



Eileen M. Donoghue
City Manager

April 6, 2021

Mayor John J. Leahy
And
Members of the Lowell City Council

Dear Mayor Leahy and Members of the Lowell City Council,

On behalf of the vacant auditor role, I would like to present to the council the FY20 Audited Financial Statements and Management Representation Letter.

Powers & Sullivan, an independent audit firm, have completed the Audit related to the FY20 Financial Statements. Enclosed with this letter are the FY20 Audited Financial Statements, FY20 Management Representation Letter, and the finance department's responses to the Management Representation Letter.

The audited Financial Statements were issued and dated April 1, 2021. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. I am happy to report the City of Lowell's Financial Statements were issued an unqualified opinion ("clean opinion").

The Management Representation Letter was also issued April 1, 2021. The city resolved one prior year comment and is committed to remedy all outstanding comments in the coming year, or as long as it takes to do so. A more thorough action plan, provided by the finance department, is included in this packet and details out the plans to get better controls in place to resolve each comment.

Finally, normally included in this annual correspondence, but excluded this year, is the FY20 Statement of Federal Expenditures (SEFA). Due to the ongoing pandemic, a three month extension has been granted to any entities that have received funding related to COVID-19, hence pushing the filing out to June 30th, 2021. The SEFA report will be brought before council upon completion.

Sincerely,

Eileen M. Donoghue
City Manager

Encl: (1) FY2020 Audited Financial Statements
(2) FY2020 Management Representation Letter
(3) Finance Dept. Response to MRL

CITY OF LOWELL, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2020

CITY OF LOWELL, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lowell, Massachusetts, as of and for the year ended June 30, 2020 (except for the Lowell Contributory Retirement System which is as of and for the year ended December 31, 2019), and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lowell, Massachusetts, as of June 30, 2020 (except for the Lowell Contributory Retirement System which is as of and for the year ended December 31, 2019), and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, located on the following pages, and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2021, on our consideration of the City of Lowell, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lowell's internal control over financial reporting and compliance.

Powers + Sullivan, LLC

April 1, 2021

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Lowell (the "City"), we offer readers of these basic financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2020. We encourage readers to consider the information presented in this report.

Financial Highlights

Government-wide

- The City's overall liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources by \$563 million, at the close of 2020, an overall decrease of \$47.8 million from the prior year. The decrease is primarily the result of the increase in the net other postemployment benefit (OPEB) liability and its associated deferred outflows/inflows of \$47.4 million, an increase in the net pension liability and its associated deferred outflows/inflows of \$6.7 million. These decreases were offset by the receipt of \$6.2 million of capital grants.
- Governmental net position decreased by \$45.3 million. The decrease is attributable to the \$43.2 million increase in the net OPEB liability and its associated deferred outflows/inflows of resources, a net increase in the net pension liability and its associated deferred outflows/inflows of \$5 million, and funds reserved for legal settlements. These decreases were offset by the receipt of \$4.7 million of capital grants and the timing between the receipt of grant funds and the actual expense of such funds.
- Business-type activities experienced a combined \$2.5 million decrease in net position, primarily due to the increase of the net OPEB liability.
- Overall governmental long-term debt increased by \$27.4 million and business-type long-term debt increased by \$31.4 million, not including premiums. Please see Note 7 for more information on the City's long-term bonds.

Fund Financial Statements

- As of the close of the current year, the City's governmental funds reported combined ending fund balance of \$68 million, an increase of \$25.4 million in comparison with the prior year.
- In order to take advantage of favorable interest rates, the City issued \$7 million of general obligation refunding bonds on September 26, 2019. See Note 7 for more information.
- The City issued \$59.9 million of general obligation bonds on September 24, 2020, \$38.4 million related to bond anticipation notes outstanding at year end. As such, the City has recognized bond proceeds of \$33.8 million in the governmental funds, \$4.1 million in the sewer enterprise fund, and \$475,000 in the water enterprise fund. See Note 6 for more information.
- The water fund finalized \$12.7 million of Massachusetts Clean Water Trust loans during fiscal year 2020.
- The City incurred \$450,000 of expenses related to the COVID-19 pandemic, which will be funded by grants from the State and Federal Government, see Note 16 for more information.

Overview of the Financial Statements

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

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

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, human services, culture and recreation, COVID-19, and interest. The business type activities include costs relating to the water, sewer, and parking activities.

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

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

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

The City maintains approximately 600 individual governmental funds. Information for the general fund is presented separately in the governmental fund balance sheet and in the governmental fund statement of

revenues, expenditures, and changes in fund balances. Data from the other funds are combined into a single, aggregate presentation under the caption *nonmajor governmental funds*. The general fund is the only major governmental fund reported.

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

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

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses the enterprise funds to account for its water, sewer, and parking 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. Because these services primarily benefit governmental rather than business-type activities, they have been included within *governmental activities* in the government-wide financial statements. The City's health insurance activities are premium based through the Group Insurance Commission.

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs.

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

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

The City established an OPEB trust fund to account for funds set aside to help offset future postemployment benefits for retirees. The current year additions included the City's contribution and investment income. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's overall liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$563 million at the close of 2020, an overall decrease of \$47.8 million from the prior year.

Net position of \$297.7 million reflects its net investment in capital assets (e.g., land, buildings, infrastructure,

machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City’s net position, \$27.8 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, a deficit of \$888.5 million, reflects the impact of the \$835.8 million net other postemployment benefit liability and the \$252.5 million net pension liability.

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

Governmental Activities

At the end of the current year, the City is able to report positive balances in two out of three categories of net position. The governmental activities liabilities and deferred inflows of resources exceeded assets and deferred outflows by \$602.9 million at the close of 2020.

	2020	2019
Assets:		
Current assets.....	\$ 133,142,840	\$ 102,779,978
Noncurrent assets (excluding capital).....	2,336,915	4,355,375
Capital assets, non depreciable.....	67,302,525	44,380,063
Capital assets, net of accumulated depreciation...	247,399,884	254,395,132
Total assets.....	450,182,164	405,910,548
Deferred outflows of resources.....	163,290,183	99,410,663
Liabilities:		
Current liabilities (excluding debt).....	44,809,387	40,509,624
Noncurrent liabilities (excluding debt).....	1,041,538,394	929,345,694
Current debt.....	8,912,182	10,613,188
Noncurrent debt.....	102,936,184	72,982,197
Total liabilities.....	1,198,196,147	1,053,450,703
Deferred inflows of resources.....	18,183,250	9,462,562
Net position:		
Net investment in capital assets.....	227,131,919	226,235,261
Restricted.....	27,831,039	21,329,870
Unrestricted.....	(857,870,008)	(805,157,185)
Total net position.....	\$ (602,907,050)	\$ (557,592,054)

A significant portion of the City’s governmental activities net position, \$227.1 million, reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City’s investment in capital assets is reported net of related debt, it should be noted that the resources to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net position of \$27.8 million represents resources that are subject to external restrictions on how they may be used. The deficit balance of unrestricted net position in the amount of \$857.9 million is due to the recognition of the net pension liability of \$230.5 million and the net OPEB liability of \$793.4 million.

Included within the governmental activities noncurrent assets, unrelated to capital assets, are \$2.3 million in future school construction reimbursement grants through the Massachusetts School Building Authority (MSBA). Governmental activity liabilities include \$111.3 million in general obligation bonds; \$19.1 million in liabilities for unused vacation, special leave, and enhanced longevity benefits; and \$3.4 million in future workers' compensation benefits.

The key elements of governmental activities are as follows:

	2020	2019
Program Revenues:		
Charges for services.....	\$ 13,657,243	\$ 14,943,135
Operating grants and contributions.....	262,147,020	242,178,061
Capital grants and contributions.....	4,739,764	6,712,289
General Revenues:		
Real estate and personal property taxes, net of tax refunds payable.....	136,938,408	132,122,486
Tax and other liens.....	1,394,820	664,603
Motor vehicle and other excise taxes.....	10,408,436	10,745,444
Hotel/motel tax.....	261,846	346,888
Meals tax.....	1,220,378	1,292,366
Community preservation tax.....	712,186	-
Penalties and interest on taxes.....	1,092,118	1,247,038
Payments in lieu of taxes.....	546,357	465,612
Grants and contributions not restricted to specific programs.....	27,502,433	26,364,059
Unrestricted investment income.....	1,259,763	957,818
Gain on sale of assets.....	250,000	-
Miscellaneous.....	133,555	176,191
Total revenues.....	462,264,327	438,215,990
Expenses:		
General government.....	23,227,392	21,501,176
Public safety.....	93,781,115	81,783,529
Education.....	340,187,688	301,369,015
Public works.....	18,493,856	17,596,308
Health and human services.....	16,274,393	14,590,887
Culture and recreation.....	8,284,010	8,042,130
COVID-19.....	450,038	-
Legal settlement reserve.....	5,000,000	-
Interest.....	1,900,831	3,190,918
Total expenses.....	507,599,323	448,073,963
Excess (Deficiency) before transfers.....	(45,334,996)	(9,857,973)
Transfers.....	20,000	20,000
Change in net position.....	(45,314,996)	(9,837,973)
Net position, beginning of year.....	(557,592,054)	(547,754,081)
Net position, end of year.....	\$ (602,907,050)	\$ (557,592,054)

The \$45.3 million decrease is attributable to the \$43.2 million increase in the net OPEB liability and its associated deferred outflows/inflows of resources, a net increase in the net pension liability and its associated deferred outflows/inflows of \$5 million, and funds reserved for legal settlements. These decreases were offset by the receipt of \$4.7 million of capital grants and the timing between the receipt of grant funds and the actual expense of such funds.

Business-type Activities

The following summarizes the key financial components of the City’s business-type activities:

	2020	2019
Assets:		
Current assets.....	\$ 41,702,146	\$ 37,854,167
Capital assets, non depreciable.....	61,113,261	26,278,767
Capital assets, net of accumulated depreciation....	204,804,314	209,449,243
Total assets.....	307,619,721	273,582,177
Deferred outflows of resources.....	9,247,828	6,406,265
Liabilities:		
Current liabilities (excluding debt).....	9,500,303	5,593,529
Noncurrent liabilities (excluding debt).....	64,741,920	56,727,029
Current debt.....	24,376,339	30,296,100
Noncurrent debt.....	176,638,259	144,118,011
Total liabilities.....	275,256,821	236,734,669
Deferred inflows of resources.....	1,734,543	853,215
Net position:		
Net investment in capital assets.....	70,554,142	65,624,220
Unrestricted.....	(30,677,957)	(23,223,662)
Total net position.....	\$ 39,876,185	\$ 42,400,558

Business type activities assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$39.9 million at the close of 2020.

Net position of \$70.6 million reflects its net investment in capital assets less any debt used to acquire those assets that are still outstanding. The deficit balance of *unrestricted net position* of \$30.7 million is due to the net pension liability of \$22 million and the net OPEB liability of \$42.4 million.

	2020	2019
Program Revenues:		
Charges for services.....	\$ 44,041,389	\$ 44,696,338
Capital grants and contributions.....	1,467,144	1,004,085
Total revenues.....	45,508,533	45,700,423
Expenses:		
Water.....	12,513,134	15,681,915
Sewer.....	28,346,314	31,353,035
Parking.....	7,153,458	7,804,999
Total expenses.....	48,012,906	54,839,949
Excess (Deficiency) before transfers.....	(2,504,373)	(9,139,526)
Transfers.....	(20,000)	(20,000)
Change in net position.....	(2,524,373)	(9,159,526)
Net position, beginning of year.....	42,400,558	51,560,084
Net position, end of year.....	\$ 39,876,185	\$ 42,400,558

The water enterprise and sewer enterprise funds net position decreased by \$823,000 and \$2.8 million, respectively, during the current year. The decrease in both funds is attributable to the increase in the net OPEB liability in the current year.

The parking enterprise fund net position increased by \$1.1 million in the current year. The change is primarily due to parking fee revenues exceeding the associated operating costs and interest expense. During fiscal year 2020, the parking fund issued a \$25.1 million general obligation bond for the Hamilton Canal Innovation District (HCID) garage construction which will be paid for by the parking enterprise fund in future years.

Financial Analysis of the Government's Funds

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

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

As of the end of the year, governmental funds reported combined ending fund balances of \$68 million, an increase of \$25.4 million in comparison with the prior year. The increase is primarily attributable to the timing difference in the nonmajor funds between the issuance of bonds and receipt of grant funds and the actual expenditure of such funds.

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund equaled \$20.3 million (which includes \$12.3 million set aside as stabilization), while total fund balance was \$27.9 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned and total fund balance represents 5.0% and 6.9% of general fund expenditures, respectively.

The general fund increased by \$3.8 million during 2020. This was due to the receipt of a \$653,000 refunding debt premium, a decrease in the accrual for appellate tax board cases, a transfer of \$452,000 of surplus funds from the circuit breaker fund, and an increase in the 60 day tax receipt accrual.

General fund revenues and other financing sources totaled \$411.2 million for 2020, an increase of \$30.4 million compared to the previous year. The increase primarily relates to real estate and personal property taxes and intergovernmental State aid.

Total general fund expenditures and other financing uses totaled \$407.5 million, an increase of \$31.4 million over the previous year. The increase in expenditures primarily relates to the school department and teachers' retirement pension benefits paid by the State on behalf of the City.

