

***CITY OF LOWELL, MASSACHUSETTS***

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

***FISCAL YEAR ENDED JUNE 30, 2012***

CITY OF LOWELL, MASSACHUSETTS

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## Independent Auditors' Report

To the Honorable Mayor and City Council  
City of Lowell, Massachusetts

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 fiscal year ended June 30, 2012 (except for the Lowell Contributory Retirement System which is as of and for the year ended December 31, 2011), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lowell, Massachusetts' management. Our responsibility is to express an opinion 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2012 (except for the Lowell Contributory Retirement System which is as of and for the year ended December 31, 2011), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in

accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Powers + Sullivan, LLC*

November 21, 2012

# ***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 fiscal year ended June 30, 2012. We encourage readers to consider the information presented in this report.

### ***Financial Highlights***

- The net assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$247.1 million.
- Governmental net assets decreased by \$8.2 million. This decrease is mostly attributable to the additional liability recorded of \$27.0 million related to GASB Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions; the use of \$1.2 million of fund balance related to the expenditure of prior year carryforwards; and an increase of \$800 thousand in the compensated absence sick and vacation accrual. These reductions were offset by operating surpluses in the general fund of \$9.8 million and the internal service fund of \$2.9 million; recognition of capital grants of \$4.5 million related to CH 90, the Concord River Greenway Project, and the Riverwalk and West Canal Improvement Project; the fact that principal payments on bonds exceeded depreciation on capital assets by \$1.5 million; the recognition of a \$551 thousand from the sale city property; and the recognition of a \$238 thousand premium on the issuance of debt.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$38.7 million, an increase of \$13.1 million in comparison with the prior year. The increase is primarily attributable to a general fund budgetary surplus of \$9.8 million; \$14.6 million of permanent financing received for various general government projects; the recognition of \$551 thousand from the sale of City property; and the recognition of a \$238 thousand premium on the issuance of debt. These increases were offset by the City's capital expenditures related to various on-going governmental capital projects; and the timing of grant expenditures versus the previous recognition of the related revenue.
- The City issued new debt of \$14.6 million for various governmental capital projects, and \$20.2 million for various water and sewer capital projects during the fiscal year.

### ***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 finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

The government-wide 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 two categories: governmental funds and fiduciary funds.

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

The City implemented GASB #54, *Fund Balance Reporting and Governmental Fund Type Definitions* during fiscal year 2011. The implementation of this standard has changed the fund balance components into nonspendable, restricted, committed, assigned and unassigned. Additionally, under the new standard, the City's general stabilization fund is reported within the general fund as unassigned and the school construction stabilization fund is reported within the general fund as committed.

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 *non-major governmental funds*.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement 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 arena 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.

**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. The accounting used for fiduciary funds is much like that used for propriety funds.

The fiduciary fund financial statements provide separate information for the pension trust fund of the City. All other fiduciary funds are combined into a single, aggregate presentation in the fiduciary fund financial statements under the caption private purpose trust funds.

**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 assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$247.1 million at the close of fiscal year 2012, an overall decrease of \$3.2 million from the prior year.

Net assets of \$286.6 million reflects its 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 assets, \$29.9 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, a deficit \$69.3 million, represents the impact of the \$119.5 million governmental and the \$3.3 million enterprise liability associated with GASB #45. This indicates that the City does not have enough reserves to meet its ongoing long-term obligations to citizens and creditors.

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

## Governmental Activities

As noted earlier net assets may serve, over time, as a useful indicator of a government's financial position. The assets of governmental activities exceeded liabilities by \$174.8 million at the close of the fiscal year 2012. Key components of the City's governmental financial position are listed below.

	<u>FY2012</u>	<u>FY2011</u>
<b>Assets:</b>		
Current assets.....	\$ 99,037,672	\$ 84,919,435
Noncurrent assets (excluding capital).....	37,669,754	45,772,421
Capital assets.....	<u>292,719,363</u>	<u>278,403,663</u>
Total assets.....	<u>429,426,789</u>	<u>409,095,519</u>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	28,729,456	27,299,115
Noncurrent liabilities (excluding debt).....	127,450,924	101,644,266
Current debt.....	15,717,557	16,640,128
Noncurrent debt.....	<u>82,778,322</u>	<u>80,588,879</u>
Total liabilities.....	<u>254,676,259</u>	<u>226,172,388</u>
<b>Net Assets:</b>		
Capital assets net of related debt.....	238,402,370	234,811,618
Restricted.....	29,859,776	31,228,802
Unrestricted.....	<u>(93,511,616)</u>	<u>(83,117,289)</u>
Total net assets.....	<u>\$ 174,750,530</u>	<u>\$ 182,923,131</u>

A significant portion of the City's governmental activities net assets, \$238.4 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 assets of \$29.9 million represents resources that are subject to external restrictions on how they may be used. The remaining deficit balance of unrestricted net assets in the amount of \$93.5 million is mainly due to the implementation of GASB #45. It indicates that the City does not have enough reserves to meet its ongoing long-term obligations to citizens and creditors.

Included within the governmental activities noncurrent assets, unrelated to capital assets, are \$29.9 million in future year school construction reimbursement grants.

Governmental activity liabilities include \$95.2 million in general obligation bonds and intergovernmental loans; \$8.9 million in compensated absence liabilities for unused vacation, special leave, and enhanced longevity benefits payable; and \$4.7 million in future year workers' compensation benefits payable.

The key elements of governmental activities are as follows:

	<u>FY2012</u>	<u>FY2011</u>
<b>Program Revenues:</b>		
Charges for services.....	\$ 15,998,867	\$ 16,345,386
Operating grants and contributions.....	201,696,339	196,644,268
Capital grants and contributions.....	4,499,975	2,525,412
Total program revenues.....	<u>222,195,181</u>	<u>215,515,066</u>
<b>General Revenues:</b>		
Real estate and personal property taxes.....	104,270,285	103,173,761
Tax liens.....	2,528,201	722,092
Motor vehicle and other excise taxes.....	7,407,109	7,280,304
Penalties and interest on taxes.....	1,646,843	1,445,451
Payments in lieu of taxes.....	903,626	1,025,175
Grants and contributions not restricted to specific programs.....	24,016,861	33,839,668
Premium from issuance of bonds.....	238,186	412,309
Unrestricted investment income.....	396,083	390,095
Gain on sale of capital assets.....	550,677	372,000
Miscellaneous.....	1,096,951	438,587
Total general revenues.....	<u>143,054,822</u>	<u>149,099,442</u>
<b>Transfers, net</b> .....	<u>4,379,441</u>	<u>4,323,604</u>
<b>Expenses:</b>		
General government.....	19,433,377	20,520,653
Public safety.....	65,519,765	62,567,845
Education.....	250,900,750	243,890,398
Public works.....	16,778,687	21,195,004
Human services.....	15,139,244	20,020,219
Culture and recreation.....	6,404,524	6,291,408
Interest.....	3,625,698	4,075,539
Total expenses.....	<u>377,802,045</u>	<u>378,561,066</u>
<b>Change in net assets</b> .....	<u>\$ (8,172,601)</u>	<u>\$ (9,622,954)</u>

The governmental activities net assets decreased in the current year by \$8.2 million. The decrease in net assets is due to several factors.

The first is the net change in the GASB Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions accrual. In fiscal year 2012 the City recognized an increase of \$26.3 million for its portion of the liability that was not paid; second was the use of \$1.2 million of fund balance related to the expenditure of prior year carryforwards and third was an increase of \$800 thousand related to the compensated absence sick and vacation accrual. These expenses were offset by operating surpluses in the of \$9.8 million and \$2.9 million in the general fund and internal service fund, respectively; capital grants of \$4.5 million related to CH 90, the Concord River Greenway Project and the Riverwalk and West Canal Improvement Project; that principal payments on bonds exceeded depreciation on capital assets by \$1.5 million; the recognition of a \$551 thousand gain from the sale of capital assets; and the recognition of \$238 thousand premium on the issuance of debt.

## Business-Type Activities

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

	<u>FY2012</u>	<u>FY2011</u>
<b>Assets:</b>		
Current assets.....	\$ 37,038,504	\$ 27,238,404
Capital assets.....	199,814,060	202,533,663
Total assets.....	<u>236,852,564</u>	<u>229,772,067</u>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	3,983,567	16,015,142
Noncurrent liabilities (excluding debt).....	3,405,752	2,683,366
Current debt.....	7,048,340	6,779,814
Noncurrent debt.....	150,067,693	136,881,730
Total liabilities.....	<u>164,505,352</u>	<u>162,360,052</u>
<b>Net Assets:</b>		
Capital assets net of related debt.....	48,155,128	53,686,771
Unrestricted.....	24,192,084	13,725,244
Total net assets.....	<u>72,347,212</u>	<u>67,412,015</u>
<b>Program Revenues:</b>		
Charges for services.....	34,772,875	31,163,298
Capital grants and contributions.....	2,538,848	7,428,269
Total program revenues.....	<u>37,311,723</u>	<u>38,591,567</u>
<b>Transfers, net</b> .....	<u>(4,379,441)</u>	<u>(4,323,604)</u>
<b>Expenses:</b>		
Sewer.....	15,330,531	14,775,560
Arena.....	57,619	315,812
Water.....	7,238,999	8,433,320
Parking.....	5,369,936	5,550,490
Total expenses.....	<u>27,997,085</u>	<u>29,075,182</u>
<b>Change in net assets</b> .....	<u>\$ 4,935,197</u>	<u>\$ 5,192,781</u>

Business type activities assets exceeded liabilities by \$72.3 million at the close of fiscal year 2012.

Net assets of \$48.1 million reflect its investment in capital assets less any debt used to acquire those assets that are still outstanding. The remaining balance of *unrestricted net assets* of \$24.2 million may be used to meet ongoing obligations.

