37,061,348
Interest on net OPEB obligation.....	4,661,737
Adjustment to annual required contribution.....	<u>(15,373,740)</u>
Annual OPEB cost (expense).....	26,349,345
Contributions made.....	<u>(13,755,061)</u>
Increase/Decrease in net OPEB obligation.....	12,594,284
Net OPEB obligation - beginning of year.....	<u>133,192,485</u>
Net OPEB obligation - end of year.....	<u>\$ 145,786,769</u>

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

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2014	\$ 26,349,345	52.2%	\$ 145,786,769
6/30/2013	24,619,891	57.6%	133,192,485
6/30/2012	43,339,082	37.7%	122,755,250

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date, the actuarial liability for benefits was \$520 million, all of which was unfunded.

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, 2012, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 3.5 percent investment rate of return net of investment expenses, and an annual healthcare cost trend rate of 9 percent initially, graded to 5 percent after eight years. The actuarial value of assets was zero since the benefit is unfunded. The UAAL is being amortized as a level dollar open basis. The remaining amortization period at June 30, 2014, was 30 years.

NOTE 12 - COMMITMENTS

The City has entered into, or is planning to enter into, contracts totaling approximately \$113 million for school construction, sewer projects, water projects, energy improvement projects, the public safety center, 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 Single Audit Act Amendments of 1996 through June 30, 2014, 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, 2014, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2014.

NOTE 14 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2014, the following GASB pronouncements were implemented:

- GASB Statement #65, *Items Previously Reported as Assets and Liabilities*. Financial statement changes include the presentation of deferred outflows and inflows in the Statement of Net Position and Balance Sheet. Notes to the basic financial statements were changed to provide additional disclosure on deferred outflows of resources and deferred inflows of resources.
- GASB Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future years:

- The GASB issued Statement #67, *Financial Reporting for Pension Plans*, which is required to be implemented in 2015.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions*, which is required to be implemented in 2015.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in 2015.
- The GASB issued Statement #71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which is required to be implemented simultaneously with GASB Statement #68 in 2015.

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

NOTE 15 – SUBSEQUENT EVENTS

In September 2014, the City issued \$10.7 million of new money Bond Anticipation Notes (BAN'S) in order to fund the deficits related to various governmental and enterprise capital projects. In addition to the new money BAN's, the City also renewed \$.3 million of taxable BAN's.

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Required Supplementary Information

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

FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
REVENUES:				
Real estate and personal property taxes, net of tax refunds..... \$	-	\$ 108,661,416	\$ 108,661,416	\$ 108,604,910
Tax liens.....	-	1,575,000	1,575,000	1,710,462
Motor vehicle and other excise taxes.....	-	6,881,000	6,881,000	6,224,000
Trash disposal.....	-	3,093,000	3,093,000	3,121,000
Penalties and interest on taxes.....	-	1,622,000	1,622,000	2,114,365
Payments in lieu of taxes.....	-	971,000	971,000	823,150
Intergovernmental.....	-	164,820,606	164,820,606	163,729,133
Departmental and other.....	-	8,562,917	8,562,917	9,248,705
Investment income.....	-	316,000	316,000	320,000
TOTAL REVENUES.....	-	296,502,939	296,502,939	295,895,725
EXPENDITURES:				
Current:				
General government.....	131,423	16,106,682	16,238,105	15,615,044
Public safety.....	5,645	40,226,459	40,232,104	42,249,872
Education.....	1,819,168	137,447,037	139,266,205	140,511,734
Public works.....	240,240	12,740,415	12,980,655	13,324,393
Human services.....	610	3,828,553	3,829,163	3,869,741
Culture and recreation.....	16,271	4,050,612	4,066,883	4,146,525
Pension benefits.....	-	17,077,418	17,077,418	17,033,752
Employee benefits.....	-	39,448,862	39,448,862	39,371,110
State and county charges.....	-	16,968,819	16,968,819	16,713,084
Debt service:				
Principal.....	-	10,065,775	10,065,775	10,065,775
Interest.....	-	3,430,719	3,430,719	3,319,605
TOTAL EXPENDITURES.....	2,213,357	301,391,351	303,604,708	306,220,635
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES...	(2,213,357)	(4,888,412)	(7,101,769)	(10,324,910)
OTHER FINANCING SOURCES (USES):				
Premium from issuance of bonds.....	-	75,000	75,000	326,682
Sale of capital assets.....	-	-	-	-
Transfers in.....	-	5,543,412	5,543,412	5,699,330
Transfers out.....	-	(730,000)	(730,000)	(3,791,380)
TOTAL OTHER FINANCING SOURCES (USES).....	-	4,888,412	4,888,412	2,234,632
NET CHANGE IN FUND BALANCE.....	(2,213,357)	-	(2,213,357)	(8,090,278)
BUDGETARY FUND BALANCE, Beginning of year.....	-	14,298,341	14,298,341	14,298,341
BUDGETARY FUND BALANCE, End of year..... \$	(2,213,357)	\$ 14,298,341	\$ 12,084,984	\$ 6,208,063