Nonmajor governmental funds increased \$21.7 million which can be attributed to the \$36.3 million issuance of bonds less the capital expenditures that occurred in 2020 related to the bond issue.

The internal service fund had an ending net position of \$3.1 million, an increase of \$241,000 over the prior year. The increase is the result of a \$270,000 payment from the general fund due to the City's agreement with the Lowell Public Employee Committee for the distribution of the employee share of the health benefits trust fund. In July of 2012, the City entered into the Group Insurance Commission (GIC) and its health insurance activities are now premium based. The City is now working to use the remaining balance in the internal service fund for health insurance related costs.

General Fund Budgetary Highlights

The difference between the original budget of \$373.7 million and the final amended budget of \$382.4 million amounted to a net increase of \$8.7 million. During 2020, the Council approved transfers from free cash which included \$3.4 million to the stabilization funds, \$1.5 million for capital projects, \$2.2 million for the general fund budget and \$374,000 to the OPEB trust fund. The Council also approved various supplemental appropriations from other available funds, as well as transfers between departments representing minor increases and decreases in various budget line items. The amounts raised from other sources of approximately \$6.4 million were not included on the tax rate recapitulation during the tax rate setting process which resulted in a budget deficit.

Revenues came in higher than budgeted by \$2.5 million while expenditures came in \$8 million lower than budgeted. The largest revenue surplus related to departmental and other revenues of \$1.1 million. Expenditures were significantly under budget due to the City issuing a hiring and spending freeze when the COVID-19 pandemic began. The City did so to ensure the departments were able to handle the unforeseen events of the pandemic.

Capital Asset and Debt Administration

Capital Assets - The City's investment in capital assets for governmental activities as of June 30, 2020, amounts to \$314.7 million, net of accumulated depreciation. The investment in capital assets includes land, buildings, improvements, infrastructure, vehicles, machinery and equipment, books, and software. Major governmental additions included Hamilton Canal District construction, High school construction, and roadway improvements.

The City's investment in capital assets for business-type activities as of June 30, 2020, amounts to \$265.9 million, net of accumulated depreciation. The investment in capital assets for the business-type activities relates to sewer and water infrastructure and systems as well as the various parking garage facilities.

Major current year additions included Duck Island facility upgrades, water main improvements, sewer improvements, the HCID parking garage and other various parking garage upgrades.

Additional information on the City's capital assets may be found in Note 4 to the basic financial statements.

Long-term debt – At June 30, 2020, the City had total governmental bonded debt of \$106 million. The City issued general obligation bonds totaling \$36.3 million during fiscal year 2020. Currently, the City has \$338.9 million in authorized and unissued long-term debt relating to the City's High School construction project.

The sewer enterprise fund had \$94.9 million in long-term debt that is supported by the sewer rates and future MCWT principal and interest subsidies. The fund issued general obligation bonds of \$4.1 million and finalized MCWT loans of \$12.7 million during fiscal year 2020.

The water enterprise fund had \$39.1 million in long-term debt that is supported by the water rates and future MCWT principal and interest subsidies. The fund issued \$475,000 of general obligation bonds during fiscal year 2020.

The parking enterprise fund had \$50.5 million in long-term debt that is supported by parking fees. The fund issued general obligation bond totaling \$25.1 million during fiscal year 2020.

In order to take advantage of favorable interest rates, the City issued \$7 million of general obligation refunding bonds on September 26, 2019. The proceeds of the refunding bonds were used to complete a current refunding of existing debt. The refunded bonds totaled \$8.1 million and became callable on November 15, 2019. As a result of the transaction, the refunded bonds were paid down on the call date and the liability has been removed from the statement of net position. The transaction resulted in an economic gain of \$877,000 and a reduction of \$983,000 in future debt service payments.

Please see Note 6 and 7 for more information related to debt activity.

Next Year's Budget

Mayor John Leahy and the Lowell City Council unanimously approved the City Manager's proposed Fiscal Year (FY) 2021 general fund operating budget of \$354.6 million on September 22, 2020 after a public hearing in the City Council Chambers at Lowell City Hall. This final "9/12th" vote took place in September only after the City opted for a "1/12th" budget for the months of July, August, and September due to the recession caused by the COVID19 Pandemic. Notable increased expenditures included fixed costs, such as a \$1.5 million increase in the PERAC pension assessment, a \$3.5 million increase in Cherry Sheet assessments from the Commonwealth attributable to the City's assessment for Charter Schools, a \$2.1 million dollar increase to debt service, and a \$700,000 expense for the City's "contaminated recycling." Personnel costs also factored into the formulation of the 2021 budget. The budget saw an increase of roughly \$2.9 million to fund the collective bargaining agreements with the City's 17 unions.

The FY2021 budget included a \$3.3 million increase in education spending, including both the Lowell Public School District and the assessment from the Greater Lowell Regional Technical High School. Of the \$182.7 million appropriated by the City Council to the Lowell Public Schools, 91.4%, of the funding source is from the Commonwealth's Chapter 70 education aid and the balance of \$15.7 million is funded through the tax levy in direct cash support. To balance the 2021 budget, the City Manager asked all City department heads to reduce their approved budgets by 7.5%, in order to avoid layoffs. Compliance with the austerity measure was mandatory and incorporated into the budget approved by the City Council in September for FY2021.

In addition to the FY2021 budget for the general fund, the City Council approved the City Manager's budgets for City's three enterprise funds for Water, Sewer, and Parking in the amounts of \$11.2 million, \$20.8 million, and \$8.8 million, respectively. Appropriations for business-type activity in the Parking enterprise fund increased year-over-year by \$1.8 million to account for an increase in debt service, related to financing the new HCID Garage. In FY2021, the amount budgeted to reimburse the general fund for administrative overhead in all of the enterprise funds was \$9.91 million.

Several targeted investments were incorporated by the City Manager into the FY2021 operating budget to support the priorities of the City Council, such as public safety and economic development. Concurrent with the FY2021 operating budget, the City Council unanimously approved the City Manager's proposed update to the City's comprehensive five-year capital improvement plan ("CIP") and a loan order in the amount of \$6.7 million was approved to finance strategic investments in the general fund. The loan order included funding for the City-wide paving program, infrastructure projects for the various bridges across the city, public safety equipment and building improvements, Cawley Stadium improvements, among other projects.

The fiscal year 2021, tax levy was submitted to the Department of Revenue on December 14, 2020, at \$144,933,396. Total appropriations in all funds including the general fund and enterprise funds totaled \$432,424,651, including \$30,478,667 in "cherry sheet" charges and a \$961,646 allowance for abatements and exemptions. The total estimated receipts and other revenue sources raised to support those appropriated and other unappropriated expenses totaled \$287,491,255. Of that total, \$199,181,920 came from local aid from the Commonwealth (Chapter 70, UGGA, and other "cherry sheet" receipts), \$1,192,791 from MSBA reimbursements for completed projects, and \$24,173,690 in local receipts. Finally, \$50,869,692 of the total amount raised was from the City's enterprise funds and \$8,145,317 was appropriated by the Lowell City Council in other available funds to support the budget.

Management continued to make strides in improving internal controls and strengthening the overall financial management of the City in FY2021 and into the FY2022 operating year, despite the significant operational and financial challenges presented by COVID-19. Because of the fiscal pressures on the budget, the City Manager continued the existing financial controls on overtime and expenditures, as well as continued the existing "hiring freeze". The City was allocated \$9.8 million in CARES Act funding to assist with addressing the pandemic, as well as pursued available reimbursements through FEMA.

In a report issued by Standard & Poor's related to a \$59,945,000, 29-year general obligation state qualified bond issue in August of 2020, the ratings agency commented on Lowell's "very strong management", "very strong liquidity", and "strong institutional framework score". In the report, S&P wrote that they "view the City's management as very strong, with strong financial policies and practices under [the S&P] FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable." They went on to say that "[City of Lowell] officials are conservative with revenue and expenditure assumptions, and they consider historical trends when developing the budget. They have the flexibility to amend the budget as needed, and management monitors performance regularly and makes monthly reports on budget-to-actual results to the city council. Management performs formal financial forecasting and maintains a five-year capital improvement plan it updates annually."

Requests for Information

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

Basic Financial Statements

STATEMENT OF NET POSITION

JUNE 30, 2020

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 98,001,231	\$ 31,411,638	\$ 129,412,869
Investments.....	2,026,447	-	2,026,447
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	3,491,785	-	3,491,785
Tax liens.....	1,715,717	328,410	2,044,127
Community preservation fund surtax.....	27,962	-	27,962
Motor vehicle and other excise taxes.....	3,698,634	-	3,698,634
User fees.....	598,716	8,987,052	9,585,768
Departmental and other.....	535,957	975,046	1,511,003
Intergovernmental.....	17,666,106	-	17,666,106
Loans.....	76,165	-	76,165
Tax foreclosures.....	5,066,420	-	5,066,420
Working capital deposit.....	237,700	-	237,700
Total current assets.....	<u>133,142,840</u>	<u>41,702,146</u>	<u>174,844,986</u>
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	2,336,915	-	2,336,915
Capital assets, nondepreciable.....	67,302,525	61,113,261	128,415,786
Capital assets, net of accumulated depreciation.....	<u>247,399,884</u>	<u>204,804,314</u>	<u>452,204,198</u>
Total noncurrent assets.....	<u>317,039,324</u>	<u>265,917,575</u>	<u>582,956,899</u>
TOTAL ASSETS.....	<u>450,182,164</u>	<u>307,619,721</u>	<u>757,801,885</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions.....	12,548,966	1,197,075	13,746,041
Deferred outflows related to other postemployment benefits.....	<u>150,741,217</u>	<u>8,050,753</u>	<u>158,791,970</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES.....	<u>163,290,183</u>	<u>9,247,828</u>	<u>172,538,011</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	12,583,106	6,418,320	19,001,426
Accrued payroll.....	15,090,098	161,590	15,251,688
Accrued interest.....	1,544,156	2,382,799	3,926,955
Payroll and other liabilities.....	5,712,615	-	5,712,615
Compensated absences.....	9,224,912	537,594	9,762,506
Workers' compensation.....	654,500	-	654,500
Notes payable.....	582,400	12,384,107	12,966,507
Bonds payable.....	<u>8,329,782</u>	<u>11,992,232</u>	<u>20,322,014</u>
Total current liabilities.....	<u>53,721,569</u>	<u>33,876,642</u>	<u>87,598,211</u>
NONCURRENT:			
Legal settlement reserve.....	5,000,000	-	5,000,000
Compensated absences.....	9,880,789	377,640	10,258,429
Workers' compensation.....	2,718,900	-	2,718,900
Net pension liability.....	230,512,993	21,989,179	252,502,172
Net other postemployment benefits liability.....	793,425,712	42,375,101	835,800,813
Bonds payable.....	<u>102,936,184</u>	<u>176,638,259</u>	<u>279,574,443</u>
Total noncurrent liabilities.....	<u>1,144,474,578</u>	<u>241,380,179</u>	<u>1,385,854,757</u>
TOTAL LIABILITIES.....	<u>1,198,196,147</u>	<u>275,256,821</u>	<u>1,473,452,968</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions.....	<u>18,183,250</u>	<u>1,734,543</u>	<u>19,917,793</u>
NET POSITION			
Net investment in capital assets.....	227,131,919	70,554,142	297,686,061
Restricted for:			
Chapter 17 special reserve.....	1,150	-	1,150
Streets.....	3,414,558	-	3,414,558
Community development.....	6,561,346	-	6,561,346
Loans.....	76,165	-	76,165
Permanent funds:			
Expendable.....	378,706	-	378,706
Nonexpendable.....	1,860,648	-	1,860,648
Gifts and grants.....	14,825,739	-	14,825,739
Community preservation.....	712,727	-	712,727
Unrestricted.....	<u>(857,870,008)</u>	<u>(30,677,957)</u>	<u>(888,547,965)</u>
TOTAL NET POSITION.....	<u>\$ (602,907,050)</u>	<u>\$ 39,876,185</u>	<u>\$ (563,030,865)</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 23,227,392	\$ 4,827,289	\$ 1,391,831	\$ 150,641	\$ (16,857,631)
Public safety.....	93,781,115	4,362,362	3,967,841	-	(85,450,912)
Education.....	340,187,688	333,565	244,146,009	187,208	(95,520,906)
Public works.....	18,493,856	3,671,360	972,486	4,170,417	(9,679,593)
Human services.....	16,274,393	307,005	10,668,748	231,498	(5,067,142)
Culture and recreation.....	8,284,010	155,662	550,067	-	(7,578,281)
COVID-19.....	450,038	-	450,038	-	-
Legal settlement reserve.....	5,000,000	-	-	-	(5,000,000)
Interest.....	1,900,831	-	-	-	(1,900,831)
Total Governmental Activities.....	<u>507,599,323</u>	<u>13,657,243</u>	<u>262,147,020</u>	<u>4,739,764</u>	(227,055,296)
<i>Business-Type Activities:</i>					
Water.....	12,513,134	11,390,411	-	299,464	(823,259)
Sewer.....	28,346,314	24,502,546	-	1,085,412	(2,758,356)
Parking.....	7,153,458	8,148,432	-	82,268	1,077,242
Total Business-Type Activities.....	<u>48,012,906</u>	<u>44,041,389</u>	<u>-</u>	<u>1,467,144</u>	(2,504,373)
Total Primary Government.....	<u>\$ 555,612,229</u>	<u>\$ 57,698,632</u>	<u>\$ 262,147,020</u>	<u>\$ 6,206,908</u>	(229,559,669)

(Continued)

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page..... \$	(227,055,296)	(2,504,373)	(229,559,669)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	136,938,408	-	136,938,408
Tax and other liens.....	1,394,820	-	1,394,820
Motor vehicle and other excise taxes.....	10,408,436	-	10,408,436
Hotel/motel tax.....	261,846	-	261,846
Meals tax.....	1,220,378	-	1,220,378
Community preservation tax.....	712,186	-	712,186
Penalties and interest on taxes.....	1,092,118	-	1,092,118
Payments in lieu of taxes.....	546,357	-	546,357
Grants and contributions not restricted to specific programs.....	27,502,433	-	27,502,433
Unrestricted investment income.....	1,259,763	-	1,259,763
Gain on sale of assets.....	250,000	-	250,000
Miscellaneous.....	133,555	-	133,555
<i>Transfers, net</i>	20,000	(20,000)	-
Total general revenues and transfers.....	<u>181,740,300</u>	<u>(20,000)</u>	<u>181,720,300</u>
Change in net position.....	(45,314,996)	(2,524,373)	(47,839,369)
<i>Net position:</i>			
Beginning of year.....	<u>(557,592,054)</u>	<u>42,400,558</u>	<u>(515,191,496)</u>
End of year..... \$	<u><u>(602,907,050)</u></u>	<u><u>39,876,185</u></u>	<u><u>(563,030,865)</u></u>

(Concluded)

See notes to basic financial statements.