The sewer enterprise fund net assets increased by \$1.8 million during the current fiscal year. Most of the change is due to recognition of capital grants of approximately \$2.1 million associated with various MWPAT projects.

The arena enterprise fund net assets increased by \$137 thousand during the current fiscal year. The increase is equal to the debt service principal payments transferred in by the general fund. These payments are not considered an expense for financial statement purposes. The City voted to close out the arena enterprise fund and, as a result, the remaining debt outstanding will be transferred to the general government at the start of fiscal year 2013.

The water enterprise fund net assets increased by \$2.7 million during the current fiscal year. The increase is primarily due to the 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 approximately \$412 thousand associated with various MWPAT projects.

The parking enterprise fund net assets increased by \$286 thousand in the current year. This is primarily due to by an increase in parking fee revenue associated with the implementation of the new automated parking meter system.

### ***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 fiscal year.

As of the end of the fiscal year, governmental funds reported combined ending fund balances of \$38.7 million, an increase of \$13.1 million from the prior year. The increase is attributable to a general fund budgetary surplus of \$9.8 million; \$14.6 million of permanent financing received for general government projects; the sale of City owned property for \$551 thousand; and the recognition of a \$238 thousand premium on the issuance of debt. These increases were offset by the expenditures related to various on-going capital projects; and the timing of grant expenditures versus the previous recognition of the related revenue.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund equaled \$11.8 million (which includes \$3.2 million set aside as stabilization), while total fund balance was \$20.8 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 4.2% and 7.4% of general fund budgetary expenditures, respectively.

The general fund increased by \$13.0 million during fiscal year 2012. This was primarily due to a \$9.8 million budgetary surplus; an increase in 60 day receipts of \$1.2 million; a \$437 thousand decrease in the accrual related to appellate tax board cases; the recognition of a \$238 thousand premium on the issuance of debt; and the overall savings on utility costs associated with the various energy projects the City has undertaken.

Total fiscal year 2012 general fund revenues and other financing sources totaled \$321.9 million, an increase of \$11.8 million or 3.7% compared the previous fiscal year. Contributing to this change was the fact that:

- Real estate and personal property taxes increased by approximately \$4.1 million due to an increase in the fiscal year 2012 levy and the City's aggressive efforts in collecting old outstanding taxes.
- Intergovernmental revenues increased roughly \$7.5 million due to a \$7.2 million increase in School CH 70 receipts.
- An increase in meals tax revenues of \$221 thousand.

Total general fund expenditures and transfers to other funds totaled \$308.9 million, a decrease of \$3.4 million or 1.2% over the previous fiscal year. The decrease is primarily attributable a reduction utility costs, expenditures related to snow and ice, state and county charges, and long-term debt and interest related expenditures.

The internal service fund had an ending fund balance of approximately \$11.7 million, an increase of \$2.9 million over the prior year. The increase is primarily attributable to employer and employee contributions exceeding current year claim payments and the receipt of \$902 thousand of Early Retiree Reinsurance revenues.

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

The difference between the original budget of \$286.7 million and the final amended budget of \$289.6 million amounted to a net increase of \$2.9 million. This increase was primarily the result of a \$1.7 million transfer to the stabilization fund and the net effect of various increases and decreases across the board, with the largest increases being for education and public works.

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

**Capital Assets** - The City's investment in capital assets for governmental activities as of June 30, 2012, amounts to \$292.7 million, net of accumulated depreciation. The investment in capital assets includes land; construction in progress; buildings; improvements; infrastructure; vehicles; machinery and equipment; books; and software. Additional information on the City's capital assets may be found in Note 4 to the basic financial statements.

The City's investment in capital assets for business type activities as of June 30, 2012 amounts to \$202.7 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 and also the various parking garage facilities.

**Long-term debt** – In fiscal 2012 the City issued general obligation bonds totaling \$34.8 million related to various public safety, public works, recreation, and water and sewer projects.

At June 30, 2012, the City had total governmental bonded debt of \$95.2 million. Of this amount \$93.1 million is a general obligation of the City and the balance is guaranteed debt under the Section 108 Loan Program. The City issued \$14.6 million of governmental bonds in fiscal 2012.

The sewer enterprise fund has \$98.7 million in long-term debt that is supported by the sewer rates and future MWPAT principal and interest subsidies. Currently, the City has \$6.6 million in authorized and unissued long-term debt relating to future sewer projects. The City issued \$19.4 million of WMPAT bonds during fiscal year 2012 to fund various sewer projects.

The water enterprise fund has \$31.4 million in long-term debt that is supported by the water rates and future MWPAT principal and interest subsidies totaling \$1.9 million. Currently the City has \$22.3 million in authorized and unissued long-term debt relating to future water projects. The City issued \$750,000 in bonds in fiscal 2012.

The parking enterprise fund has \$25.9 million in long-term debt that is supported by parking fees.

The arena enterprise fund has \$1.1 million in long-term debt that is fully supported by a general fund subsidy since the sale of the arena. During fiscal year 2012, a vote was taken to dissolve the arena enterprise as of June 30, 2012. As a result the remaining debt balance will be shifted to governmental long-term debt in fiscal 2013.

## **Next Year's Budget**

The Mayor and City Council have approved the original fiscal year 2013 general fund operating budget of \$311.8 million. Management continued cost reduction measures that had both short and long term impacts. Management held wage increases to a minimum while negotiating health insurance changes that netted \$4.8 million in savings after concessions. Lowell accomplished this by terminating self-insurance and entering the Commonwealth's Group Insurance Commission plans. The City is also embarking on \$19.6 million of bond-financed energy conservation improvements, purchasing streetlights from National Grid and replacing older equipment. Finally, the City outsourced its cemetery maintenance which will save several hundred thousand dollars over the next three years. All of these initiatives will ease pressure on operating costs now and in the future.

As part of the energy conservation program, the City has completed the transition from a Centrex telephone system to an Internet Protocol system which should save about \$300,000 annually.

The growth in local property taxes was held to a 0.2% increase. Chapter 70 school aid increased by \$4.8 million, and Lowell increased its local contribution to the schools by \$1 million. Other General Fund revenues remained flat.

Enterprise revenues increased for several reasons. Town billings from the Wastewater Fund increased by \$1.4 million. Parking added about \$140,000 largely as a result of the success of the replacement of traditional meters with electronic kiosks. Water revenue needs remained essentially unchanged and so a budget increase was not required even though revenues are expected to increase.

## ***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 ASSETS

June 30, 2012

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 68,765,042	\$ 20,914,948	\$ 89,679,990
Investments.....	1,667,708	-	1,667,708
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,953,973	-	1,953,973
Tax liens.....	709,997	-	709,997
Motor vehicle excise taxes.....	1,495,349	-	1,495,349
User fees.....	-	9,328,512	9,328,512
Water fees.....	11,544	-	11,544
Trash fees.....	700,810	-	700,810
Departmental and other.....	6,100	1,315,896	1,321,996
Intergovernmental.....	19,948,032	2,634,727	22,582,759
Loans.....	432,830	-	432,830
Tax foreclosures.....	2,932,834	-	2,932,834
Working capital deposit.....	174,600	-	174,600
Deferred charges on refunding.....	238,853	-	238,853
<b>NONCURRENT:</b>			
Receivables, net of allowance for uncollectibles:			
Tax liens.....	5,207,822	-	5,207,822
Intergovernmental.....	29,938,448	-	29,938,448
Loans.....	2,020,000	-	2,020,000
Deferred charges on refunding.....	503,484	-	503,484
Capital assets, nondepreciable.....	33,340,686	2,844,421	36,185,107
Capital assets, net of accumulated depreciation.....	259,378,677	199,814,060	459,192,737
<b>TOTAL ASSETS.....</b>	<b>429,426,789</b>	<b>236,852,564</b>	<b>666,279,353</b>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	5,509,472	727,642	6,237,114
Accrued payroll.....	7,608,643	-	7,608,643
Health claims payable.....	2,721,000	-	2,721,000
Tax refunds payable.....	1,758,000	-	1,758,000
Accrued interest.....	1,081,131	1,771,310	2,852,441
Other liabilities.....	3,854,294	-	3,854,294
Compensated absences.....	5,406,910	379,943	5,786,853
Workers' compensation.....	598,000	-	598,000
Unamortized premium on bonds payable.....	192,006	-	192,006
Notes payable.....	3,295,000	1,104,672	4,399,672
Bonds payable.....	12,422,557	7,048,340	19,470,897
<b>NONCURRENT:</b>			
Compensated absences.....	3,527,391	127,682	3,655,073
Workers' compensation.....	4,082,000	-	4,082,000
Postemployment benefits.....	119,477,180	3,278,070	122,755,250
Unamortized premium on bonds payable.....	364,353	-	364,353
Bonds and notes payable.....	82,778,322	150,067,693	232,846,015
<b>TOTAL LIABILITIES.....</b>	<b>254,676,259</b>	<b>164,505,352</b>	<b>419,181,611</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	238,402,370	48,155,128	286,557,498
Restricted for:			
Chapter 17 special reserve.....	4,237,808	-	4,237,808
Streets.....	2,830,767	-	2,830,767
Community development.....	7,077,821	-	7,077,821
Loans.....	2,452,830	-	2,452,830
Permanent funds:			
Expendable.....	720,255	-	720,255
Nonexpendable.....	1,623,247	-	1,623,247
Gifts and Grants.....	10,917,048	-	10,917,048
Unrestricted.....	(93,511,616)	24,192,084	(69,319,532)
<b>TOTAL NET ASSETS.....</b>	<b>\$ 174,750,530</b>	<b>\$ 72,347,212</b>	<b>\$ 247,097,742</b>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 19,433,377	\$ 5,756,840	\$ 808,013	\$ 957,284	\$ (11,911,240)
Public safety.....	65,519,765	3,434,832	3,021,213	-	(59,063,720)
Education.....	250,900,750	1,405,920	184,162,486	-	(65,332,344)
Public works.....	16,778,687	3,510,744	14,574	1,800,530	(11,452,839)
Human services.....	15,139,244	1,353,299	12,989,392	1,742,161	945,608
Culture and recreation.....	6,404,524	537,232	489,144	-	(5,378,148)
Interest.....	3,625,698	-	211,517	-	(3,414,181)
Total Governmental Activities.....	<u>377,802,045</u>	<u>15,998,867</u>	<u>201,696,339</u>	<u>4,499,975</u>	<b>(155,606,864)</b>
<i>Business-Type Activities:</i>					
Sewer.....	15,330,531	17,573,564	-	2,126,379	4,369,412
Arena.....	57,619	-	-	-	(57,619)
Water.....	7,238,999	11,135,451	-	412,469	4,308,921
Parking.....	5,369,936	6,063,860	-	-	693,924
Total Business-Type Activities.....	<u>27,997,085</u>	<u>34,772,875</u>	<u>-</u>	<u>2,538,848</u>	<b>9,314,638</b>
Total Primary Government.....	<u>\$ 405,799,130</u>	<u>\$ 50,771,742</u>	<u>\$ 201,696,339</u>	<u>\$ 7,038,823</u>	<b>\$ (146,292,226)</b>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES (Continued)**