See accompanying notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
\$	108,101,701	\$ -	\$ (503,209)
	2,221,816	-	511,354
	8,358,081	-	2,134,081
	3,161,904	-	40,904
	1,642,993	-	(471,372)
	936,859	-	113,709
	164,127,649	-	398,516
	7,101,884	-	(2,146,821)
	386,364	-	66,364
	<u>296,039,251</u>	<u>-</u>	<u>143,526</u>
	15,383,007	56,327	175,710
	41,908,677	12,335	328,860
	138,315,099	2,196,635	-
	13,810,006	334	(485,947)
	3,797,956	469	71,316
	3,928,021	1,805	216,699
	17,031,984	-	1,768
	39,268,906	-	102,204
	15,444,047	-	1,269,037
	10,056,775	-	9,000
	3,319,605	-	-
	<u>302,264,083</u>	<u>2,267,905</u>	<u>1,688,647</u>
	<u>(6,224,832)</u>	<u>(2,267,905)</u>	<u>1,832,173</u>
	313,432	-	(13,250)
	27,756	-	27,756
	5,699,330	-	-
	<u>(3,791,380)</u>	<u>-</u>	<u>-</u>
	<u>2,249,138</u>	<u>-</u>	<u>14,506</u>
	(3,975,694)	(2,267,905)	1,846,679
	14,298,341	-	-
\$	<u><u>10,322,647</u></u>	<u><u>(2,267,905)</u></u>	<u><u>1,846,679</u></u>

Retirement System Schedules of Funding Progress and Employer Contributions

The Retirement System Schedule of Funding Progress presents multiyear trend information relating to the cost-sharing plan as a whole, of which the City is one participating employer. It is designed to show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Retirement System Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the City is one participating employer, as well as the City's proportionate share of the plan's annual contributions.

LOWELL CONTRIBUTORY RETIREMENT SYSTEM
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)
1/1/2013	\$ 262,764,445	\$ 495,728,901	\$ 232,964,456	53.0%	\$ 80,555,739	289.2%
1/1/2011	270,215,328	449,425,349	179,210,021	60.1%	76,217,796	235.1%
1/1/2010	248,611,238	438,406,738	189,795,500	56.7%	77,383,209	245.3%
1/1/2008	263,107,199	413,775,000	150,667,801	63.6%	72,950,000	206.5%
1/1/2007	233,197,405	396,390,223	163,192,818	58.8%	79,636,851	204.9%

See accompanying notes to required supplementary information.

LOWELL CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	System Wide			City of Lowell	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) City's Percentage of System Wide Actual Contributions
2014	\$ 18,311,367	\$ 18,311,367	100%	\$ 16,997,936	92.83%
2013	17,709,223	17,709,223	100%	16,160,771	91.26%
2012	17,191,279	17,191,279	100%	15,665,446	91.12%
2011	16,729,063	16,729,063	100%	15,556,895	92.99%

The City's Actual Contributions equaled 100% of its Required Contributions for each year presented.