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2020

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents.....	\$ 50,969,245	\$ 43,908,847	\$ 94,878,092
Investments.....	-	2,026,447	2,026,447
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	3,491,785	-	3,491,785
Tax liens.....	1,715,717	-	1,715,717
Community preservation fund surtax.....	-	27,962	27,962
Motor vehicle and other excise taxes.....	3,698,634	-	3,698,634
User fees.....	598,716	-	598,716
Departmental and other.....	527,757	8,200	535,957
Intergovernmental.....	3,505,375	16,497,646	20,003,021
Loans.....	-	76,165	76,165
Tax foreclosures.....	5,066,420	-	5,066,420
Working capital deposit.....	237,700	-	237,700
TOTAL ASSETS.....	\$ 69,811,349	\$ 62,545,267	\$ 132,356,616
LIABILITIES			
Warrants payable.....	\$ 4,807,305	\$ 7,775,801	\$ 12,583,106
Accrued payroll.....	14,249,672	840,426	15,090,098
Payroll and other liabilities.....	5,712,615	-	5,712,615
Notes payable.....	-	582,400	582,400
TOTAL LIABILITIES.....	24,769,592	9,198,627	33,968,219
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue.....	17,109,962	13,308,335	30,418,297
FUND BALANCES			
Nonspendable.....	-	1,860,648	1,860,648
Restricted.....	1,150	38,177,657	38,178,807
Committed.....	4,714,784	-	4,714,784
Assigned.....	2,868,357	-	2,868,357
Unassigned.....	20,347,504	-	20,347,504
TOTAL FUND BALANCES.....	27,931,795	40,038,305	67,970,100
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....	\$ 69,811,349	\$ 62,545,267	\$ 132,356,616

See notes to basic financial statements.

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

JUNE 30, 2020

Total governmental fund balances.....	\$	67,970,100
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		314,702,409
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		30,418,297
The statement of net position includes certain deferred inflows of resources and deferred outflows of resources that will be amortized over future periods. In governmental funds, these amounts are not deferred.....		145,106,933
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.....		3,123,139
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(1,544,156)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds payable.....	(111,265,966)	
Net pension liability.....	(230,512,993)	
Net other postemployment benefits liability.....	(793,425,712)	
Legal settlement reserve.....	(5,000,000)	
Workers' compensation.....	(3,373,400)	
Compensated absences.....	<u>(19,105,701)</u>	
Net effect of reporting long-term liabilities.....		<u>(1,162,683,772)</u>
Net position of governmental activities.....	\$	<u><u>(602,907,050)</u></u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2020

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Real estate and personal property taxes, net of tax refunds.....	\$ 136,818,671	\$ -	\$ 136,818,671
Tax liens.....	980,803	-	980,803
Motor vehicle and other excise taxes.....	8,746,387	-	8,746,387
Hotel/motel tax.....	261,846	-	261,846
Meals tax.....	1,220,378	-	1,220,378
Charges for services.....	3,248,846	-	3,248,846
Penalties and interest on taxes.....	1,091,577	541	1,092,118
Payments in lieu of taxes.....	546,357	-	546,357
Fines and forfeitures.....	-	26,420	26,420
Intergovernmental - state aid.....	195,311,720	-	195,311,720
Intergovernmental - School Building Authority.....	1,192,791	-	1,192,791
Intergovernmental - Teachers Retirement.....	44,385,319	-	44,385,319
Intergovernmental - other.....	333,754	50,868,683	51,202,437
Intergovernmental - COVID-19 relief.....	-	450,038	450,038
Departmental and other.....	9,481,566	2,067,907	11,549,473
Community preservation taxes.....	-	684,224	684,224
Contributions and donations.....	-	1,226,933	1,226,933
Investment income.....	1,209,952	50,424	1,260,376
TOTAL REVENUES.....	404,829,967	55,375,170	460,205,137
EXPENDITURES:			
Current:			
General government.....	13,115,826	311,183	13,427,009
Public safety.....	51,238,750	5,032,224	56,270,974
Education.....	167,723,255	44,567,464	212,290,719
Public works.....	12,637,302	10,736,227	23,373,529
Human services.....	3,976,863	9,349,806	13,326,669
Culture and recreation.....	3,967,100	764,380	4,731,480
COVID-19.....	-	450,038	450,038
Pension benefits.....	24,868,598	-	24,868,598
Pension benefits - Teachers Retirement.....	44,385,319	-	44,385,319
Employee benefits.....	42,072,237	-	42,072,237
State and county charges.....	27,902,381	-	27,902,381
Debt service:			
Principal.....	7,377,448	850,000	8,227,448
Principal payment on current refunding.....	4,405,000	-	4,405,000
Interest.....	2,283,381	42,007	2,325,388
TOTAL EXPENDITURES.....	405,953,460	72,103,329	478,056,789
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(1,123,493)	(16,728,159)	(17,851,652)
OTHER FINANCING SOURCES (USES):			
Issuance of bonds.....	-	36,256,049	36,256,049
Issuance of refunding bonds.....	3,797,500	-	3,797,500
Premium from issuance of bonds.....	-	2,290,891	2,290,891
Premium from issuance of refunding bonds.....	652,795	-	652,795
Proceeds from the sale of assets.....	-	250,000	250,000
Transfers in.....	1,933,109	1,520,000	3,453,109
Transfers out.....	(1,500,000)	(1,933,109)	(3,433,109)
TOTAL OTHER FINANCING SOURCES (USES).....	4,883,404	38,383,831	43,267,235
NET CHANGE IN FUND BALANCES.....	3,759,911	21,655,672	25,415,583
FUND BALANCES AT BEGINNING OF YEAR.....	24,171,884	18,382,633	42,554,517
FUND BALANCES AT END OF YEAR.....	\$ 27,931,795	\$ 40,038,305	\$ 67,970,100

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**

YEAR ENDED JUNE 30, 2020

Net change in fund balances - total governmental funds.....		\$ 25,415,583
<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.....	29,609,341	
Depreciation expense.....	<u>(13,682,127)</u>	
Net effect of reporting capital assets.....		15,927,214
<p>Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. This amount represents the net change in unavailable revenue.....</p>		
		1,809,190
<p>The issuance of long-term debt 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 has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are unavailable and amortized in the Statement of Activities.</p>		
Issuance of bonds.....	(36,256,049)	
Issuance of refunding bonds.....	(3,797,500)	
Premium from issuance of bonds.....	(2,290,891)	
Premium from issuance of refunding bonds.....	(652,795)	
Net amortization of premium from issuance of bonds.....	449,178	
Net change in deferred charge on refunding.....	(7,641)	
Debt service principal payment on current refunding.....	4,405,000	
Debt service principal payments.....	<u>8,227,448</u>	
Net effect of reporting long-term debt.....		(29,923,250)
<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.....	(5,932,732)	
Net change in accrued interest on long-term debt.....	(16,979)	
Net change in deferred outflow/(inflow) of resources related to pensions.....	(31,397,455)	
Net change in net pension liability.....	26,378,651	
Net change in deferred outflow/(inflow) of resources related to other postemployment benefits.....	86,559,523	
Net change in net other postemployment benefits liability.....	(129,752,842)	
Net change in legal settlement reserve.....	(5,000,000)	
Net change in workers' compensation liability.....	<u>377,100</u>	
Net effect of recording long-term liabilities.....		(58,784,734)
The net activity of internal service funds is reported with Governmental Activities.....		<u>241,001</u>
Change in net position of governmental activities.....		<u>\$ (45,314,996)</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2020

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Parking	Total	
ASSETS					
CURRENT:					
Cash and cash equivalents.....	\$ 7,518,749	\$ 8,849,860	\$ 15,043,029	\$ 31,411,638	\$ 3,123,139
Receivables, net of allowance for uncollectibles:					
Liens - user fees.....	136,395	192,015	-	328,410	-
User fees.....	3,285,642	5,701,410	-	8,987,052	-
Departmental and other.....	-	-	975,046	975,046	-
Total current assets.....	<u>10,940,786</u>	<u>14,743,285</u>	<u>16,018,075</u>	<u>41,702,146</u>	<u>3,123,139</u>
NONCURRENT:					
Capital assets, non depreciable.....	746,856	32,588,141	27,778,264	61,113,261	-
Capital assets, net of accumulated depreciation.....	<u>45,516,452</u>	<u>124,595,138</u>	<u>34,692,724</u>	<u>204,804,314</u>	<u>-</u>
Total noncurrent assets.....	<u>46,263,308</u>	<u>157,183,279</u>	<u>62,470,988</u>	<u>265,917,575</u>	<u>-</u>
TOTAL ASSETS.....	<u>57,204,094</u>	<u>171,926,564</u>	<u>78,489,063</u>	<u>307,619,721</u>	<u>3,123,139</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows related to pensions.....	399,785	717,333	79,957	1,197,075	-
Deferred outflows related to other postemployment benefits.....	<u>2,032,537</u>	<u>5,303,652</u>	<u>714,564</u>	<u>8,050,753</u>	<u>-</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES.....	<u>2,432,322</u>	<u>6,020,985</u>	<u>794,521</u>	<u>9,247,828</u>	<u>-</u>
LIABILITIES					
CURRENT:					
Warrants payable.....	481,974	3,599,752	2,336,594	6,418,320	-
Accrued payroll.....	69,534	82,920	9,136	161,590	-
Accrued interest.....	376,018	1,078,971	927,810	2,382,799	-
Compensated absences.....	173,883	343,716	19,995	537,594	-
Notes payable.....	62,740	12,221,367	100,000	12,384,107	-
Bonds payable.....	<u>3,709,704</u>	<u>5,366,211</u>	<u>2,916,317</u>	<u>11,992,232</u>	<u>-</u>
Total current liabilities.....	<u>4,873,853</u>	<u>22,692,937</u>	<u>6,309,852</u>	<u>33,876,642</u>	<u>-</u>
NONCURRENT:					
Compensated absences.....	131,706	234,972	10,962	377,640	-
Net pension liability.....	7,343,687	13,176,751	1,468,741	21,989,179	-
Net other postemployment benefits liability.....	10,698,250	27,915,747	3,761,104	42,375,101	-
Bonds payable.....	<u>35,812,652</u>	<u>90,256,115</u>	<u>50,569,492</u>	<u>176,638,259</u>	<u>-</u>
Total noncurrent liabilities.....	<u>53,986,295</u>	<u>131,583,585</u>	<u>55,810,299</u>	<u>241,380,179</u>	<u>-</u>
TOTAL LIABILITIES.....	<u>58,860,148</u>	<u>154,276,522</u>	<u>62,120,151</u>	<u>275,256,821</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to pensions.....	<u>579,282</u>	<u>1,039,404</u>	<u>115,857</u>	<u>1,734,543</u>	<u>-</u>
NET POSITION					
Net investment in capital assets.....	6,771,523	49,451,078	14,331,541	70,554,142	-
Unrestricted.....	<u>(6,574,537)</u>	<u>(26,819,455)</u>	<u>2,716,035</u>	<u>(30,677,957)</u>	<u>3,123,139</u>
TOTAL NET POSITION.....	<u>\$ 196,986</u>	<u>\$ 22,631,623</u>	<u>\$ 17,047,576</u>	<u>\$ 39,876,185</u>	<u>\$ 3,123,139</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2020