FISCAL YEAR ENDED JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net assets:</b>			
Net (expense) revenue from previous page.....	\$ <b>(155,606,864)</b>	\$ <b>9,314,638</b>	\$ <b>(146,292,226)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	104,270,285	-	104,270,285
Tax liens.....	2,528,201	-	2,528,201
Motor vehicle and other excise taxes.....	7,407,109	-	7,407,109
Penalties and interest on taxes.....	1,646,843	-	1,646,843
Payments in lieu of taxes.....	903,626	-	903,626
Grants and contributions not restricted to specific programs.....	24,016,861	-	24,016,861
Unrestricted investment income.....	396,083	-	396,083
Premium from issuance of bonds.....	238,186	-	238,186
Gain (Loss) on disposal of capital assets....	550,677	-	550,677
Miscellaneous.....	1,096,951	-	1,096,951
<i>Transfers, net</i> .....	4,379,441	(4,379,441)	-
Total general revenues and transfers.....	<u>147,434,263</u>	<u>(4,379,441)</u>	<u>143,054,822</u>
Change in net assets.....	(8,172,601)	4,935,197	(3,237,404)
<i>Net Assets:</i>			
Beginning of year.....	<u>182,923,131</u>	<u>67,412,015</u>	<u>250,335,146</u>
End of year.....	\$ <u><u>174,750,530</u></u>	\$ <u><u>72,347,212</u></u>	\$ <u><u>247,097,742</u></u>

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2012

<b>ASSETS</b>	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents.....	\$ 35,320,021	\$ 19,213,955	\$ 54,533,976
Investments.....	-	1,667,708	1,667,708
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	1,953,973	-	1,953,973
Tax liens.....	5,917,819	-	5,917,819
Motor vehicle & other excise taxes.....	1,495,349	-	1,495,349
Water fees.....	11,544	-	11,544
Trash fees.....	700,810	-	700,810
Departmental and other.....	6,100	-	6,100
Intergovernmental.....	38,991,638	10,894,842	49,886,480
Loans.....	-	2,452,830	2,452,830
Tax foreclosures.....	2,932,834	-	2,932,834
<b>TOTAL ASSETS.....</b>	<b>\$ 87,330,088</b>	<b>\$ 34,229,335</b>	<b>\$ 121,559,423</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Warrants payable.....	\$ 2,337,429	\$ 3,166,571	\$ 5,504,000
Accrued payroll.....	7,608,643	-	7,608,643
Tax refunds payable.....	1,758,000	-	1,758,000
Accrued interest on short-term debt.....	45,280	-	45,280
Other liabilities.....	3,854,294	-	3,854,294
Deferred revenues.....	50,877,864	9,908,588	60,786,452
Notes payable.....	-	3,295,000	3,295,000
<b>TOTAL LIABILITIES.....</b>	<b>66,481,510</b>	<b>16,370,159</b>	<b>82,851,669</b>
<b>FUND BALANCES:</b>			
Nonspendable.....	-	1,623,247	1,623,247
Restricted.....	4,237,808	14,114,976	18,352,784
Committed.....	308,205	12,364,840	12,673,045
Assigned.....	4,522,591	-	4,522,591
Unassigned.....	11,779,974	(10,243,887)	1,536,087
<b>TOTAL FUND BALANCES.....</b>	<b>20,848,578</b>	<b>17,859,176</b>	<b>38,707,754</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 87,330,088</b>	<b>\$ 34,229,335</b>	<b>\$ 121,559,423</b>

See notes to basic financial statements.

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

JUNE 30, 2012

Total governmental fund balances.....		\$ 38,707,754
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		292,719,363
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		60,786,452
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 assets.....		11,679,194
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(1,035,851)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds payable.....	(95,200,879)	
Workers compensation.....	(4,680,000)	
Unamortized premium on bonds payable.....	(556,359)	
Postemployment benefits.....	(119,477,180)	
Compensated absences.....	<u>(8,934,301)</u>	
Net effect of reporting long-term liabilities.....		(228,848,719)
In the statement of activities, deferred losses 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>742,337</u>
Net assets of governmental activities.....		<u>\$ 174,750,530</u>

See notes to basic financial statements.

**GOVERNMENTAL FUNDS**  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2012

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>			
Real estate and personal property taxes, net of tax refunds.....	\$ 106,102,343	\$ -	\$ 106,102,343
Tax liens.....	1,798,425	-	1,798,425
Motor vehicle and other excise taxes.....	7,629,597	-	7,629,597
Trash disposal.....	3,140,663	-	3,140,663
Penalties and interest on taxes.....	1,646,843	-	1,646,843
Payments in lieu of taxes.....	903,626	-	903,626
Intergovernmental.....	186,823,892	53,028,148	239,852,040
Departmental and other.....	7,882,309	5,301,378	13,183,687
Contributions.....	-	596,627	596,627
Investment income.....	366,224	4,457	370,681
Miscellaneous.....	-	832,682	832,682
<b>TOTAL REVENUES.....</b>	<b>316,293,922</b>	<b>59,763,292</b>	<b>376,057,214</b>
<b>EXPENDITURES:</b>			
Current:			
General government.....	13,306,064	4,991,604	18,297,668
Public safety.....	37,981,787	4,039,749	42,021,536
Education.....	135,532,395	46,534,521	182,066,916
Public works.....	12,106,505	3,686,115	15,792,620
Human services.....	3,213,101	13,094,232	16,307,333
Culture and recreation.....	3,372,203	1,987,667	5,359,870
Pension benefits.....	45,046,489	-	45,046,489
Employee benefits.....	29,358,331	-	29,358,331
State and county charges.....	11,404,994	-	11,404,994
Debt service:			
Principal.....	13,106,128	300,000	13,406,128
Interest.....	3,665,642	17,719	3,683,361
<b>TOTAL EXPENDITURES.....</b>	<b>308,093,639</b>	<b>74,651,607</b>	<b>382,745,246</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>8,200,283</b>	<b>(14,888,315)</b>	<b>(6,688,032)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Proceeds from bonds and notes.....	-	14,633,000	14,633,000
Premium from issuance of bonds.....	238,186	-	238,186
Sale of capital assets.....	85,477	465,200	550,677
Transfers in.....	5,275,167	733,775	6,008,942
Transfers out.....	(785,671)	(843,830)	(1,629,501)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>4,813,159</b>	<b>14,988,145</b>	<b>19,801,304</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>13,013,442</b>	<b>99,830</b>	<b>13,113,272</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>7,835,136</b>	<b>17,759,346</b>	<b>25,594,482</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 20,848,578</b>	<b>\$ 17,859,176</b>	<b>\$ 38,707,754</b>

See 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**

FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds.....		\$ 13,113,272
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay.....	26,259,348	
Depreciation expense.....	<u>(11,943,648)</u>	
Net effect of reporting capital assets.....		14,315,700
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		(11,046,596)
<p>The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Proceeds from bonds and notes.....	(14,633,000)	
Debt service principal payments.....	<u>13,406,128</u>	
Net effect of reporting long term debt.....		(1,226,872)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	(817,897)	
Net change in accrued interest on long-term debt.....	98,309	
Net change in workers compensation accrual.....	851,000	
Postemployment benefit accrual.....	(26,283,635)	
Amortization of premiums on refunding.....	276,910	
Amortization of deferred charge on refunding.....	<u>(317,553)</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		(26,192,866)
<p>Internal service funds are used by management to account for health insurance and workers' compensation activities.</p>		
The net activity of internal service funds is reported with Governmental Activities.....		<u>2,864,761</u>
Change in net assets of governmental activities.....		\$ <u><u>(8,172,601)</u></u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF NET ASSETS