See accompanying notes to required supplementary information.

Other Postemployment Benefit Plan Schedules

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.

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)
07/01/12	\$ -	\$ 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
6/30/2014	\$ 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

Actuarial Methods:

Valuation date.....	July 1, 2012
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Level dollar open basis
Remaining amortization period.....	30 years as of July 1, 2012
Asset valuation method.....	Not valued since benefit is unfunded.

Actuarial Assumptions:

Investment rate of return.....	3.5%, pay-as-you-go scenario
Medical care cost trend rate.....	9% graded to 5.0% over 8 years

Plan Membership:

Current retirees, beneficiaries, and dependents...	1,847
Current active members.....	<u>3,177</u>
Total.....	<u><u>5,024</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 2014 approved budget authorizing approximately \$302.1 million in current year appropriations, other financing uses, and other amounts to be raised and approximately \$2.2 million in encumbrances and appropriations carried over from previous years. During 2014, the Council approved transfers from free cash totaling \$3.1 million to the pension stabilization fund, \$2.0 million for education, as well as transfers between departments representing minor increases and decreases in various budget line items for a net increase in appropriations totaling approximately \$5.7 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, 2014, is as follows:

Net change in fund balance - budgetary basis.....	\$ (3,975,694)
<u>Perspective difference:</u>	
Stabilization Funds recorded in the General Fund for GAAP.....	2,236,049
Employee Benefit Trust recorded in the General Fund for GAAP.....	1,070,310
<u>Basis of accounting differences:</u>	
Net change in recording 60-day receipts accrual.....	38,259
Net change in recording tax refunds payable.....	(963,059)
Net change in short-term interest accrual.....	10,180
Net change in unrecorded liabilities.....	577,370
Increase in revenues due to on-behalf payments.....	32,445,000
Increase in expenditures due to on-behalf payments.....	<u>(32,445,000)</u>
Net change in fund balance - GAAP basis.....	<u>\$ (1,006,585)</u>

C. Appropriation Deficits

Expenditures exceeded budgeted appropriations for public works-snow and ice, a legal deficit, at year end. This deficit will be funded through tax levy in 2015.

NOTE B – PENSION PLAN

The City contributes to the System, a cost-sharing, multiple-employer defined benefit pension plan ("Plan") administered by the Lowell Contributory Retirement Board. The System provides retirement, disability, and death benefits to members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the Plan. The City is required to pay into the Retirement System its share of the system-wide actuarially determined contribution which is apportioned among the employers based on active covered payroll.

The schedule of funding progress, presented as required supplementary information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information presents multi-year trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the City is one participating employer, as well as the City's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the City.

The following actuarial methods and assumptions were used in the Retirement System’s most recent actuarial valuation:

Valuation Date.....	January 1, 2013
Actuarial Cost Method.....	Individual Entry Age Normal Cost Method
Amortization Method.....	Increasing dollar amount at 4.0% to reduce the unfunded actuarial accrued liability to zero on or before June 30, 2036.
Remaining Amortization Period.....	23 years remaining as of January 1, 2013
Asset Valuation Method.....	Actuarial value of assets is the market value of assets as of the valuation date reduced by the sum of: a) 80% of gains and losses of the prior year, b) 60% of gains and losses of the second prior year, c) 40% of gains and losses of the third prior year and a) 20% of gains and losses of the fourth prior year.

Actuarial Assumptions:

Investment rate of return.....	8.00%
Projected salary increases.....	4.5% (Group 1) to 5.00% (Group 4)
Cost of living adjustments.....	3.0% of the pension amount, capped at \$450 per year.

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

The City of Lowell administers a single-employer defined benefit healthcare plan (“the Retiree Health 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 City currently finances its other post-employment benefits (OPEB) on a 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 0%. 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.

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.

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