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Parking	Total	
OPERATING REVENUES:					
Charges for services.....	\$ 11,388,588	\$ 24,273,757	\$ 8,148,432	\$ 43,810,777	\$ -
Employer contributions.....	-	-	-	-	269,715
Other operating revenues.....	1,823	230,589	-	232,412	1,286
TOTAL OPERATING REVENUES	11,390,411	24,504,346	8,148,432	44,043,189	271,001
OPERATING EXPENSES:					
Cost of services and administration.....	8,887,776	21,214,959	4,155,234	34,257,969	-
Depreciation.....	2,891,297	4,594,913	1,602,005	9,088,215	-
Employee benefits.....	-	-	-	-	30,000
TOTAL OPERATING EXPENSES.....	11,779,073	25,809,872	5,757,239	43,346,184	30,000
OPERATING INCOME (LOSS).....	(388,662)	(1,305,526)	2,391,193	697,005	241,001
NONOPERATING REVENUES (EXPENSES):					
Interest expense.....	(734,061)	(2,536,442)	(1,396,219)	(4,666,722)	-
Intergovernmental - subsidy.....	299,464	171,721	-	471,185	-
Intergovernmental.....	-	-	82,268	82,268	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(434,597)	(2,364,721)	(1,313,951)	(4,113,269)	-
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS.....	(823,259)	(3,670,247)	1,077,242	(3,416,264)	241,001
CAPITAL CONTRIBUTIONS.....	-	911,891	-	911,891	-
TRANSFERS:					
Transfers out.....	-	-	(20,000)	(20,000)	-
CHANGE IN NET POSITION.....	(823,259)	(2,758,356)	1,057,242	(2,524,373)	241,001
NET POSITION AT BEGINNING OF YEAR.....	1,020,245	25,389,979	15,990,334	42,400,558	2,882,138
NET POSITION AT END OF YEAR.....	\$ 196,986	\$ 22,631,623	\$ 17,047,576	\$ 39,876,185	\$ 3,123,139

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

YEAR ENDED JUNE 30, 2020

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Parking	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users.....	\$ 11,359,809	\$ 24,491,677	\$ 8,204,248	\$ 44,055,734	\$ -
Receipts from interfund services provided.....	-	-	-	-	271,001
Payments to vendors.....	(5,635,364)	(11,410,534)	(4,219,093)	(21,264,991)	-
Payments to employees.....	(2,269,394)	(3,057,064)	(370,448)	(5,696,906)	-
Payments for interfund services used.....	-	-	-	-	(30,000)
NET CASH FROM OPERATING ACTIVITIES.....	3,455,051	10,024,079	3,614,707	17,093,837	241,001
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers out.....	-	-	(20,000)	(20,000)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from the issuance of bonds and notes.....	537,740	28,522,534	25,232,000	54,292,274	-
Proceeds from the issuance of refunding bonds and notes.....	430,500	2,738,000	-	3,168,500	-
Premium from the issuance of bonds.....	-	-	2,135,100	2,135,100	-
Premium from the issuance of refunding bonds.....	-	470,665	-	470,665	-
Acquisition and construction of capital assets.....	(1,297,689)	(12,940,874)	(22,993,418)	(37,231,981)	-
Principal payments on bonds and notes.....	(4,249,041)	(24,881,780)	(3,057,100)	(32,187,921)	-
Intergovernmental revenue.....	-	-	82,268	82,268	-
Interest expense.....	(541,420)	(2,414,588)	(986,210)	(3,942,218)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(5,119,910)	(8,506,043)	412,640	(13,213,313)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(1,664,859)	1,518,036	4,007,347	3,860,524	241,001
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	9,183,608	7,331,824	11,035,682	27,551,114	2,882,138
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 7,518,749	\$ 8,849,860	\$ 15,043,029	\$ 31,411,638	\$ 3,123,139
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:					
Operating income (loss).....	\$ (388,662)	\$ (1,305,526)	\$ 2,391,193	\$ 697,005	\$ 241,001
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation.....	2,891,297	4,594,913	1,602,005	9,088,215	-
Deferred (outflows)/inflows related to pensions.....	1,011,742	1,647,456	202,349	2,861,547	-
Deferred (outflows)/inflows related to other postemployment benefits.....	(1,162,940)	(3,301,555)	(357,287)	(4,821,782)	-
Changes in assets and liabilities:					
Liens - user charges.....	(47,117)	(76,854)	-	(123,971)	-
User charges.....	16,515	64,185	-	80,700	-
Departmental and other.....	-	-	55,816	55,816	-
Warrants payable.....	254,973	939,114	(174,065)	1,020,022	-
Accrued payroll.....	24,024	27,194	1,984	53,202	-
Compensated absences.....	103,935	261,173	17,008	382,116	-
Net pension liability.....	(954,864)	(39,022)	(190,971)	(1,184,857)	-
Net other postemployment benefits liability.....	1,706,148	7,213,001	66,675	8,985,824	-
Total adjustments.....	3,843,713	11,329,605	1,223,514	16,396,832	-
NET CASH FROM OPERATING ACTIVITIES.....	\$ 3,455,051	\$ 10,024,079	\$ 3,614,707	\$ 17,093,837	\$ 241,001
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:					
Acquisition of capital assets on account.....	\$ -	\$ -	\$ 2,045,799	\$ 2,045,799	\$ -
MCWT principle forgiveness.....	-	911,891	-	911,891	-
Intergovernmental subsidy of debt service.....	299,464	171,721	-	471,185	-
Total non-cash activity.....	\$ 299,464	\$ 1,083,612	\$ 2,045,799	\$ 3,428,875	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2020

	Pension and Other Postemployment Benefit Trust Funds (1)	Private Purpose Trust Funds	Agency Funds
ASSETS			
Cash and cash equivalents.....	\$ 10,494,125	\$ 41,921	\$ 836,959
Investments:			
Investments in Pension Reserve Investment Trust.....	410,557,862	-	-
Equity securities.....	798,204	-	-
Equity mutual funds.....	6,436,381	142,568	-
Bond mutual funds.....	3,703,601	-	-
Receivables, net of allowance for uncollectibles:			
Interest and dividends.....	12,663	-	-
TOTAL ASSETS.....	432,002,836	184,489	836,959
LIABILITIES			
Warrants payable.....	-	-	58,996
Liabilities due depositors.....	-	-	777,963
TOTAL LIABILITIES.....	-	-	836,959
NET POSITION			
Restricted for pensions.....	421,394,364	-	-
Restricted for other postemployment benefits.....	10,608,472	-	-
Held in trust for other purposes.....	-	184,489	-
TOTAL NET POSITION.....	\$ 432,002,836	\$ 184,489	\$ -

(1) The Pension Trust Fund is as of December 31, 2019.

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2020

	Pension and Other Postemployment Benefit Trust Funds (1)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer contributions.....	\$ 29,195,259	\$ -
Employer contributions for other postemployment benefit payments.....	18,125,670	-
Member contributions.....	9,779,705	-
Transfers from other systems.....	474,489	-
3(8)c contributions from other systems.....	766,738	-
Workers compensation settlements.....	27,250	-
State COLA reimbursements.....	625,449	-
	<hr/>	<hr/>
Total contributions.....	58,994,560	-
Net investment income:		
Investment income.....	59,612,313	3,428
Less: investment expense.....	(2,012,095)	-
	<hr/>	<hr/>
Net investment income.....	57,600,218	3,428
	<hr/>	<hr/>
TOTAL ADDITIONS.....	116,594,778	3,428
DEDUCTIONS:		
Administration.....	397,038	-
Transfers to other systems.....	1,072,851	-
3(8)c transfer to other systems.....	1,747,011	-
Retirement benefits and refunds.....	41,098,095	-
Other postemployment benefit payments.....	18,125,670	-
	<hr/>	<hr/>
TOTAL DEDUCTIONS.....	62,440,665	-
	<hr/>	<hr/>
NET INCREASE IN NET POSITION.....	54,154,113	3,428
NET POSITION AT BEGINNING OF YEAR.....	377,848,723	181,061
	<hr/>	<hr/>
NET POSITION AT END OF YEAR.....	\$ 432,002,836	\$ 184,489
	<hr/>	<hr/>

(1) The Pension Trust Fund is as of December 31, 2019.

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. In accordance with GAAP, these basic financial statements present the City (the primary government) as well as a component unit. One entity has been included as a component unit in the reporting entity because of the significance of its operational and/or financial relationship with the City.

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

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

Availability of Financial Information for Component Units

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

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

The government-wide financial statements (i.e., statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units.

Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual

governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

Major Fund Criteria

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

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

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

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

The following major governmental fund is reported:

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

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

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

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

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

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

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

The following major proprietary funds are reported:

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

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

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

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. The City's health insurance activities are premium based through the Group Insurance Commission. The City is working to utilize the remaining balance in this fund for health insurance related appropriations.

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

The following fiduciary fund types are reported:

The *pension and other postemployment benefit trust funds* are used to account for the activities of the Lowell Contributory Retirement System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries and to accumulate resources to provide funding for future OPEB liabilities.

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

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

E. Fair Value Measurements

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

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

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

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

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

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

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

F. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes and Tax Liens

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

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

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

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

Motor Vehicle Excise

Motor vehicle excise taxes are assessed annually for each vehicle registered in the City and are recorded as receivables in the year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

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

Water & Sewer

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

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

Trash

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

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

Departmental and Other

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

Intergovernmental

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

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

Community Preservation Surcharges

Community preservation surcharges are levied annually at a rate of 3% of resident's real estate tax bills with exemptions for the first \$100,000 of residential property and property owned by qualified persons with low income and seniors (60+) with low or moderate income defined by DOR guidelines. The surcharge is due with the real estate tax on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Overdue surcharges are included on the tax liens processed on delinquent real estate taxes. Surcharges are recorded as receivables in the year of the levy.

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

Loans

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

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

G. Inventories

Government-Wide and Fund Financial Statements

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

H. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

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

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

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

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

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

Governmental Fund Financial Statements

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

I. Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements (Net Position)

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

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

Governmental Fund Financial Statements

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

J. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

K. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

L. Unavailable Revenue*Fund Financial Statements*

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

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

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

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

Net position has been “restricted for” the following:

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

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

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

“Loans” represents community development outstanding loans receivable balances.

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

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

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

“Community preservation” represents amounts restricted for affordable housing, open space and historic purposes.

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and

unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Financial Statements (Fund Balances)

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

The governmental fund balance classifications are as follows:

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

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

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

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

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount.

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

N. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

O. Investment Income

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

P. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

Q. Pensions

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

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

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

S. Total Column*Government-Wide Financial Statements*

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

Fund Financial Statements

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

NOTE 2 - CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

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

MMDT maintains a cash portfolio with an average maturity of 52 days.

The System participates in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares. The System also has expanded investment powers which are governed by Chapter 32 of the general laws of the Commonwealth and by the regulations issued by the Public Employee Retirement Administration Commission (PERAC). The existing law provides that Systems will invest 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.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy states that financial institutions shall be selected first and foremost with regard to safety as recognized by a top rating with the Veribanc or similar rating service. At year-end, the carrying amount of the City's deposits totaled \$104,994,524 and the bank balance totaled \$107,846,801. Of the bank balance, \$1,398,584 was covered by Federal Depository Insurance, \$10,108,521 was covered by the Depositors Insurance Fund, \$84,842,700 was collateralized, and \$11,496,996 was uninsured and uncollateralized.

At December 31, 2019, carrying amount of deposits for the System totaled \$10,438,894 and the bank balance totaled \$10,492,040, all of which was covered by the Federal Depository.

Investments

As of June 30, 2020, the City had the following investments:

<u>Investment Type</u>	<u>Fair value</u>	<u>Maturities</u>			
		<u>Under 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>Over 10 Years</u>
<u>Debt securities:</u>					
U.S. treasury notes.....	\$ 350,780	\$ 150,389	\$ 200,391	\$ -	\$ -
Government sponsored enterprises.....	305,914	-	260,844	45,070	-
Corporate bonds.....	1,025,614	161,478	864,136	-	-
Bond mutual funds.....	<u>3,735,785</u>	<u>-</u>	<u>822,875</u>	<u>2,248,138</u>	<u>664,772</u>
Total debt securities.....	5,418,093	<u>\$ 311,867</u>	<u>\$ 2,148,246</u>	<u>\$ 2,293,208</u>	<u>\$ 664,772</u>
<u>Other investments:</u>					
Equity securities.....	867,782				
Equity mutual funds.....	6,436,381				
Money market mutual funds.....	153,112				
MMDT - Cash portfolio.....	<u>25,199,344</u>				
Total investments.....	<u>\$ 38,074,712</u>				

As of December 31, 2019, the System had the following investments:

<u>Investment Type</u>	<u>Fair value</u>
Equity securities.....	\$ 384,945
Pension Reserve Investment Trust (PRIT).....	<u>410,557,862</u>
Total investments.....	<u>\$ 410,942,807</u>

Custodial Credit Risk – Investments

For the City’s investments, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The City’s investments in U.S. Treasury notes, government sponsored enterprises, corporate bonds, and equity securities, are exposed to custodial credit risk 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, no more than 50% of the City’s investments shall be invested in a single institution. MMDT is not subject to custodial credit risk as it is not evidenced by securities that exist in physical or book-entry form.

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

Interest Rate Risk

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

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

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from 0.14 to 16.03 years.

Credit Risk

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

At June 30, 2020, the City’s investments were rated as follows:

Quality Rating	Government Sponsored Enterprises	Corporate Bonds	Bond Mutual Funds
AAA.....	\$ -	\$ 115,875	\$ 32,184
AA+.....	305,914	-	-
AA-.....	-	48,752	-
A+.....	-	97,464	-
A.....	-	-	736,536
A-.....	-	311,636	-
BBB+.....	-	216,085	-
BBB.....	-	235,802	1,767,176
BB.....	-	-	864,770
B.....	-	-	335,119
 Total.....	 \$ 305,914	 \$ 1,025,614	 \$ 3,735,785

The System has not adopted a formal policy related to credit risk. At December 31, 2019, the System did not have any rated investments.