JUNE 30, 2012

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Arena Commission	Water	Parking	Total	
<b>ASSETS</b>						
<b>CURRENT:</b>						
Cash and cash equivalents.....	\$ 15,667,971	\$ -	\$ 3,624,524	\$ 1,622,453	\$ 20,914,948	\$ 14,231,066
Receivables, net of allowance for uncollectibles:						
User fees.....	5,096,454	-	4,232,058	-	9,328,512	-
Departmental and other.....	-	-	-	1,315,896	1,315,896	-
Intergovernmental.....	2,216,852	-	417,875	-	2,634,727	-
Working capital deposit.....	-	-	-	-	-	174,600
Total current assets.....	<u>22,981,277</u>	<u>-</u>	<u>8,274,457</u>	<u>2,938,349</u>	<u>34,194,083</u>	<u>14,405,666</u>
<b>NONCURRENT:</b>						
Capital assets, nondepreciable.....	1,235,798	-	746,856	861,766	2,844,420	-
Capital assets, net of accumulated depreciation.....	<u>131,116,200</u>	<u>-</u>	<u>32,794,517</u>	<u>35,903,344</u>	<u>199,814,061</u>	<u>-</u>
Total noncurrent assets.....	<u>132,351,998</u>	<u>-</u>	<u>33,541,373</u>	<u>36,765,110</u>	<u>202,658,481</u>	<u>-</u>
<b>TOTAL ASSETS.....</b>	<u>155,333,275</u>	<u>-</u>	<u>41,815,830</u>	<u>39,703,459</u>	<u>236,852,564</u>	<u>14,405,666</u>
<b>LIABILITIES</b>						
<b>CURRENT:</b>						
Warrants payable.....	527,286	-	200,356	-	727,642	5,472
Health claims payable.....	-	-	-	-	-	2,721,000
Accrued interest.....	1,020,291	-	381,424	369,595	1,771,310	-
Compensated absences.....	215,775	-	157,037	7,131	379,943	-
Notes payable.....	-	-	1,104,672	-	1,104,672	-
Bonds payable.....	<u>3,482,575</u>	<u>274,475</u>	<u>2,175,990</u>	<u>1,115,300</u>	<u>7,048,340</u>	<u>-</u>
Total current liabilities.....	<u>5,245,927</u>	<u>274,475</u>	<u>4,019,479</u>	<u>1,492,026</u>	<u>11,031,907</u>	<u>2,726,472</u>
<b>NONCURRENT:</b>						
Compensated absences.....	70,089	-	56,653	940	127,682	-
Postemployment benefits.....	1,731,089	-	1,373,343	173,638	3,278,070	-
Bonds payable.....	<u>95,227,780</u>	<u>808,150</u>	<u>29,256,763</u>	<u>24,775,000</u>	<u>150,067,693</u>	<u>-</u>
Total noncurrent liabilities.....	<u>97,028,958</u>	<u>808,150</u>	<u>30,686,759</u>	<u>24,949,578</u>	<u>153,473,445</u>	<u>-</u>
<b>TOTAL LIABILITIES.....</b>	<u>102,274,885</u>	<u>1,082,625</u>	<u>34,706,238</u>	<u>26,441,604</u>	<u>164,505,352</u>	<u>2,726,472</u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt.....	35,858,495	-	1,421,823	10,874,810	48,155,128	-
Unrestricted.....	<u>17,199,895</u>	<u>(1,082,625)</u>	<u>5,687,769</u>	<u>2,387,045</u>	<u>24,192,084</u>	<u>11,679,194</u>
<b>TOTAL NET ASSETS.....</b>	<u>\$ 53,058,390</u>	<u>\$ (1,082,625)</u>	<u>\$ 7,109,592</u>	<u>\$ 13,261,855</u>	<u>\$ 72,347,212</u>	<u>\$ 11,679,194</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Arena Commission	Water	Parking	Total	
<b>OPERATING REVENUES:</b>						
Employee contributions .....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,702,599
Employer contributions .....	-	-	-	-	-	45,352,438
Charges for services .....	17,363,194	-	11,135,451	6,063,860	34,562,505	-
Other.....	210,370	-	-	-	210,370	902,159
<b>TOTAL OPERATING REVENUES .....</b>	<b>17,573,564</b>	<b>-</b>	<b>11,135,451</b>	<b>6,063,860</b>	<b>34,772,875</b>	<b>60,957,196</b>
<b>OPERATING EXPENSES:</b>						
Cost of services and administration .....	8,937,481	4,750	4,330,338	2,760,535	16,033,104	-
Depreciation.....	3,971,117	-	1,728,754	1,367,212	7,067,083	-
Employee benefits .....	-	-	-	-	-	58,117,837
<b>TOTAL OPERATING EXPENSES .....</b>	<b>12,908,598</b>	<b>4,750</b>	<b>6,059,092</b>	<b>4,127,747</b>	<b>23,100,187</b>	<b>58,117,837</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>4,664,966</b>	<b>(4,750)</b>	<b>5,076,359</b>	<b>1,936,113</b>	<b>11,672,688</b>	<b>2,839,359</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>						
Investment income.....	-	-	-	-	-	25,402
Interest expense.....	(2,421,933)	(52,869)	(1,179,907)	(1,242,189)	(4,896,898)	-
Intergovernmental.....	2,126,379	-	412,469	-	2,538,848	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>(295,554)</b>	<b>(52,869)</b>	<b>(767,438)</b>	<b>(1,242,189)</b>	<b>(2,358,050)</b>	<b>25,402</b>
<b>INCOME (LOSS) BEFORE TRANSFERS.....</b>	<b>4,369,412</b>	<b>(57,619)</b>	<b>4,308,921</b>	<b>693,924</b>	<b>9,314,638</b>	<b>2,864,761</b>
<b>TRANSFERS:</b>						
Transfers in.....	-	320,671	-	-	320,671	-
Transfers out.....	(2,586,254)	(126,248)	(1,579,784)	(407,826)	(4,700,112)	-
<b>TOTAL OPERATING TRANSFERS.....</b>	<b>(2,586,254)</b>	<b>194,423</b>	<b>(1,579,784)</b>	<b>(407,826)</b>	<b>(4,379,441)</b>	<b>-</b>
<b>CHANGE IN NET ASSETS.....</b>	<b>1,783,158</b>	<b>136,804</b>	<b>2,729,137</b>	<b>286,098</b>	<b>4,935,197</b>	<b>2,864,761</b>
<b>NET ASSETS AT BEGINNING OF YEAR.....</b>	<b>51,275,232</b>	<b>(1,219,429)</b>	<b>4,380,455</b>	<b>12,975,757</b>	<b>67,412,015</b>	<b>8,814,433</b>
<b>NET ASSETS AT END OF YEAR.....</b>	<b>\$ 53,058,390</b>	<b>\$ (1,082,625)</b>	<b>\$ 7,109,592</b>	<b>\$ 13,261,855</b>	<b>\$ 72,347,212</b>	<b>\$ 11,679,194</b>

See notes to basic financial statements.

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS**

FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Arena Commission	Water	Parking	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from customers and users.....	\$ 17,436,119	\$ -	\$ 10,474,109	\$ 6,035,412	\$ 33,945,640	\$ -
Receipts from interfund services provided.....	-	-	-	-	-	60,055,037
Receipts from insurance reimbursements.....	-	-	-	-	-	902,159
Payments to vendors.....	(6,230,835)	(4,750)	(2,349,436)	(2,828,458)	(11,413,479)	-
Payments to employees.....	(2,711,433)	-	(2,147,410)	(304,648)	(5,163,491)	-
Payments for interfund services used.....	-	-	-	-	-	(58,295,365)
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>8,493,851</b>	<b>(4,750)</b>	<b>5,977,263</b>	<b>2,902,306</b>	<b>17,368,670</b>	<b>2,661,831</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Transfers in.....	-	320,671	-	-	320,671	-
Transfers out.....	(2,586,254)	(126,248)	(1,579,784)	(407,826)	(4,700,112)	-
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....</b>	<b>(2,586,254)</b>	<b>194,423</b>	<b>(1,579,784)</b>	<b>(407,826)</b>	<b>(4,379,441)</b>	<b>-</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Proceeds from the issuance of bonds and notes.....	13,795,891	-	2,321,977	-	16,117,868	-
Acquisition and construction of capital assets.....	(6,489,921)	-	(2,358,365)	-	(8,848,286)	-
Principal payments on bonds and notes.....	(7,159,884)	(263,725)	(2,014,415)	(1,060,000)	(10,498,024)	-
Interest expense.....	(2,295,956)	(55,947)	(788,443)	(1,259,354)	(4,399,700)	-
Intergovernmental revenue.....	1,872,898	-	-	-	1,872,898	-
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(276,972)</b>	<b>(319,672)</b>	<b>(2,839,246)</b>	<b>(2,319,354)</b>	<b>(5,755,244)</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Investment income.....	-	-	-	-	-	25,402
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>5,630,625</b>	<b>(129,999)</b>	<b>1,558,233</b>	<b>175,126</b>	<b>7,233,985</b>	<b>2,687,233</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....</b>	<b>10,037,346</b>	<b>129,999</b>	<b>2,066,291</b>	<b>1,447,327</b>	<b>13,680,963</b>	<b>11,543,833</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>	<b>\$ 15,667,971</b>	<b>\$ -</b>	<b>\$ 3,624,524</b>	<b>\$ 1,622,453</b>	<b>\$ 20,914,948</b>	<b>\$ 14,231,066</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</b>						
Operating income (loss).....	\$ 4,664,966	\$ (4,750)	\$ 5,076,359	\$ 1,936,113	\$ 11,672,688	\$ 2,839,359
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation.....	3,971,117	-	1,728,754	1,367,212	7,067,083	-
Changes in assets and liabilities:						
Accounts receivable.....	(137,445)	-	(661,342)	(28,448)	(827,235)	-
Warrants payable.....	(383,472)	-	(485,064)	(396,581)	(1,265,117)	5,472
Health claims payable.....	-	-	-	-	-	(183,000)
Postemployment benefits.....	380,820	-	302,120	38,198	721,138	-
Accrued compensated absences.....	(2,135)	-	16,436	(14,188)	113	-
Total adjustments.....	3,828,885	-	900,904	966,193	5,695,982	(177,528)
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>\$ 8,493,851</b>	<b>\$ (4,750)</b>	<b>\$ 5,977,263</b>	<b>\$ 2,902,306</b>	<b>\$ 17,368,670</b>	<b>\$ 2,661,831</b>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>						
Principal and interest long-term debt subsidy.....	\$ 253,481	\$ -	\$ 412,469	\$ -	\$ 665,950	\$ -

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Pension Trust Fund (as of December 31, 2011)	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 8,279,391	\$ 158,816	\$ 1,028,851
Investments.....	223,325,394	-	-
Interest and dividends.....	208	-	-
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	8,595,640	-	-
<b>TOTAL ASSETS.....</b>	<b>240,200,633</b>	<b>158,816</b>	<b>1,028,851</b>
<b>LIABILITIES</b>			
Warrants payable.....	-	-	34,137
Liabilities due depositors.....	-	-	987,988
Other liabilities.....	-	-	6,726
<b>TOTAL LIABILITIES.....</b>	<b>-</b>	<b>-</b>	<b>1,028,851</b>
<b>NET ASSETS</b>			
Held in trust for pension benefits and other purposes.....	\$ 240,200,633	\$ 158,816	\$ -

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

	Pension Trust Fund (as of December 31, 2011)	Private Purpose Trust Funds
<b>ADDITIONS:</b>		
Contributions:		
Employer.....	\$ 17,191,279	\$ -
Employee.....	7,281,868	-
Private donations.....	2,000	1,657
Total contributions.....	<u>24,475,147</u>	<u>1,657</u>
Net investment income (loss):		
Net change in fair value of investments.....	(6,188,134)	-
Interest.....	7,041,541	134
Total investment income (loss).....	853,407	134
Less: investment expense.....	(1,166,488)	-
Net investment income (loss).....	<u>(313,081)</u>	<u>134</u>
Intergovernmental.....	595,038	-
Transfers from other systems.....	870,084	-
TOTAL ADDITIONS.....	<u>25,627,188</u>	<u>1,791</u>
<b>DEDUCTIONS:</b>		
Administration.....	308,933	-
Transfers to other systems.....	1,227,467	-
Retirement benefits and refunds.....	30,125,543	-
TOTAL DEDUCTIONS.....	<u>31,661,943</u>	<u>-</u>
CHANGE IN NET ASSETS.....	(6,034,755)	1,791
NET ASSETS AT BEGINNING OF YEAR.....	<u>246,235,388</u>	<u>157,025</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 240,200,633</u>	<u>\$ 158,816</u>

See 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. As required by GAAP, these basic financial statements present the City (the primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

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

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 assets and the statement of changes in net assets) 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, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, 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 fiscal 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 fiscal 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 susceptible to 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, 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 *arena enterprise fund* is used to account for the Tsongas Arena 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.

Additionally, the following proprietary fund type is reported:

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.

**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 System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

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

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

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 of 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 fiscal 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***

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

### ***Sewer***

Sewer user fees are levied quarterly based on individual water meter readings and are subject to penalties and interest if they are not paid by the respective due date. Sewer liens are processed in December of every year and included as a lien on the property owner's tax bill. Sewer charges and liens are recorded as receivables in the fiscal 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 every year and included as a lien on the property owner's tax bill. Trash charges and liens are recorded as receivables in the fiscal 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 fiscal year accrued. The allowance of 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 of 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, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), 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 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

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 are capitalized.

*Governmental Fund Financial Statements*

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

H. 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 assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets 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.

### I. 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 assets. 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.

### J. Deferred Revenue

Deferred 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. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

### K. Net Assets and Fund Equity

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

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

Net assets reported as "invested in capital assets, net of related debt" 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 assets have 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.

#### *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.

“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.

“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.

#### L. Long-term debt

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

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

##### *Governmental Fund Financial Statements*

The face amount of governmental funds long-term debt is reported as other financing sources. 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.

### M. 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).

### N. 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.

### O. 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 fiscal year. Actual results could vary from estimates that were used.

### P. Individual Fund Deficits

Several individual fund deficits exist at June 30, 2012, within the Special Revenue Funds and Capital Project Funds. These deficits will be funded through grants, issuance of long-term debt and available fund balances.

### Q. 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 Short-term Investments". 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 (the 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 government'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 fiscal year-end, the carrying amount of deposits totaled \$90,758,983 and the bank balance totaled \$97,828,289. Of the bank balance, \$1,554,247 was covered by Federal Depository Insurance, \$63,403 was covered by the Depositors Insurance Fund, \$56,990,567 was collateralized, and \$39,220,072 was uninsured and uncollateralized.

At December 31, 2011, carrying amount of deposits for the System totaled \$8,279,391 and the bank balance totaled \$8,779,930. 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, 2012, the City had the following investments:

Investment Type	Fair Value	Maturity			Over 10 Years
		Under 1 Year	1-5 Years	6-10 Years	
<b>Debt Securities</b>					
Federal Home Loans Mtg Corp.....	\$ 242,380	\$ -	\$ 82,643	\$ -	\$ 159,737
Federal National Mortgage Association.....	202,575	-	29,658	-	172,917
Federal Farm Credit Bank.....	68,479	5,250	63,229	-	-
Governmental National Mortgage Association....	194,322	-	4,631	-	189,691
Brokered CDs.....	153,649	55,328	98,321	-	-
Federal Home Loan Bank.....	244,177	30,269	213,908	-	-
Corporate Bonds.....	200,378	15,623	184,755	-	-
Municipal Bonds.....	361,748	-	294,682	67,066	-
Total Debt Securities.....	1,667,708	\$ 106,470	\$ 971,827	\$ 67,066	\$ 522,345
<b>Other Investments</b>					
MMDT.....	108,674				
Total Investments.....	\$ 1,776,382				

Municipal bonds consist of Cook County Ill School District No.148 general obligation bonds of \$93,204 with a rating of AA-, Atlantic City N J BRD Ed Taxable –Build America bonds of \$51,920 with a rating of AA-, Dracut Mass Pension obligation bonds of \$43,268 with a rating of AA-, Van Buren Michigan Public Schools general obligation bonds for \$54,343 with a rating of AA-, Pima County Arizona Uni School District of \$67,066 with a rating of AA-, and Washington ST Taxable -2011T bond of \$51,947 with a rating of AA+. The Corporate Bonds are rated AA+ to A-, Federal Home Loan Bank and all other investments are rated between AA+ and AAA.

As of December 31, 2011, the System had the following investments:

<u>Other Investments</u>	
Equity Securities.....	\$ 751,659
Alternative Investments.....	1,793,826
Real Estate Investments.....	1,305,902
PRIT Fund.....	<u>219,474,007</u>
 Total Investments.....	 \$ <u>223,325,394</u>

Custodial Credit Risk – Investments

For an investment, 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 \$242,380 in Federal Home Loan Mortgages, \$202,575 in Federal National Mortgage Association, \$68,479 in Federal Farm Credit Bank, \$194,322 in Government National Mortgage Association, \$244,177 in Federal Home Loan Bank, \$153,649 in Brokered CDs, \$200,378 in Corporate Bonds, and \$361,748 in municipal bonds, the City has a custodial credit risk exposure of \$1,667,708 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 an investment, 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 \$751,659 in Equity Securities, the System has custodial credit risk exposure of \$751,659 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 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 City participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 3 months.

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .08 to 9.69 years.

Credit Risk

The City’s investment policy states that financial institutions shall be selected first and foremost with regard to safety, 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, 2011 the System does 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, 2012 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, 2011 the System’s investment in any one issuer did not exceed 5% of the total amount invested.

**NOTE 3 - RECEIVABLES**

At June 30, 2012, 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
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Real estate and personal property taxes..... \$	2,951,590	\$ (997,617)	\$ 1,953,973
Tax liens.....	6,509,777	(591,958)	5,917,819
Motor vehicle and other excise taxes.....	3,164,748	(1,669,399)	1,495,349
Water fees.....	11,544	-	11,544
Trash fees.....	700,810	-	700,810
Departmental and other.....	6,100	-	6,100
Intergovernmental.....	49,886,480	-	49,886,480
Loans.....	2,452,830	-	2,452,830
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total .....	\$ <u>65,683,879</u>	\$ <u>(3,258,974)</u>	\$ <u>62,424,905</u>

At June 30, 2012, receivables for the enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
	<u>                    </u>	<u>                    </u>	<u>                    </u>
User fees..... \$	9,328,512	\$ -	\$ 9,328,512
Departmental and other.....	1,812,219	(496,323)	1,315,896
Intergovernmental.....	2,634,727	-	2,634,727
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total .....	\$ <u>13,775,458</u>	\$ <u>(496,323)</u>	\$ <u>13,279,135</u>

Governmental funds report *deferred 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 fiscal year, the various components of *deferred 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.....	\$ 821,770	\$ -	\$ 821,770
Tax liens.....	5,917,819	-	5,917,819
Motor vehicle and other excise taxes.....	1,495,349	-	1,495,349
Water fees.....	11,544	-	11,544
Sewer fees.....	2,830,767	-	2,830,767
Trash fees.....	700,810	-	700,810
Departmental and other.....	6,100	-	6,100
Intergovernmental.....	36,160,871	9,908,588	46,069,459
<u>Other asset type:</u>			
Tax foreclosures.....	2,932,834	-	2,932,834
Total.....	<u>\$ 50,877,864</u>	<u>\$ 9,908,588</u>	<u>\$ 60,786,452</u>