Concentration of Credit Risk

The City’s investment policy states that with the exception of U.S. Treasury notes or investments fully collateralized by U.S. Treasuries or Agencies, and State Investment Pools, no more than 5% of the City’s investments shall be invested in a single institution. At June 30, 2020, the City’s investment in any one issuer did not exceed 5% of the total amount invested.

The System has not adopted a formal policy related to the amount that may be invested in any one issuer. At December 31, 2019, the System’s investment in any one issuer did not exceed 5% of the total amount invested.

Fair Market Value of Investments

The City holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the City’s mission, the City determines that the disclosures related to these investments only need to be

disaggregated by major type. The City chooses a tabular format for disclosing the levels within the fair value hierarchy.

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

The City has the following recurring fair value measurements as of June 30, 2020:

Investment Type	June 30, 2020	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured at fair value:				
<u>Debt securities:</u>				
U.S. treasury notes.....	\$ 350,780	\$ 350,780	\$ -	\$ -
Government sponsored enterprises.....	305,914	305,914	-	-
Corporate bonds.....	1,025,614	-	1,025,614	-
Bond mutual funds.....	3,735,785	3,735,785	-	-
Total debt securities.....	5,418,093	4,392,479	1,025,614	-
<u>Other investments:</u>				
Equity securities.....	867,782	867,782	-	-
Equity mutual funds.....	6,436,381	6,436,381	-	-
Money market mutual funds.....	153,112	153,112	-	-
Total other investments.....	7,457,275	7,457,275	-	-
Total investments measured at fair value.....	12,875,368	\$ 11,849,754	\$ 1,025,614	\$ -
Investments measured at amortized cost:				
MMDT - Cash portfolio.....	25,199,344			
Total investments.....	\$ 38,074,712			

U.S. treasury notes, government sponsored enterprises, bond mutual funds, equity securities, equity mutual funds, and money market mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Corporate bonds classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

MMDT Cash Portfolio investments are valued at amortized cost. Under the amortized cost method, an investment is valued initially at its cost and adjusted for the amount of interest income accrued each day over the term of the investment to account for any difference between the initial cost and the amount payable at its maturity. If amortized cost is determined not to approximate fair value, the value of the portfolio securities will be determined under procedures established by the Advisor.

The System holds significant amounts of investments that are measured at fair value on a recurring basis. Because investing is a key part of the plan’s activities, the plan shows greater disaggregation in its disclosures. The plan chooses a tabular format for disclosing the levels within the fair value hierarchy. The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The System has the following recurring fair value measurements as of December 31, 2019:

Investment Type	December 31, 2019	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured at fair value:				
Equity securities.....	\$ 384,945	\$ 384,945	\$ -	\$ -
Investments measured at net asset value:				
Pension Reserve Investment Trust (PRIT)....	410,557,862			
Total investments.....	\$ 410,942,807			

Equity securities classified in level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

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

NOTE 3 - RECEIVABLES

At June 30, 2020, receivables for the individual major governmental funds and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, were as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes... \$	4,001,785	\$ (510,000)	\$ 3,491,785
Tax liens.....	3,268,717	(1,553,000)	1,715,717
Community preservation fund surtax.....	27,962	-	27,962
Motor vehicle and other excise taxes.....	4,324,634	(626,000)	3,698,634
Trash user fees.....	598,716	-	598,716
Departmental and other.....	535,957	-	535,957
Intergovernmental.....	20,003,021	-	20,003,021
Loans.....	76,165	-	76,165
Total.....	<u>\$ 32,836,957</u>	<u>\$ (2,689,000)</u>	<u>\$ 30,147,957</u>

At June 30, 2020, receivables for the enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water liens - user fees..... \$	136,395	-	\$ 136,395
Water user fees.....	3,285,642	-	3,285,642
Sewer liens - user fees.....	192,015	-	192,015
Sewer user fees.....	5,701,410	-	5,701,410
Parking departmental and other....	975,046	-	975,046
Total.....	<u>\$ 10,290,508</u>	<u>\$ -</u>	<u>\$ 10,290,508</u>

Governmental funds report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current year, the various components of *unavailable revenue* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes..... \$	2,285,677	-	\$ 2,285,677
Tax liens.....	1,715,717	-	1,715,717
Community preservation fund surtax.....	-	27,962	27,962
Motor vehicle and other excise taxes.....	3,698,634	-	3,698,634
User charges.....	598,716	-	598,716
Departmental and other.....	239,423	8,200	247,623
Intergovernmental - highway improvements.....	-	3,414,558	3,414,558
Intergovernmental - School Building Authority....	3,505,375	-	3,505,375
Intergovernmental - other.....	-	9,781,450	9,781,450
Loans.....	-	76,165	76,165
<u>Other asset type:</u>			
Tax foreclosures.....	5,066,420	-	5,066,420
Total.....	<u>\$ 17,109,962</u>	<u>\$ 13,308,335</u>	<u>\$ 30,418,297</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 34,002,393	\$ -	\$ -	\$ 34,002,393
Construction in progress.....	10,377,670	23,044,509	(122,047)	33,300,132
Total capital assets not being depreciated...	44,380,063	23,044,509	(122,047)	67,302,525
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	356,590,756	831,194	-	357,421,950
Capital improvements (other than buildings).....	30,959,757	-	-	30,959,757
Infrastructure.....	198,983,204	3,882,414	-	202,865,618
Vehicles.....	20,477,126	373,233	-	20,850,359
Equipment.....	13,357,236	1,600,038	-	14,957,274
Books.....	7,810,699	-	-	7,810,699
Software.....	495,990	-	-	495,990
Total capital assets being depreciated.....	628,674,768	6,686,879	-	635,361,647
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(233,477,442)	(6,738,686)	-	(240,216,128)
Capital improvements (other than buildings).....	(16,454,247)	(1,094,687)	-	(17,548,934)
Infrastructure.....	(93,463,871)	(3,029,656)	-	(96,493,527)
Vehicles.....	(16,460,009)	(1,563,993)	-	(18,024,002)
Equipment.....	(6,757,226)	(1,021,481)	-	(7,778,707)
Books.....	(7,170,851)	(233,624)	-	(7,404,475)
Software.....	(495,990)	-	-	(495,990)
Total accumulated depreciation.....	(374,279,636)	(13,682,127)	-	(387,961,763)
Total capital assets being depreciated, net.....	254,395,132	(6,995,248)	-	247,399,884
Total governmental activities capital assets, net....	\$ 298,775,195	\$ 16,049,261	\$ (122,047)	\$ 314,702,409

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,844,420	\$ -	\$ -	\$ 2,844,420
Construction in progress.....	<u>23,434,347</u>	<u>36,758,366</u>	<u>(1,923,872)</u>	<u>58,268,841</u>
Total capital assets not being depreciated....	<u>26,278,767</u>	<u>36,758,366</u>	<u>(1,923,872)</u>	<u>61,113,261</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	3,111,313	-	-	3,111,313
Capital improvements (other than buildings).....	30,786,821	1,221,725	-	32,008,546
Infrastructure.....	340,986,123	2,801,780	-	343,787,903
Equipment.....	3,600,932	203,000	-	3,803,932
Vehicles.....	<u>2,465,341</u>	<u>216,781</u>	<u>-</u>	<u>2,682,122</u>
Total capital assets being depreciated.....	<u>380,950,530</u>	<u>4,443,286</u>	<u>-</u>	<u>385,393,816</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(280,708)	(77,546)	-	(358,254)
Capital improvements (other than buildings).....	(12,054,079)	(1,488,527)	-	(13,542,606)
Infrastructure.....	(155,268,693)	(6,997,135)	-	(162,265,828)
Equipment.....	(1,831,794)	(303,709)	-	(2,135,503)
Vehicles.....	<u>(2,066,013)</u>	<u>(221,298)</u>	<u>-</u>	<u>(2,287,311)</u>
Total accumulated depreciation.....	<u>(171,501,287)</u>	<u>(9,088,215)</u>	<u>-</u>	<u>(180,589,502)</u>
Total capital assets being depreciated, net.....	<u>209,449,243</u>	<u>(4,644,929)</u>	<u>-</u>	<u>204,804,314</u>
Total business-type activities capital assets, net....	<u>\$ 235,728,010</u>	<u>\$ 32,113,437</u>	<u>\$ (1,923,872)</u>	<u>\$ 265,917,575</u>

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

Governmental Activities:

General government.....	\$ 746,219
Public safety.....	2,028,644
Education.....	6,262,570
Public works.....	2,731,601
Human services.....	258,274
Culture and recreation.....	<u>1,654,819</u>

Total depreciation expense - governmental activities.... \$ 13,682,127

Business-Type Activities:

Water.....	\$ 2,891,297
Sewer.....	4,594,913
Parking.....	<u>1,602,005</u>

Total depreciation expense - business-type activities... \$ 9,088,215

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2020, are summarized as follows:

Transfers Out:	Transfers In:		
	General fund	Nonmajor governmental funds	Total
General fund.....	\$ -	\$ 1,500,000	\$ 1,500,000 (1)
Nonmajor governmental funds.....	1,933,109	-	1,933,109 (2)
Parking enterprise fund.....	-	20,000	20,000 (3)
Total.....	\$ <u>1,933,109</u>	\$ <u>1,520,000</u>	\$ <u>3,453,109</u>

- (1) Transfer into nonmajor governmental funds from the general fund represent amounts voted for the high school renovation capital project.
- (2) Transfers into the general fund represent amounts voted to fund 2020 operations from nonmajor funds and surplus funds from the circuit breaker fund.
- (3) Transfer into the nonmajor governmental funds from the parking enterprise fund represent amounts voted for special revenue purposes.

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, and through the issuance of state aid anticipation notes (SAANS).

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

Details related to the short-term debt activity for the year ended June 30, 2020, was as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2019	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2020
Governmental Funds:							
BAN	Municipal Purpose.....	2.25%	9/27/19	\$ 2,245,027	\$ -	\$ (2,245,027)	\$ -
BAN	Municipal Purpose.....	1.25%	9/25/20	-	34,338,449	(33,756,049)	582,400 (A)
Total Governmental Funds.....				\$ 2,245,027	\$ 34,338,449	\$ (36,001,076)	\$ 582,400
Water Enterprise Fund:							
BAN	Municipal Purpose.....	2.25%	9/27/19	\$ 199,161	\$ -	\$ (199,161)	\$ -
BAN	Municipal Purpose.....	1.25%	9/25/20	-	537,740	(475,000)	62,740 (A)
Total Water Enterprise Fund.....				199,161	537,740	(674,161)	62,740
Sewer Enterprise Fund:							
BAN	MCWT Interim Note.....	2.00%	10/24/21	14,022,306	11,466,926	(13,578,832)	11,910,400
BAN	Municipal Purpose.....	2.25%	9/27/19	4,394,708	-	(4,394,708)	-
BAN	Municipal Purpose.....	2.00%	9/25/20	-	4,388,667	(4,077,700)	310,967 (A)
Total Sewer Enterprise Fund.....				18,417,014	15,855,593	(22,051,240)	12,221,367
Parking Enterprise Fund:							
BAN	Municipal Purpose.....	2.25%	9/27/19	767,100	-	(767,100)	-
BAN	Municipal Purpose.....	1.25%	9/25/20	-	100,000	-	100,000 (A)
Total Parking Enterprise Fund.....				767,100	100,000	(767,100)	100,000
Total Enterprise Funds.....				\$ 19,383,275	\$ 16,493,333	\$ (23,492,501)	\$ 12,384,107

(A) On September 24, 2020, the City issued \$59.9 million of long-term bonds that included \$53.6 million of general obligation bonds and \$6.3 million of refunding bonds. Of the general obligation bonds, \$38.4 million related to BANS outstanding at year end. Therefore, the City has recognized \$33.8 million of bond proceeds in the governmental funds and \$4.6 million in the various enterprise funds. Both the refunding proceeds and the remaining \$15.2 million of general obligation bonds will be recognized by the City in 2021. Of the \$13 million of BANS outstanding, \$1.1 million was paid down in 2021 with available funds at maturity.

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".

Details related to the outstanding indebtedness as of June 30, 2020, and the debt service requirements are presented on the following pages.