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

<b>Governmental Activities:</b>	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 28,907,286	\$ 2,135,120	\$ -	\$ 31,042,406
Construction in progress.....	1,215,882	1,082,398	-	2,298,280
Total capital assets not being depreciated.....	<u>30,123,168</u>	<u>3,217,518</u>	<u>-</u>	<u>33,340,686</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	339,633,642	621,455	-	340,255,097
Capital improvements (other than buildings).....	18,366,476	488,678	-	18,855,154
Infrastructure.....	138,937,086	18,985,407	-	157,922,493
Vehicles.....	12,099,448	2,382,315	(491,659)	13,990,104
Equipment.....	5,237,849	214,004	-	5,451,853
Books.....	10,988,822	349,971	-	11,338,793
Software.....	495,990	-	-	495,990
Total capital assets being depreciated.....	<u>525,759,313</u>	<u>23,041,830</u>	<u>(491,659)</u>	<u>548,309,484</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(174,247,503)	(8,386,726)	-	(182,634,229)
Capital improvements (other than buildings).....	(8,470,139)	(713,753)	-	(9,183,892)
Infrastructure.....	(72,807,263)	(2,514,687)	-	(75,321,950)
Vehicles.....	(8,989,307)	(277,614)	491,659	(8,775,262)
Equipment.....	(2,665,201)	(10,701)	-	(2,675,902)
Books.....	(9,803,415)	(40,167)	-	(9,843,582)
Software.....	(495,990)	-	-	(495,990)
Total accumulated depreciation.....	<u>(277,478,818)</u>	<u>(11,943,648)</u>	<u>491,659</u>	<u>(288,930,807)</u>
Total capital assets being depreciated, net.....	<u>248,280,495</u>	<u>11,098,182</u>	<u>-</u>	<u>259,378,677</u>
Total governmental activities capital assets, net.....	<u>\$ 278,403,663</u>	<u>\$ 14,315,700</u>	<u>\$ -</u>	<u>\$ 292,719,363</u>

<b>Business-Type Activities:</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,844,421	\$ -	\$ -	\$ 2,844,421
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	24,288,769	-	-	24,288,769
Capital improvements (other than buildings).....	17,423,807	2,267,535	-	19,691,342
Infrastructure.....	262,648,394	4,701,659	-	267,350,053
Vehicles.....	1,514,578	140,980	-	1,655,558
Equipment.....	938,609	81,727	-	1,020,336
Total capital assets being depreciated.....	<u>306,814,157</u>	<u>7,191,901</u>	<u>-</u>	<u>314,006,058</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(15,170,637)	(1,316,310)	-	(16,486,947)
Capital improvements (other than buildings).....	(2,216,247)	(897,858)	-	(3,114,105)
Infrastructure.....	(88,093,127)	(4,743,171)	-	(92,836,298)
Vehicles.....	(918,630)	(83,307)	-	(1,001,937)
Equipment.....	(726,274)	(26,437)	-	(752,711)
Total accumulated depreciation.....	<u>(107,124,915)</u>	<u>(7,067,083)</u>	<u>-</u>	<u>(114,191,998)</u>
Total capital assets being depreciated, net.....	<u>199,689,242</u>	<u>124,818</u>	<u>-</u>	<u>199,814,060</u>
Total business-type activities capital assets, net.....	<u>\$ 202,533,663</u>	<u>\$ 124,818</u>	<u>\$ -</u>	<u>\$ 202,658,481</u>

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

<b>Governmental Activities:</b>	
General government.....	\$ 898,613
Public safety.....	1,518,733
Education.....	6,474,789
Public works.....	1,766,128
Human services.....	107,580
Culture and recreation.....	<u>1,177,805</u>
Total depreciation expense - governmental activities.....	<u>\$ 11,943,648</u>
<b>Business-Type Activities:</b>	
Sewer.....	\$ 3,971,117
Water.....	1,728,754
Parking.....	<u>1,367,212</u>
Total depreciation expense - business-type activities.....	<u>\$ 7,067,083</u>

**NOTE 5 - INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2012, are summarized as follows:

Operating Transfers Out:	Operating Transfers In:			Total
	General Fund	Nonmajor Governmental Funds	Arena Enterprise Fund	
General Fund.....	\$ -	\$ 465,000	\$ 320,671	\$ 785,671
Nonmajor Governmental Funds.....	575,055	268,775	-	843,830
Sewer Enterprise Fund.....	2,586,254	-	-	2,586,254
Water Enterprise Fund.....	1,579,784	-	-	1,579,784
Parking Enterprise Fund.....	407,826	-	-	407,826
Arena Enterprise Fund.....	126,248	-	-	126,248
Total.....	\$ <u>5,275,167</u>	\$ <u>733,775</u>	\$ <u>320,671</u>	\$ <u>6,329,613</u>

Transfers out of the General Fund represent subsidies to the Arena Enterprise Fund. Transfers in represent amounts voted to fund fiscal year 2012 operations, the closeout of the Arena Enterprise Fund, and the funding of various capital projects.

**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.

Details related to the short-term debt activity for the fiscal year ended June 30, 2012, is as follows:

Type	Description	Maturity Date	Rate %	Balance at June 30 2011	Renewed/ Issued	Retired/ Redeemed	Balance at June 30 2012
SAAN	State Aid Anticipation.....	8/19/11	1.00%-1.50%	\$ 3,085,000	\$ -	\$ 3,085,000	\$ -
BAN	Municipal Purpose.....	9/16/11	1.25%	170,000	-	170,000	-
BAN	Municipal Purpose.....	9/16/11	2.30%	730,000	-	730,000	-
SAAN	State Aid Anticipation.....	8/17/12	.80%-1.25%	-	2,620,000	-	2,620,000
BAN	Municipal Purpose.....	9/14/12	.90%-1.10%	-	1,580,000	-	1,580,000
BAN	Municipal Purpose.....	9/14/12	1.00%	-	8,690,000	-	8,690,000
Subtotal Governmental Short Term Debt.....				<u>3,985,000</u>	<u>12,890,000</u>	<u>3,985,000</u>	<u>12,890,000</u>
BAN	Water Improvements.....	9/14/12	1.00%	-	750,000	-	750,000
BAN	MWPAT Water Interim Note.....	5/31/13	2.25%-2.30%	-	1,104,672	-	1,104,672
Subtotal Sewer Enterprise Fund.....				<u>-</u>	<u>1,854,672</u>	<u>-</u>	<u>1,854,672</u>
BAN	Sewer Improvements.....	9/16/11	1.25%	2,430,000	-	2,430,000	-
BAN	MWPAT Sewer Interim Note.....	6/17/11	2.00%	10,271,967	-	10,271,967	-
BAN	Sewer Improvements.....	9/16/11	2.25%-2.30%	1,570,000	-	1,570,000	-
Subtotal Sewer Enterprise Fund.....				<u>14,271,967</u>	<u>-</u>	<u>14,271,967</u>	<u>-</u>
Subtotal Business-Type Short Term Debt.....				<u>14,271,967</u>	<u>1,854,672</u>	<u>14,271,967</u>	<u>1,854,672</u>
Total Short-Term Debt.....				<u>\$ 18,256,967</u>	<u>\$ 14,744,672</u>	<u>\$ 18,256,967</u>	<u>14,744,672</u>
General obligation bonds issued 9/13/12 (see note 7).....							<u>(10,345,000)</u>
Total.....							<u>\$ 4,399,672</u>

Subsequent to year end \$10,345,000 of BAN's were redeemed by the issuance of general obligation bonds and \$675,000 of BAN's were rolled over for a period of one year at an interest rate of .65% with a maturity date of 9/13/13. On 8/17/12 the City redeemed \$480,000 of the \$2,620,000 million SAAN on 8/17/12, and rolled the remaining \$2,140,000 million into a new SAAN with an interest rate of 1.25% and a due date of 8/16/2013. The \$1,104,672 MWPAT interim note which will permanently financed in fiscal year 2013 through the Massachusetts Water Pollution Abatement Trust

**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".

In previous fiscal years, certain general obligation bonds and enterprise fund bonds were defeased by placing the proceeds of 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, 2012, all prior defeased bonds have reached their call dates and the trust assets would have been used to pay down the remaining balances. No defeased bonds are considered outstanding.

On September 16, 2011, The City issued \$7,120,000 of general obligation bonds. \$4,730,000 was recognized in the prior year due to the issuance relating to BANS outstanding at June 30, 2011. The remaining \$2,390,000 has been recognized in the current year. Accordingly, the financial statements have recognized \$2,390,000 of bond proceeds in the governmental funds.

On December 2, 2011, the City issued \$2,648,000 of Qualified Energy Conservation Bonds as part of the Energy Services Company (ESCO) Project. These bonds are approved as part of the *Energy Improvement and Extension Act of 2008*, which authorized the issuance of bonds to finance various types of energy projects. These funds carry an interest rate similar to that of a taxable bond, however, a federal tax credit is provided to subsidize the interest payments. The City is currently updating various City and School buildings to improve overall energy efficiencies.

On September 13, 2012, the City issued \$10,375,000 of general obligation debt and \$4,975,000 of refunding bonds. Of the \$10,375,000, \$10,345,000 related to governmental and enterprise BAN's outstanding as of June 30, 2012. Accordingly, the City has recognized bond proceeds in the amount of \$9,625,000 in the governmental funds and \$750,000 in the water enterprise fund. The remaining bond issuance of \$30,000 and the \$4,975,000 of refunding bonds will be recognized in fiscal year 2013.