Bonds Payable Schedule – Governmental Funds

Project	Maturities Through	Interest Rate (%)	Outstanding at June 30, 2020
General Obligations Bonds Payable:			
Schools.....	2050	2.00-6.00	\$ 37,879,287
General.....	2050	2.00-6.00	66,314,699
Lowell Memorial Auditorium.....	2041	2.00-5.75	<u>1,829,961</u>
Total Bonds Payable.....			106,023,947
Add: Unamortized premium on bonds.....			<u>5,242,019</u>
Total Bonds Payable, net.....			<u>\$ 111,265,966</u>

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

Year	General Obligation Bonds Payable		
	Principal	Interest	Total
2021..... \$	7,470,399	\$ 3,423,739	\$ 10,894,138
2022.....	8,213,359	4,272,223	12,485,582
2023.....	7,148,000	3,404,864	10,552,864
2024.....	6,205,189	3,080,844	9,286,033
2025.....	6,261,300	2,780,243	9,041,543
2026.....	5,961,000	2,485,656	8,446,656
2027.....	6,047,600	2,191,981	8,239,581
2028.....	5,972,200	1,896,812	7,869,012
2029.....	5,825,900	1,617,943	7,443,843
2030.....	5,594,000	1,360,012	6,954,012
2031.....	4,380,000	1,126,029	5,506,029
2032.....	4,050,000	968,188	5,018,188
2033.....	3,520,000	826,803	4,346,803
2034.....	3,185,000	702,356	3,887,356
2035.....	3,125,000	597,448	3,722,448
2036.....	2,770,000	512,027	3,282,027
2037.....	2,230,000	446,725	2,676,725
2038.....	2,270,000	396,772	2,666,772
2039.....	2,115,000	331,175	2,446,175
2040.....	2,165,000	278,725	2,443,725
2041.....	1,215,000	240,000	1,455,000
2042.....	1,045,000	217,350	1,262,350
2043.....	1,070,000	195,532	1,265,532
2044.....	1,095,000	171,846	1,266,846
2045.....	1,120,000	146,928	1,266,928
2046.....	1,140,000	121,503	1,261,503
2047.....	1,165,000	95,570	1,260,570
2048.....	1,195,000	69,020	1,264,020
2049.....	1,220,000	41,851	1,261,851
2050.....	1,250,000	14,062	1,264,062
Total..... \$	<u>106,023,947</u>	<u>\$ 34,014,227</u>	<u>\$ 140,038,174</u>

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority (MSBA), provides resources for future debt service of general obligation school bonds outstanding. During 2020, \$1,193,000 of such assistance was received. Approximately \$3,578,000 will be received in future years. Of this amount, approximately \$73,000 represents reimbursement of long-term interest costs, and approximately \$3,505,000 represents reimbursement of approved construction costs. Accordingly, a \$3,505,000 intergovernmental receivable and corresponding unavailable revenue have been reported in governmental fund financial statements. The unavailable revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The City is scheduled to be subsidized directly by the Department of the Treasury on a periodic basis for interest costs in the amount of \$299,000 related to the issuance of Qualified Energy Conservation Bonds. Thus, net loan repayments, including interest, are scheduled to be \$1,648,000. Since the City is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The 2020 interest subsidy totaled approximately \$57,000. Annual payments are subject to sequestration.

The City is scheduled to be subsidized directly by the Department of the Treasury on a periodic basis for interest costs in the amount of \$815,000 related to the issuance of Recovery Zone Economic Development Bonds. Thus, net loan repayments, including interest, are scheduled to be \$5,702,000. Since the City is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The 2020 interest subsidy totaled approximately \$148,000. Annual payments are subject to sequestration.

Bonds Payable Schedule – Enterprise Funds

Project	Maturities Through	Interest Rate (%)	Outstanding at June 30, 2020
General Obligations Bonds Payable:			
Sewer.....	2048	2.00-6.00	\$ 27,724,501
Water.....	2041	2.00-6.00	11,882,000
Parking.....	2045	4.00-5.00	<u>50,533,300</u>
Subtotal General Obligations Bonds Payable.....			<u>90,139,801</u>
Direct Borrowings Payable:			
Sewer - MCWT.....	2043	2.00-2.37	67,188,654
Water - MCWT.....	2041	2.00-5.25	<u>27,226,248</u>
Subtotal Direct Borrowings Payable.....			<u>94,414,902</u>
Add: Unamortized premium on bonds.....			<u>4,075,788</u>
Total Bonds Payable, net.....			<u>\$ 188,630,491</u>

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

Year	General Obligation Bonds Payable		
	Principal	Interest	Total
2021.....	\$ 5,409,601	\$ 3,790,663	\$ 9,200,264
2022.....	6,174,200	3,222,636	9,396,836
2023.....	6,131,500	2,885,278	9,016,778
2024.....	5,761,000	2,619,272	8,380,272
2025.....	5,927,000	2,365,226	8,292,226
2026.....	5,755,000	2,111,855	7,866,855
2027.....	5,911,000	1,857,805	7,768,805
2028.....	6,055,000	1,594,893	7,649,893
2029.....	3,750,000	1,381,521	5,131,521
2030.....	3,664,500	1,222,393	4,886,893
2031.....	3,511,000	1,074,081	4,585,081
2032.....	3,125,000	951,451	4,076,451
2033.....	2,990,000	838,253	3,828,253
2034.....	3,010,000	732,430	3,742,430
2035.....	2,795,000	638,501	3,433,501
2036.....	2,855,000	551,619	3,406,619
2037.....	2,075,000	477,550	2,552,550
2038.....	2,120,000	407,859	2,527,859
2039.....	1,750,000	351,037	2,101,037
2040.....	1,795,000	299,937	2,094,937
2041.....	1,710,000	249,462	1,959,462
2042.....	1,730,000	199,837	1,929,837
2043.....	1,785,000	148,869	1,933,869
2044.....	1,840,000	96,057	1,936,057
2045.....	1,895,000	41,513	1,936,513
2046.....	200,000	11,588	211,588
2047.....	205,000	7,032	212,032
2048.....	210,000	2,363	212,363
Total.....	\$ 90,139,801	\$ 30,130,982	\$ 120,270,783

Year	Direct Borrowings Payable		
	Principal	Interest	Total
2021.....	\$ 5,927,091	\$ 2,113,291	\$ 8,040,382
2022.....	5,367,476	1,965,823	7,333,299
2023.....	5,495,142	1,823,475	7,318,617
2024.....	5,270,145	1,686,158	6,956,303
2025.....	5,387,546	1,559,460	6,947,006
2026.....	4,962,391	1,453,003	6,415,394
2027.....	4,784,381	1,347,028	6,131,409
2028.....	4,735,828	1,243,102	5,978,930
2029.....	4,628,596	1,140,526	5,769,122
2030.....	4,626,572	1,038,815	5,665,387
2031.....	4,733,346	935,831	5,669,177
2032.....	4,355,168	835,334	5,190,502
2033.....	4,457,106	737,361	5,194,467
2034.....	4,243,370	638,386	4,881,756
2035.....	4,343,246	542,138	4,885,384
2036.....	4,335,783	443,614	4,779,397
2037.....	4,224,808	344,936	4,569,744
2038.....	3,391,360	251,627	3,642,987
2039.....	3,473,043	172,236	3,645,279
2040.....	2,356,004	105,455	2,461,459
2041.....	1,624,551	59,472	1,684,023
2042.....	835,315	30,201	865,516
2043.....	856,634	10,151	866,785
Total.....	\$ <u>94,414,902</u>	\$ <u>20,477,424</u>	\$ <u>114,892,326</u>

The City is scheduled to be subsidized by the Massachusetts Clean Water Trust (MCWT) on a periodic basis for principal in the amount of \$948,000 and interest costs for \$427,000. The principal subsidies are guaranteed. The interest subsidies are supported through future investment income and are expected to be made, although not guaranteed. Since the City is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The 2020 principal and interest subsidies totaled approximately \$311,000 and \$160,000, respectively.

In order to take advantage of favorable interest rates, the City issued \$6,966,000 of general obligation refunding bonds on September 26, 2019. Of the bonds, \$3,797,500 was governmental and \$3,168,500 related to the water and sewer enterprise funds. The proceeds of the refunding bonds were used to complete a current refunding of existing debt. The refunded bonds totaled \$8,075,000 and became callable on November 15, 2019. As a result of the transaction, the refunded bonds were paid down on the call date and the liability has been removed from the statement of net position. The transaction resulted in an economic gain of \$876,914 and a reduction of \$982,513 in future debt service payments.

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, 2020, the City had the following authorized and unissued debt:

Purpose	Amount
High school construction.....	\$ 338,949,149
Legal and engineering services.....	21,000,000
Wet-weather storage facility.....	16,000,000
Water storage tank.....	15,000,000
Wet-weather treatment facility.....	15,000,000
School boilers and roof repairs.....	13,604,154
All other projects.....	119,761,395
Total.....	\$ 539,314,698

Changes in Long-term Liabilities

During the year ended June 30, 2020, the following changes occurred in long-term liabilities:

	Beginning Balance	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Increases	Other Decreases	Ending Balance	Due Within One Year
Governmental Activities:							
Long-term bonds payable.....	\$ 78,602,847	\$ 36,256,048	\$ (8,227,448)	\$ 3,797,500	\$ (4,405,000)	\$ 106,023,947	\$ 7,470,399
Add: Unamortized premium on bonds....	2,747,511	2,897,822	(403,314)	-	-	5,242,019	859,383
Total bonds payable.....	81,350,358	39,153,870	(8,630,762)	3,797,500	(4,405,000)	111,265,966	8,329,782
Compensated absences.....	13,172,969	-	-	13,444,421	(7,511,689)	19,105,701	9,224,912
Workers' compensation.....	3,750,500	-	-	253,500	(630,600)	3,373,400	654,500
Net pension liability.....	256,891,644	-	-	4,589,614	(30,968,265)	230,512,993	-
Net OPEB liability.....	663,672,870	-	-	147,798,854	(18,046,012)	793,425,712	-
Total governmental activity long-term liabilities.....	\$ 1,018,838,341	\$ 39,153,870	\$ (8,630,762)	\$ 169,883,889	\$ (61,561,566)	\$ 1,157,683,772	\$ 18,209,194
Business-Type Activities:							
Long-term bonds payable.....	\$ 66,164,153	\$ 29,684,700	\$ (5,207,552)	\$ 3,168,500	\$ (3,670,000)	\$ 90,139,801	\$ 5,409,601
Direct borrowings payable.....	87,030,420	12,666,941	(5,282,459)	-	-	94,414,902	5,927,091
Add: Unamortized premium on bonds....	1,836,263	2,605,765	(366,240)	-	-	4,075,788	655,540
Total bonds payable.....	155,030,836	44,957,406	(10,856,251)	3,168,500	(3,670,000)	188,630,491	11,992,232
Compensated absences.....	533,118	-	-	751,518	(369,402)	915,234	537,594
Net pension liability.....	23,174,036	-	-	1,186,201	(2,371,058)	21,989,179	-
Net OPEB liability.....	33,389,277	-	-	9,893,716	(907,892)	42,375,101	-
Total business-type activity long-term liabilities.....	\$ 212,127,267	\$ 44,957,406	\$ (10,856,251)	\$ 14,999,935	\$ (7,318,352)	\$ 253,910,005	\$ 12,529,826

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

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

The City classifies fund balances according to constraints on the use of the resources. There are 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.

Spendable fund balances are classified 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 City from its highest level of decision-making authority.
- Assigned: fund balances that contain self-imposed constraints of the City to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose and the deficit fund balances for other funds that would otherwise be restricted, committed, or assigned.

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

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 \$12,284,000 and is reported as unassigned fund balance within the general fund. The pension assessment stabilization, school construction stabilization, capital debt service stabilization, employee benefits and mitigation, salary reserve stabilization, and municipal facility stabilization funds, reported as committed fund balance within the general fund, have year end balances of \$888,000, \$2,000, \$1,451,000, \$1,255,000, \$1,000,000, and \$119,000 respectively.

As of June 30, 2020, fund balances consisted of the following:

	General	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances:			
Nonspendable:			
Permanent fund principal.....	\$ -	\$ 1,860,648	\$ 1,860,648
Restricted for:			
Chapter 17 special reserve.....	1,150	-	1,150
Gifts and grants.....	-	14,741,374	14,741,374
Federal grants.....	-	731,840	731,840
Section 108.....	-	205,337	205,337
Sale of City property.....	-	254,955	254,955
Community preservation fund.....	-	684,765	684,765
Revolving.....	-	5,130,772	5,130,772
Capital projects.....	-	16,049,908	16,049,908
Expendable permanent funds.....	-	378,706	378,706
Committed to:			
Salary reserve stabilization.....	1,000,010	-	1,000,010
Employee benefits and mitigation.....	1,254,857	-	1,254,857
Capital debt service stabilization.....	1,451,241	-	1,451,241
Pension assessment stabilization.....	887,988	-	887,988
School construction stabilization.....	2,163	-	2,163
Municipal facilities stabilization.....	118,525	-	118,525
Assigned to:			
Encumbrances:			
General government.....	5,809	-	5,809
Public safety.....	14,350	-	14,350
Education.....	2,621,820	-	2,621,820
Public works.....	225,953	-	225,953
Culture and recreation.....	425	-	425
Unassigned.....	20,347,504	-	20,347,504
Total Fund Balances.....	\$ 27,931,795	\$ 40,038,305	\$ 67,970,100

NOTE 9 - RISK FINANCING

The City is exposed to various risk of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters for which the City carries commercial insurance. The City discontinued a self-insurance health insurance plan and joined the Group Insurance Commission of the Commonwealth of Massachusetts (GIC) to provide health insurance benefits for its employees and retirees. The amount of claim settlements has not exceeded insurance coverage in any of the previous years.

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

Workers' Compensation

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

The City has recorded a liability of \$3.4 million at June 30, 2020, which represents an estimate of all outstanding claims as of that date. Changes in the reported liability since July 1, 2018, are as follows:

	Balance at Beginning of Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Year-End	Current Portion
2019.....	\$ 3,075,500	\$ 2,068,737	\$ (1,393,737)	\$ 3,750,500	\$ 630,600
2020.....	3,750,500	1,034,623	(1,411,723)	3,373,400	654,500

NOTE 10 - PENSION PLAN

Plan Descriptions

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

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

Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make 100% of all actuarially determined employer contributions on behalf of the City to the MTRS. Therefore, the City is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in MTRS. Since the City does not contribute directly to MTRS, there is no net pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based on each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2019. The City's portion of the collective pension expense, contributed by the Commonwealth, of \$44,385,319 is reported in the general fund as intergovernmental revenue and pension benefits in the current fiscal year. The portion of the Commonwealth's collective net pension liability associated with the City is \$366,012,093 as of the measurement date.

Benefits Provided

Both Systems provide retirement, disability, survivor and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. The Systems provide retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. Members become vested after ten years of creditable service. There were no reported changes in pension benefit terms that effect measurement of the total pension liability as of December 31, 2019.

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

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

At December 31, 2019, the System membership consisted of the following:

Active members.....	1,745
Inactive members.....	239
Retirees and beneficiaries currently receiving benefits....	<u>1,294</u>
Total.....	<u><u>3,278</u></u>

Contributions

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the System a legislatively mandated actuarially determined contribution that is apportioned among the employers based on active current payroll. The total member units' contribution for the year ended December 31, 2019, was \$28,821,259, or 28.74% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City's proportionate share of the required contribution was \$27,226,906, which equaled its actual contribution.

Pension Liabilities

The components of the net pension liability of the participating member units at December 31, 2019, were as follows:

Total pension liability.....	\$ 688,682,544
Total pension plan's fiduciary net position.....	<u>(421,394,364)</u>
Total net pension liability.....	\$ <u>267,288,180</u>
The pension plan's fiduciary net position as a percentage of the total pension liability.....	61.19%

At June 30, 2020, the City reported a liability of \$252,502,172 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2019. Accordingly, update procedures were used to update the total pension liability to the measurement date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members. At December 31, 2019, the City's proportion was 94.47%, which decreased from its proportion of 94.52% in the prior year.

Pension Expense

For the year ended June 30, 2020, the City recognized a pension expense of \$33,922,398. At June 30, 2020, the City reported deferred outflows and inflows of resources related to pensions of the following:

<u>Deferred Category</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Total</u>
Differences between expected and actual experience.....	\$ 950,273	\$ (7,412,045)	\$ (6,461,772)
Difference between projected and actual earnings, net.....	-	(11,126,390)	(11,126,390)
Changes in assumptions.....	9,488,389	-	9,488,389
Changes in proportion and proportionate share of contributions....	<u>3,307,379</u>	<u>(1,379,358)</u>	<u>1,928,021</u>
Total deferred outflows/(inflows) of resources.....	\$ <u>13,746,041</u>	\$ <u>(19,917,793)</u>	\$ <u>(6,171,752)</u>

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

<u>Year ended June 30:</u>	
2021.....	\$ 1,903,518
2022.....	(4,134,269)
2023.....	971,134
2024.....	(4,918,299)
2025.....	<u>6,164</u>
Total deferred outflows/(inflows) of resources.....	\$ <u>(6,171,752)</u>

Actuarial Assumptions

The total pension liability in the January 1, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2019:

Valuation date.....	January 1, 2019
Actuarial cost method.....	Entry Age Normal.
Amortization method - UAAL.....	Increasing dollar amount at 4% to reduce the Unfunded Actuarial Accrued Liability to zero on or before June 30, 2036, with annual increases in appropriations limited to 5%.
Amortization method - 2003 ERI Actuarial Liability.....	Level dollar amount to reduce the 2003 ERI Actuarial Accrued Liability to zero on or before June 30, 2020.
Asset valuation method.....	The Actuarial Value of Assets is the market value of assets as of the valuation date reduced by the sum of: a) 80% of gains and losses of the prior year, b) 60% of gains and losses of the second prior year, c) 40% of gains and losses of the third prior year and d) 20% of gains and losses of the fourth prior year. Investment gains and losses are determined by the excess or deficiency of the expected return over the actual return on the market value. The actuarial valuation of assets is further constrained to be not less than 90% or more than 110% of market value.
Investment rate of return.....	7.65%, net of pension plan investment expense, including inflation.
Discount rate.....	7.65%
Inflation rate.....	2.40% per year.
Projected salary increases.....	6.00% - 4.25% for Group 1 (based on service). 7.00% - 4.75% for Group 4 (based on service).
Payroll growth.....	4.00% per year.
Cost of living adjustments.....	3.00% of the first \$17,000 of the annual retirement allowance.
Mortality rates.....	RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB. For disabled members, RP-2000 Mortality Table (base year 2012) with full generational mortality improvement using Scale BB.

Investment policy

The System's policy in regard to the allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are

developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System’s target asset allocation as of December 31, 2019, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity.....	39.00%	4.68%
Core fixed income.....	15.00%	0.59%
Value-added fixed income.....	8.00%	4.40%
Private equity.....	13.00%	8.50%
Real estate.....	10.00%	3.70%
Timber/natural resources.....	4.00%	4.30%
Portfolio completion.....	11.00%	3.40%
 Total.....	 <u>100.00%</u>	

Rate of return

For the year ended December 31, 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 15.66%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65%) or 1-percentage-point higher (8.65%) than the current rate:

	<u>1% Decrease (6.65%)</u>	<u>Current Discount (7.65%)</u>	<u>1% Increase (8.65%)</u>
	<u>December 31, 2019 Measurement Date</u>		
The City's proportionate share of the net pension liability.....	\$ <u>325,176,594</u>	\$ <u>252,502,172</u>	\$ <u>190,990,514</u>
LCRS total net pension liability.....	\$ <u>344,218,267</u>	\$ <u>267,288,180</u>	\$ <u>202,174,526</u>

Non-contributory Retirement Allowance

City employees with military veteran status and at least 30 years of service to the City, who began work prior to July 1, 1939, and others meeting eligibility criteria are entitled to a non-contributory pension benefit equal to 72% of their highest rate of pay. Employees covered by this section of the plan are not included in the actuarial valuation and there is no available estimate of the related actuarial liability. The City funds these benefits from an annual general fund appropriation. The general fund expenditure for 2020 was \$24,000.

Changes in Assumptions – None.

Changes in Plan Provisions – None.

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

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

Funding Policy

The contribution requirements of Plan members and the City are established and may be amended through collective bargaining. The required contribution is based on projected pay-as-you-go financing requirements. The City contributes 75% of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 25 percent of their premium costs. For 2020, the City contributed \$18,499,670 to the plan. For the year ended June 30, 2020, the City’s average contribution rate was 9.58% of covered employee payroll.

The Commonwealth of Massachusetts passed special legislation that has allowed the City to establish the other postemployment benefit trust fund to begin pre-funding its OPEB liabilities. As of June 30, 2020, the net position of the OPEB trust fund totaled \$10.6 million.

Summary of Significant Accounting Policies

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts (repurchase agreements) that have a maturity at the time of purchase of one year or less, which are reported at cost.

Measurement Date

GASB Statement #75 requires the net OPEB liability to be measured as of a date no earlier than the end of the employer’s prior fiscal year and no later than the end of the employer’s current fiscal year, consistently applied

from period to period. Accordingly, the net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2018.

Plan Membership

The following table represents the Plan’s membership at July 1, 2018:

Active members.....	2,886
Inactive members currently receiving benefits....	<u>2,295</u>
Total.....	<u><u>5,181</u></u>

Components of OPEB Liability

The following table represents the components of the Plan’s OPEB liability as of June 30, 2020:

Total OPEB liability.....	\$ 846,409,285
Less: OPEB plan’s fiduciary net position.....	<u>(10,608,472)</u>
Net OPEB liability.....	<u><u>\$ 835,800,813</u></u>
The OPEB plan’s fiduciary net position as a percentage of the total OPEB liability..	1.25%

Significant Actuarial Methods and Assumptions

The total OPEB liability in the July 1, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified, that was updated to June 30, 2020:

Valuation date.....	July 1, 2018.
Actuarial cost method.....	Entry age normal as a percentage of payroll.
Asset valuation method.....	Fair value of assets as of the reporting date, June 30, 2020.
Investment rate of return.....	2.44%, previously 3.10%.
Discount rate.....	2.44%, previously 3.10%.
Inflation rate.....	Assumed 2.0%.
Projected salary increases.....	3.0% per year.
Healthcare cost trend rate.....	8.0%, decreasing by 0.5% per year to an ultimate rate of 5.0% for 2026 and later.

Mortality rates..... RP 2014 Healthy Male and Female Tables are based on the Combined Healthy Table for both pre & post retirement projected with mortality improvements using Projection Scale AA for 4.5 years, (i.e., from date of table to the valuation date), plus 10 years generational improvement for a total of 14.5 years.

Rate of return

For the year ended June 30, 2020, the annual money-weighted rate of return on investments, net of investment expense, was 3.71%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Investment policy

The City’s policy in regard to the allocation of invested assets is established and may be amended by the Board of Selectmen by a majority vote of its members. The OPEB plan’s assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the OPEB plan. The long-term real rate of return on OPEB investments was determined using the City’s investment policy.

The long-term expected rate of return on OPEB plan investments was determined using an average of three 20-year bond indices, Bond Buyer-20 Bond GO – 2.11%, S&P Municipal Bond 20 Year High Grade Rate Index – 2.66%, and Fidelity GA AA 20 Years – 2.45% as of June 30, 2020. The Plan’s expected future real rate of return of 2.44% is added to the expected inflation of 2.00% to produce the long-term expected nominal rate of return of 4.44%.

Best estimates of geometric real rates of return for each major asset class included in the OPEB plan’s target asset allocation as of June 30, 2020 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity.....	25.00%	4.96%
International equity.....	10.00%	7.01%
Domestic bond.....	35.00%	2.22%
International bond.....	10.00%	1.53%
Alternatives.....	20.00%	2.76%
Total.....	<u>100.00%</u>	

Discount rate

The discount rate used to measure the total OPEB liability was 2.44% as of June 30, 2020. The City’s net other postemployment benefits liability was determined based on an average of three 20-year bond indices (e.g. Bond Buyer-20 Bond GO, S&P Municipal Bond 20 Year High Grade Rate Index, Fidelity GA AA 20 Years). Due to the low value of the OPEB trust compared to the City’s liability, the Plan fiduciary net position is not projected to satisfy future benefit payments and, accordingly, the Municipal Bond Rate was applied rather than the projected investment return.

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2019.....	\$ 706,929,377	\$ 9,867,230	\$ 697,062,147
Changes for the year:			
Service cost.....	12,639,310	-	12,639,310
Interest.....	17,027,944	-	17,027,944
Changes in assumptions and other inputs....	127,938,324	-	127,938,324
Benefit payments.....	(18,125,670)	(18,125,670)	-
Contributions from employer.....	-	18,499,670	(18,499,670)
Investment income.....	-	367,242	(367,242)
Net change.....	<u>139,479,908</u>	<u>741,242</u>	<u>138,738,666</u>
Balances at June 30, 2020.....	<u>\$ 846,409,285</u>	<u>\$ 10,608,472</u>	<u>\$ 835,800,813</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the net other postemployment benefit liability and service cost, calculated using the discount rate of 2.44%, as well as what the net other postemployment benefit liability and service cost would be if it were calculated using a discount rate that is 1-percentage-point lower (1.44%) or 1-percentage-point higher (3.44%) than the current rate.

	1% Decrease (1.44%)	Current Discount Rate (2.44%)	1% Increase (3.44%)
Net OPEB liability... \$	<u>1,094,767,886</u>	<u>835,800,813</u>	<u>658,499,036</u>

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend

The following table presents the net other postemployment benefit liability and service cost, calculated using the current healthcare trend rate as well as what the net other postemployment benefit liability and service cost would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher.

	1% Decrease	Current Trend	1% Increase
Net OPEB liability.... \$	<u>660,553,667</u>	<u>835,800,813</u>	<u>1,108,585,094</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the City recognized OPEB expense of \$65,857,031 and reported deferred outflows of resources related to OPEB of \$158,791,970 from changes in assumptions.

Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

2021.....	\$	31,675,557
2022.....		31,675,557
2023.....		31,675,557
2024.....		31,675,557
2025.....		24,469,592
Thereafter.....		<u>7,620,150</u>
Total deferred outflows of resources.....	\$	<u>158,791,970</u>

Changes of Assumptions – The discount rate decreased from 3.10% to 2.44%.

Changes in Plan Provisions – None.

NOTE 12 – FINANCIAL STATEMENTS FOR INDIVIDUAL PENSION AND OTHER POSTEMPLOYMENT BENEFIT TRUST FUNDS

GAAP requires that all Pension and Other Postemployment Benefit Trust Funds be combined and presented in one column in the Fiduciary Funds financial statements and that the individual financial statements for each trust fund plan are reported in the notes to the financial statements. Provided below are the individual financial statements for the pension and OPEB plans that are included in the Fiduciary Funds as Pension and Other Employee Benefit Trust Funds.