Details related to the outstanding indebtedness as of June 30, 2012, and the debt service requirements are as follows:

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

Project	Maturities Through	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Schools.....	2033	2.00-6.00	\$ 62,057,563	\$ 1,285,000	\$ 10,839,165	\$ 52,503,398
General.....	2033	2.00-6.00	29,160,959	13,348,000	2,190,363	40,318,596
Cawley Stadium.	2018	3.00-5.41	275,485	-	76,600	198,885
Section 108.....	2012	8.20	140,000	-	140,000	-
Section 108.....	2025	variable	2,340,000	-	160,000	2,180,000
Total.....			<u>\$ 93,974,007</u>	<u>\$ 14,633,000</u>	<u>\$ 13,406,128</u>	<u>\$ 95,200,879</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013..... \$	12,422,557	4,030,130	16,452,687
2014.....	9,953,050	3,718,164	13,671,214
2015.....	10,079,050	3,260,932	13,339,982
2016.....	9,303,100	2,803,528	12,106,628
2017.....	6,184,400	2,442,349	8,626,749
2018.....	6,228,722	2,147,026	8,375,748
2019.....	6,255,000	1,834,311	8,089,311
2020.....	6,350,000	1,515,601	7,865,601
2021.....	4,870,000	1,220,380	6,090,380
2022.....	4,905,000	945,470	5,850,470
2023.....	3,310,000	705,894	4,015,894
2024.....	2,205,000	591,680	2,796,680
2025.....	2,215,000	505,114	2,720,114
2026.....	1,930,000	421,528	2,351,528
2027.....	1,935,000	337,434	2,272,434
2028.....	1,870,000	256,328	2,126,328
2029.....	1,885,000	177,937	2,062,937
2030.....	1,775,000	101,172	1,876,172
2031.....	830,000	33,554	863,554
2032.....	585,000	12,812	597,812
2033.....	110,000	1,719	111,719
Total..... \$	<u>95,200,879</u>	<u>\$ 27,063,064</u>	<u>\$ 122,263,943</u>

The Commonwealth has approved school construction assistance. 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 fiscal year 2012, approximately \$10,369,000 of such assistance was received. Approximately \$39,712,000 will be received in future fiscal years. Of this amount, \$38,992,000 represents reimbursement of approved construction costs, and \$720,000 represents reimbursement of long-term interest costs. Accordingly, an intergovernmental receivable of \$39,712,000 and corresponding deferred revenue have been reported in governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

At June 30, 2012, the City carried \$2,180,000 of debt, issued in prior fiscal 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 \$2,180,000 in future fiscal years as debt repayments from developers who were the recipients of the loan funds. Accordingly a receivable of \$2,180,000 has been recorded in the non-major 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, 2012 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, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Sewer.....	2043	2.00-7.70	\$ 82,492,471	\$ 19,429,621	\$ 3,211,737	\$ 98,710,355
Water.....	2033	2.00-6.00	32,872,423	750,000	2,189,670	31,432,753
Parking.....	2028	4.00-5.00	26,950,300	-	1,060,000	25,890,300
Tsongas Arena..	2022	3.00-5.73	1,346,350	-	263,725	1,082,625
Total.....			<u>\$ 143,661,544</u>	<u>\$ 20,179,621</u>	<u>\$ 6,725,132</u>	<u>\$ 157,116,033</u>

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

Fiscal Year	Principal	Interest	Total
2013.....	\$ 7,048,340	\$ 5,123,655	\$ 12,171,995
2014.....	7,114,144	5,062,752	12,176,896
2015.....	7,292,356	4,772,522	12,064,878
2016.....	7,383,777	4,480,398	11,864,175
2017.....	7,441,408	4,169,208	11,610,616
2018.....	7,622,504	3,859,540	11,482,044
2019.....	7,758,174	3,544,128	11,302,302
2020.....	7,931,676	3,207,800	11,139,476
2021.....	8,011,772	2,879,651	10,891,423
2022.....	7,503,499	2,569,784	10,073,283
2023.....	7,466,899	2,270,801	9,737,700
2024.....	7,097,007	1,997,597	9,094,604
2025.....	7,283,867	1,744,007	9,027,874
2026.....	6,932,515	1,520,755	8,453,270
2027.....	6,822,642	1,305,610	8,128,252
2028.....	6,826,537	1,040,389	7,866,926
2029.....	4,161,053	921,991	5,083,044
2030.....	3,923,863	814,935	4,738,798
2031.....	3,745,263	715,276	4,460,539
2032.....	2,875,950	631,745	3,507,695
2033.....	2,740,980	563,253	3,304,233
2034.....	2,772,610	497,284	3,269,894
2035.....	2,840,884	430,253	3,271,137
2036.....	2,910,842	361,571	3,272,413
2037.....	2,982,526	291,186	3,273,712
2038.....	2,758,784	222,511	2,981,295
2039.....	2,753,161	155,549	2,908,710
2040.....	1,635,946	102,154	1,738,100
2041.....	1,676,726	62,659	1,739,385
2042.....	888,822	32,136	920,958
2043.....	911,506	10,802	922,308
Total.....	<u>\$ 157,116,033</u>	<u>\$ 55,361,900</u>	<u>\$ 212,477,933</u>

The City is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for principal in the amount of \$2,810,686 and interest costs for \$2,527,124. Thus, net MWPAT loan repayments, including interest, are scheduled to be \$30,345,424. 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 fiscal year 2012 principal and interest subsidies totaled approximately \$227,000 and \$439,000, respectively.

The City is scheduled to be subsidized directly the by the Department of the Treasury on a periodic basis for interest costs in the amount of \$869,644, related to the issuance of Qualified Energy Conservation Bonds. Thus net loan repayments, including interest, are scheduled to be \$2,927,045. 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 fiscal year 2012 interest subsidy totaled approximately \$38,000.

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, 2012, the City had the following authorized and unissued debt:

Purpose	Amount
School Construction.....	\$ 18,245,000
Water.....	22,337,049
Sewer.....	6,575,924
Streetlights.....	270,000
Energy Improvements.....	13,003,076
Land.....	2,465,000
Public Safety Center.....	175,000
Remodeling, Recreation, and Equipment....	6,234,939
Green Repair.....	<u>6,750,000</u>
 Total.....	 <u>\$ 76,055,988</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2012, the following changes occurred in long-term liabilities:

Governmental Activities:	FY 2011 Beginning Balance	Additions	Reductions	FY 2012 Ending Balance	Current Portion
Bonds and notes payable.....	\$ 93,974,007	\$ 14,633,000	\$ (13,406,128)	\$ 95,200,879	\$ 12,422,557
Workers' compensation.....	5,531,000	-	(851,000)	4,680,000	598,000
Compensated absences.....	8,116,404	5,736,939	(4,919,042)	8,934,301	5,406,910
Unamortized premium on bonds payable...	833,269	-	(276,910)	556,359	192,006
Postemployment benefits.....	<u>93,193,545</u>	<u>26,283,635</u>	<u>-</u>	<u>119,477,180</u>	<u>-</u>
 Total governmental activity long-term liabilities.....	 <u>\$ 201,648,225</u>	 <u>\$ 46,653,574</u>	 <u>\$ (19,453,080)</u>	 <u>\$ 228,848,719</u>	 <u>\$ 18,619,473</u>

Business-Type Activities:	FY 2011			FY 2012	
	Ending Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and notes payable.....	\$ 143,661,544	\$ 20,179,621	\$ (6,725,132)	\$ 157,116,033	\$ 7,048,340
Compensated absences.....	507,512	381,191	(381,078)	507,625	379,943
Postemployment benefits.....	2,556,932	721,138	-	3,278,070	-
Total business type activity long-term liabilities.....	\$ <u>146,725,988</u>	\$ <u>21,281,950</u>	\$ <u>(7,106,210)</u>	\$ <u>160,901,728</u>	\$ <u>7,428,283</u>

**NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

The City adopted GASB Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions* as part of its fiscal year 2011 reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the City’s financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

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 \$3.2 million and is reported as unassigned fund balance within the General Fund, and the School Construction Stabilization Fund is \$308 thousand and is reported as committed fund balance within the General Fund.

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.

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

As of June 30, 2012, the governmental fund balances consisted of the following:

	GOVERNMENTAL FUNDS		
	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>FUND BALANCES</b>			
Nonspendable:			
Permanent fund principal.....	\$ -	\$ 1,623,247	\$ 1,623,247
Restricted for:			
Chapter 17 special reserve.....	4,237,808	-	4,237,808
Gift and grant funds.....	-	8,483,145	8,483,145
Federal grant funds.....	-	2,433,903	2,433,903
Section 108 funds.....	-	2,258,951	2,258,951
Sale of city property funds.....	-	218,722	218,722
Spendable permanent funds.....	-	720,255	720,255
Committed to:			
Revolving funds.....	-	2,303,614	2,303,614
Capital Projects.....	-	10,061,226	10,061,226
Stabilization school construction .....	308,205	-	308,205
Assigned to:			
General government.....	122,497	-	122,497
Public safety.....	43,417	-	43,417
Education.....	4,103,453	-	4,103,453
Public works.....	205,066	-	205,066
Human services.....	451	-	451
Culture and recreation.....	47,707	-	47,707
Unassigned.....	11,779,974	(10,243,887)	1,536,087
<b>TOTAL FUND BALANCES.....</b>	<b>\$ 20,848,578</b>	<b>\$ 17,859,176</b>	<b>\$ 38,707,754</b>

**NOTE 9 - RISK FINANCING**

The City is self-insured for its workers’ compensation and its health insurance activities. The health insurance activities are accounted for in the internal service fund and 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. As of July 1, 2012, the City has entered into the Group Insurance Commission, as a result, starting in fiscal 2013, all of its health insurance activities will now be premium based.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). The result of the process to estimate the claims liability is not an exact amount as it depends on many factors. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claims settlement trends, and other economic and social factors.

- (a) *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 \$4,680,000 at June 30, 2012, which represents an estimate of all outstanding claims as of that date. Changes in the reported liability since July 1, 2010 are as follows:

	Balance at Beginning of Fiscal Year		Current Year Claims and Changes in Estimate		Claims Payments		Balance at Fiscal Year-End
Fiscal Year 2011.....	\$ 5,027,000	\$	1,116,428	\$	(612,428)	\$	5,531,000
Fiscal Year 2012.....	5,531,000		(519,510)		(331,490)		4,680,000

- (b) *Health Insurance* - The City estimates its' Incurred But Not Reported (IBNR) claims based on a two month claims paid average. The City purchases individual stop loss insurance for claims in excess of the \$150,000 coverage provided by the City. At June 30, 2012, the amount of the liability for health insurance claims totaled \$2,721,000. Changes in the reported liability since July 1, 2010, are as follows:

	Balance at Beginning of Fiscal Year		Current Year Claims and Changes in Estimate		Claims Payments		Balance at Fiscal Year-End
Fiscal Year 2011.....	2,909,000		54,048,286		(54,052,316)		2,904,970
Fiscal Year 2012.....	2,904,970		55,212,867		(58,117,837)		2,721,000

#### NOTE 10 - PENSION PLAN

*Plan Description* - The City contributes to the 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 \$29,295,075 for the fiscal year ended June 30, 2012 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, 2011, the System's membership consists of the following:

Active members.....	1,797
Inactive members.....	117
Retirees and beneficiaries currently receiving benefits.....	<u>1,150</u>
 Total.....	 <u><u>3,064</u></u>

*Funding Policy* - Plan members are required to contribute to the System at rates ranging from 5% to 9% 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 fiscal 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 fiscal years ended June 30, 2012, 2011, and 2010 were \$15,665,446, \$15,556,895, and \$14,887,651, respectively, which equaled its required contribution for each fiscal year. At June 30, 2012, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2011 actuarial valuation using the entry age normal actuarial cost method.

The actuarial assumptions included an 8.25% investment rate of return and projected salary increases of 3.0% during year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2011, was 21 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)
01/01/11	\$ 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%
01/01/08	263,107,199	413,775,000	150,667,801	63.6%	72,950,000	206.5%
01/01/07	233,197,405	396,390,223	163,192,818	58.8%	79,636,851	204.9%
01/01/06	215,006,620	367,392,106	152,385,486	58.5%	75,223,915	202.6%
01/01/05	209,877,811	348,778,564	138,900,753	60.2%	68,778,711	202.0%
01/01/04	212,820,983	333,362,336	120,541,353	63.8%	70,987,841	169.8%
01/01/03	193,158,554	316,822,473	123,663,919	61.0%	75,040,045	164.8%
01/01/02	182,913,557	310,653,028	127,739,471	58.9%	72,576,500	176.0%
01/01/01	199,137,217	254,402,658	55,265,441	78.3%	64,733,264	85.4%

*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 2012 was \$85,968.

**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 percent 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 2012, the City contributed \$16,334,309 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.....	\$	42,754,538
Interest on net OPEB obligation.....		3,351,267
Adjustment to annual required contribution.....		<u>(2,766,723)</u>
Annual OPEB cost (expense).....		43,339,082
Contributions made.....		<u>(16,334,309)</u>
Increase/Decrease in net OPEB obligation.....		27,004,773
Net OPEB obligation - beginning of year.....		<u>95,750,477</u>
Net OPEB obligation - end of year.....	\$	<u><u>122,755,250</u></u>

The Town'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>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2010	\$ 35,263,146	27.5%	\$ 68,772,950
6/30/2011	41,583,281	35.1%	95,750,477
6/30/2012	43,339,082	37.7%	122,755,250

*Funded Status and Funding Progress* - As of July 1, 2010, the most recent actuarial valuation date, the actuarial liability for benefits was \$690 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$177 million, and the ratio of the UAAL to the covered payroll was 388.9 percent.

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, 2010, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method was used. The actuarial assumptions included a 3.5 percent investment rate of return net of investment expenses, and an annual healthcare cost trend rate of 7.5 percent initially, graded to 5 percent after five years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 29 years.

## **NOTE 12 - COMMITMENTS**

The City has entered into, or is planning to enter into, contracts totaling approximately \$76.1 million for school, sewer, various remodeling/recreation projects, various energy improvement projects, the public safety center and water projects. These projects will be funded through the issuance of long-term debt, and 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, 2012, 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, 2012, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2012.

**NOTE 14 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During fiscal year 2012, the following GASB pronouncements were implemented:

- GASB Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*. The implementation of this pronouncement did not impact the basic financial statements.
- The GASB issued Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future fiscal years:

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015.

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

## ***Required Supplementary Information***

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

FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 107,178,994	\$ 107,178,994	\$ 106,158,864
Tax liens.....	-	1,500,000	1,500,000	1,500,000
Motor vehicle and other excise taxes.....	-	6,542,000	6,542,000	7,026,000
Trash disposal.....	-	3,012,000	3,012,000	3,012,000
Penalties and interest on taxes.....	-	1,382,000	1,382,000	1,382,000
Payments in lieu of taxes.....	-	912,000	912,000	912,000
Intergovernmental.....	-	155,107,144	155,107,144	156,643,349
Departmental and other.....	-	7,086,994	7,086,994	6,702,994
Investment income.....	-	325,000	325,000	325,000
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>283,046,132</b>	<b>283,046,132</b>	<b>283,662,207</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	144,820	15,460,390	15,605,210	15,057,650
Public safety.....	24,925	38,051,630	38,076,555	38,319,422
Education.....	1,009,108	138,289,619	139,298,727	139,677,569
Public works.....	9,397	11,876,093	11,885,490	12,518,390
Human services.....	1,117	3,172,999	3,174,116	3,254,116
Culture and recreation.....	18,442	3,437,691	3,456,133	3,515,429
Pension benefits.....	-	15,774,227	15,774,227	15,774,227
Employee benefits.....	-	29,493,093	29,493,093	29,737,093
State and county charges.....	-	11,712,701	11,712,701	11,776,586
Debt service:				
Principal.....	-	13,106,127	13,106,127	13,106,127
Interest.....	-	4,380,466	4,380,466	4,380,466
<b>TOTAL EXPENDITURES.....</b>	<b>1,207,809</b>	<b>284,755,036</b>	<b>285,962,845</b>	<b>287,117,075</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES...</b>	<b>(1,207,809)</b>	<b>(1,708,904)</b>	<b>(2,916,713)</b>	<b>(3,454,868)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Premium from issuance of bonds.....	-	75,000	75,000	75,000
Sale of capital assets.....	-	-	-	-
Transfers in.....	-	4,663,864	4,663,864	5,148,920
Transfers out.....	-	(785,671)	(785,671)	(2,508,125)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>3,953,193</b>	<b>3,953,193</b>	<b>2,715,795</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(1,207,809)</b>	<b>2,244,289</b>	<b>1,036,480</b>	<b>(739,073)</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>-</b>	<b>7,927,425</b>	<b>7,927,425</b>	<b>7,927,425</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ (1,207,809)</b>	<b>\$ 10,171,714</b>	<b>\$ 8,963,905</b>	<b>\$ 7,188,352</b>

See notes to basic financial statements.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
\$	104,453,943	\$ -	\$ (1,704,921)
	1,798,425	-	298,425
	7,629,597	-	603,597
	3,140,663	-	128,663
	1,646,843	-	264,843
	903,626	-	(8,374)
	157,528,817	-	885,468
	7,882,309	-	1,179,315
	365,834	-	40,834
	<u>285,350,057</u>	<u>-</u>	<u>1,687,850</u>
	13,306,064	122,497	1,629,089
	37,981,787	43,417	294,218
	135,532,395	4,103,453	41,721
	11,935,533	205,066	377,791
	3,213,101	451	40,564
	3,372,203	47,707	95,519
	15,751,414	-	22,813
	29,423,842	-	313,251
	11,404,994	-	371,592
	13,106,127	-	-
	3,657,582	-	722,884
	<u>278,685,042</u>	<u>4,522,591</u>	<u>3,909,442</u>
	<u>6,665,015</u>	<u>(4,522,591)</u>	<u>5,597,292</u>
	238,186	-	163,186
	85,477	-	(85,477)
	5,275,167	-	(126,247)
	<u>(2,508,125)</u>	<u>-</u>	<u>-</u>
	<u>3,090,705</u>	<u>-</u>	<u>374,910</u>
	9,755,720	(4,522,591)	5,972,202
	<u>7,927,425</u>	<u>-</u>	<u>-</u>
\$	<u>17,683,145</u>	<u>(4,522,591)</u>	<u>\$ 5,972,202</u>

**Other Postemployment Benefit Plan  
Schedule of Funding Progress and Employer Contributions**

June 30, 2012

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)
01/01/08	\$ -	\$ 432,751,582	\$ 432,751,582	0.0%	\$ 170,183,191	254.3%
07/01/11	-	689,936,566	689,936,566	0.0%	177,396,732	388.9%

**Schedule of Employer Contributions**

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2009	\$ 31,916,608	\$ 8,738,305	27.3%
6/30/2010	33,445,970	9,685,461	29.0%
6/30/2011	41,163,431	14,605,754	35.5%
6/30/2012	42,754,538	16,334,309	38.2%

See notes to required supplementary information.

**Other Postemployment Benefit Plan  
Actuarial Methods and Assumptions**

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Actuarial Methods:

Valuation date.....	July 1, 2010
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Amortization payments increasing at 4.5%, closed
Remaining amortization period.....	30 years as of July 1, 2010
Asset valuation method.....	Market value

Actuarial Assumptions:

Investment rate of return.....	3.5%, pay-as-you-go scenario
Medical care cost trend rate.....	7.5% graded to 5.0% over 5 years

Plan Membership:

Current retirees, beneficiaries, and dependents...	2,342
Current active members.....	<u>2,642</u>
Total.....	<u><u>4,984</u></u>

See 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 fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal 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 fiscal year 2012 approved budget authorizing approximately \$286.7 million in current year appropriations, other financing uses, and other amounts to be raised and approximately \$1.2 million in encumbrances and appropriations carried over from previous fiscal years. During fiscal year 2012, the Council approved transfers between departments, minor increases and decreases in various budget line items all for a net increase in appropriations totaling approximately \$2.9 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 fiscal year ended June 30, 2012, is as follows:

Net change in fund balance - budgetary basis.....	\$	9,755,720
<u>Perspective difference:</u>		
Stabilization Funds recorded in the General Fund for GAAP.....		1,722,844
<u>Basis of accounting differences:</u>		
Net change in recording 60-day receipts accrual.....		1,211,400
Net change in recording tax refunds payable.....		437,000
Net change in short-term interest accrual.....		(8,061)
Net change in unrecorded liabilities.....		(105,461)
Increase in revenues due to on-behalf payments.....		29,295,075
Increase in expenditures due to on-behalf payments.....		<u>(29,295,075)</u>
Net change in fund balance - GAAP basis.....	\$	<u>13,013,442</u>

#### NOTE B – 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.