	Pension Trust Fund (as of December 31, 2019)	Other Postemployment Benefit Trust Fund	Total Pension and Other Employee Benefit Trust Funds
ASSETS			
Cash and cash equivalents.....	\$ 10,438,894	\$ 55,231	\$ 10,494,125
Investments:			
Investments in Pension Reserve Investment Trust.....	410,557,862	-	410,557,862
Equity securities.....	384,945	413,259	798,204
Equity mutual funds.....	-	6,436,381	6,436,381
Bond mutual funds.....	-	3,703,601	3,703,601
Receivables, net of allowance for uncollectibles:			
Interest and dividends.....	<u>12,663</u>	<u>-</u>	<u>12,663</u>
TOTAL ASSETS.....	<u>421,394,364</u>	<u>10,608,472</u>	<u>432,002,836</u>
NET POSITION			
Restricted for pensions.....	421,394,364	-	421,394,364
Restricted for other postemployment benefits.....	<u>-</u>	<u>10,608,472</u>	<u>10,608,472</u>
TOTAL NET POSITION.....	<u>\$ 421,394,364</u>	<u>\$ 10,608,472</u>	<u>\$ 432,002,836</u>

	Pension Trust Fund (as of December 31, 2019)	Other Postemployment Benefit Trust Fund	Total Pension and Other Employee Benefit Trust Funds
ADDITIONS:			
Contributions:			
Employer contributions.....	\$ 28,821,259	\$ 374,000	\$ 29,195,259
Employer contributions for other postemployment benefit payments..	-	18,125,670	18,125,670
Member contributions.....	9,779,705	-	9,779,705
Transfers from other systems.....	474,489	-	474,489
3(8)c contributions from other systems.....	766,738	-	766,738
Workers compensation settlements.....	27,250	-	27,250
State COLA reimbursements.....	625,449	-	625,449
Total contributions.....	40,494,890	18,499,670	58,994,560
Net investment income:			
Investment income.....	59,245,071	367,242	59,612,313
Less: investment expense.....	(2,012,095)	-	(2,012,095)
Net investment income.....	57,232,976	367,242	57,600,218
TOTAL ADDITIONS.....	97,727,866	18,866,912	116,594,778
DEDUCTIONS:			
Administration.....	397,038	-	397,038
Transfers to other systems.....	1,072,851	-	1,072,851
3(8)c transfer to other systems.....	1,747,011	-	1,747,011
Retirement benefits and refunds.....	41,098,095	-	41,098,095
Other postemployment benefit payments.....	-	18,125,670	18,125,670
TOTAL DEDUCTIONS.....	44,314,995	18,125,670	62,440,665
NET INCREASE (DECREASE) IN NET POSITION.....	53,412,871	741,242	54,154,113
NET POSITION AT BEGINNING OF YEAR.....	367,981,493	9,867,230	377,848,723
NET POSITION AT END OF YEAR.....	\$ 421,394,364	\$ 10,608,472	\$ 432,002,836

NOTE 13 – TAX INCREMENT FINANCING AGREEMENTS

The City enters into tax increment financing (TIF) agreements with local businesses under Chapter 40, Section 59 of the Massachusetts General Laws. Under this section of the law, localities may grant property tax exemptions of a business’ property tax bill for the purpose of attracting or retaining businesses within their jurisdictions. The exemptions may be granted to any business located within or promising to relocate to the City. At June 30, 2020, there were 11 agreements in place which extend out until 2035. These all represent new construction and permanent job opportunities within the City. For the fiscal year ended 2020, the City exempted property taxes totaling \$1,029,500 under these agreements.

The City has not made any commitments as part of the agreements other than to reduce taxes. The City is not subject to any tax abatement agreements entered into by other governmental entities.

NOTE 14 - COMMITMENTS

The City has entered into, or is planning to enter into, contracts totaling approximately \$539.3 million for high school construction, sewer projects, water projects, and various other capital projects. These projects will be funded through the issuance of long-term debt, state grants, and federal grants.

The general fund has various commitments for goods and services related to encumbrances totaling \$2,868,357.

NOTE 15 - CONTINGENCIES

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

Various other legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Based on review of the various claims asserted against the City, it has been determined that a negative outcome is both probable and reasonably able to be estimated. As of June 30, 2020, the City has reflected \$5 million as a legal settlement reserve to assist in any claims or judgements asserted against the City.

NOTE 16 – COVID-19

On March 10, 2020, the Massachusetts Governor declared a state of emergency in response to the coronavirus outbreak. The World Health Organization officially declared the novel Coronavirus (COVID-19) a pandemic the following day. In an attempt to slow the spread of COVID-19, governments issued various stay at home orders that caused global economic shutdowns and substantial financial market impact. Starting in March 2020, the Governor continued to issue orders allowing governments to operate and carry out essential functions safely. These included modifying the state's Open Meeting Law, issuing a stay-at-home order, and introducing a phased approach to reopening State businesses. The City is considered an essential business and although it was closed to the public for a period of time, departments remained operational and most employees continued to perform their daily duties.

A number of businesses have been forced to stop or significantly reduce operations decreasing, the City's portion of certain revenue. The City has also incurred unanticipated costs specifically related to the pandemic.

On March 27, 2020, the United States Federal Government established the Coronavirus Aid, Relief and Economic Security (CARES) Act in response to the economic downfall caused by the COVID-19 pandemic. This Act requires that the payment from these funds be used only to cover expenses that; are necessary expenditures incurred due to the public health emergency with respect COVID-19; were not accounted for in the budget most recently approved as of March 27, 2020; and were incurred during the period that begins on March 1, 2020, and ends on December 31, 2021. The Commonwealth and communities throughout the Commonwealth were awarded a portion of this federal funding. In addition to funding from the CARES Act, there are several other federal and state grants available.

The full extent of the financial impact cannot be determined as of the date of the financial statements.

NOTE 17 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 1, 2021, which is the date the financial statements were available to be issued.

NOTE 18 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2020, the following GASB pronouncement was implemented:

- GASB Statement #95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This pronouncement postponed the effective dates of certain provisions in GASB Statements and Implementation Guides that first became effective or are scheduled to be effective for periods beginning after June 15, 2018 or later.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #84, *Fiduciary Activities*, which is required to be implemented in 2021.
- The GASB issued Statement #87, *Leases*, which is required to be implemented in 2022.
- The GASB issued Statement #89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is required to be implemented in 2022.
- The GASB issued Statement #90, *Majority Equity Interests – an amendment of GASB Statements #14 and #61*, which is required to be implemented in 2021.
- The GASB issued Statement #91, *Conduit Debt Obligations*, which is required to be implemented in 2023.
- The GASB issued Statement #92, *Omnibus 2020*, which is required to be implemented in 2022.
- The GASB issued Statement #93, *Replacement of Interbank Offered Rates*, which is required to be implemented in 2022.
- The GASB issued Statement #94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which is required to be implemented in 2023.
- The GASB issued Statement #96, *Subscription-Based Information Technology Arrangements*, which is required to be implemented in 2023.
- The GASB issued Statement #97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, in which certain paragraphs are required to be implemented in 2021 and 2022.

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

YEAR ENDED JUNE 30, 2020

	Budgeted Amounts			Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Amounts Carried Forward From Prior Year	Original Budget	Final Budget			
REVENUES:						
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 137,195,994	\$ 137,195,994	\$ 135,904,896	\$ -	\$ (1,291,098)
Tax liens.....	-	-	-	980,803	-	980,803
Motor vehicle and other excise taxes.....	-	8,709,943	8,709,943	8,746,387	-	36,444
Hotel/motel tax.....	-	340,000	340,000	261,846	-	(78,154)
Meals tax.....	-	1,292,366	1,292,366	1,220,378	-	(71,988)
Trash disposal.....	-	3,097,008	3,097,008	3,248,846	-	151,838
Penalties and interest on taxes.....	-	1,246,787	1,246,787	1,091,577	-	(155,210)
Payments in lieu of taxes.....	-	425,000	425,000	546,357	-	121,357
Intergovernmental - state aid.....	-	194,694,497	194,694,497	195,311,720	-	617,223
Intergovernmental - School Building Authority.....	-	1,192,791	1,192,791	1,192,791	-	-
Intergovernmental - other.....	-	-	-	333,754	-	333,754
Departmental and other.....	-	8,225,986	8,225,986	9,344,040	-	1,118,054
Investment income.....	-	320,000	320,000	1,086,862	-	766,862
TOTAL REVENUES.....	-	356,740,372	356,740,372	359,270,257	-	2,529,885
EXPENDITURES:						
Current:						
General government.....	24,811	18,297,037	18,729,436	16,764,888	5,809	1,958,739
Public safety.....	-	50,053,590	52,290,255	51,259,786	14,350	1,016,119
Education.....	27,247	169,869,873	170,619,923	167,723,255	2,621,820	274,848
Public works.....	14,571	14,243,022	14,279,131	13,533,501	225,953	519,677
Health and human services.....	-	4,174,547	4,174,547	3,976,863	-	197,684
Culture and recreation.....	-	4,184,646	4,206,246	3,967,100	425	238,721
Pension benefits.....	-	27,261,906	27,261,906	27,239,656	-	22,250
Employee benefits.....	-	46,758,003	47,063,273	44,616,265	-	2,447,008
State and county charges.....	-	29,061,793	29,061,793	27,902,381	-	1,159,412
Debt service:						
Principal.....	-	7,351,597	7,351,597	7,207,448	-	144,149
Interest.....	-	2,467,175	2,467,175	2,408,086	-	59,089
TOTAL EXPENDITURES.....	66,629	373,723,189	377,505,282	366,599,229	2,868,357	8,037,696
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(66,629)	(16,982,817)	(20,764,910)	(7,328,972)	(2,868,357)	10,567,581
OTHER FINANCING SOURCES (USES):						
Transfers in.....	-	10,559,946	11,835,946	12,075,631	-	239,685
Transfers out.....	-	-	(4,937,448)	(4,937,448)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	-	10,559,946	6,898,498	7,138,183	-	239,685
NET CHANGE IN FUND BALANCE.....	(66,629)	(6,422,871)	(13,866,412)	(190,789)	(2,868,357)	10,807,266
BUDGETARY FUND BALANCE, Beginning of year.....	-	10,109,281	10,109,281	10,109,281	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ (66,629)	\$ 3,686,410	\$ (3,757,131)	\$ 9,918,492	\$ (2,868,357)	\$ 10,807,266

See notes to required supplementary information.

Pension Plan Schedules - Retirement System

The Pension Plan's Schedule of Changes in the Net Pension Liability presents multi-year trend information on the net pension liability and related ratios.

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

The Pension Plan's Schedule of Investment Returns presents multi-year trend information on the money-weighted investment return on retirement assets, net of investment expense.

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

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

	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018	December 31, 2019
Total pension liability:						
Service cost.....	\$ 12,776,431	\$ 12,776,431	\$ 15,389,829	\$ 14,902,167	\$ 15,498,254	\$ 15,425,214
Interest.....	39,817,736	42,298,799	45,581,124	47,847,969	49,064,991	50,412,209
Changes in benefit terms.....	-	-	5,820,520	-	-	-
Differences between expected and actual experience.....	-	5,750,829	-	(8,810,808)	(5,025,406)	-
Changes in assumptions.....	-	31,423,849	-	-	6,798,633	-
Benefit payments.....	<u>(33,577,831)</u>	<u>(35,136,789)</u>	<u>(35,772,737)</u>	<u>(38,335,654)</u>	<u>(39,328,169)</u>	<u>(41,425,669)</u>
Net change in total pension liability.....	19,016,336	57,113,119	31,018,736	15,603,674	27,008,303	24,411,754
Total pension liability - beginning.....	<u>514,510,622</u>	<u>533,526,958</u>	<u>590,640,077</u>	<u>621,658,813</u>	<u>637,262,487</u>	<u>664,270,790</u>
Total pension liability - ending (a).....	<u>\$ 533,526,958</u>	<u>\$ 590,640,077</u>	<u>\$ 621,658,813</u>	<u>\$ 637,262,487</u>	<u>\$ 664,270,790</u>	<u>\$ 688,682,544</u>
Plan fiduciary net position:						
Employer contributions.....	\$ 21,880,170	\$ 21,837,654	\$ 24,701,289	\$ 26,141,731	\$ 27,448,818	\$ 28,821,259
Member contributions.....	8,983,678	8,903,043	8,204,174	8,451,653	9,311,730	9,181,343
Net investment income (loss).....	21,617,178	1,213,427	21,730,686	54,289,195	(8,694,089)	57,232,976
Administrative expenses.....	(358,770)	(355,999)	(367,634)	(381,369)	(347,172)	(397,038)
Retirement benefits and refunds.....	<u>(33,577,831)</u>	<u>(35,136,789)</u>	<u>(35,772,737)</u>	<u>(38,335,654)</u>	<u>(39,328,169)</u>	<u>(41,425,669)</u>
Net increase (decrease) in fiduciary net position.....	18,544,425	(3,538,664)	18,495,778	50,165,556	(11,608,882)	53,412,871
Fiduciary net position - beginning of year.....	<u>295,923,280</u>	<u>314,467,705</u>	<u>310,929,041</u>	<u>329,424,819</u>	<u>379,590,375</u>	<u>367,981,493</u>
Fiduciary net position - end of year (b).....	<u>\$ 314,467,705</u>	<u>\$ 310,929,041</u>	<u>\$ 329,424,819</u>	<u>\$ 379,590,375</u>	<u>\$ 367,981,493</u>	<u>\$ 421,394,364</u>
Net pension liability - ending (a)-(b).....	<u>\$ 219,059,253</u>	<u>\$ 279,711,036</u>	<u>\$ 292,233,994</u>	<u>\$ 257,672,112</u>	<u>\$ 296,289,297</u>	<u>\$ 267,288,180</u>
Plan fiduciary net position as a percentage of the total pension liability.....	58.94%	52.64%	52.99%	59.57%	55.40%	61.19%
Covered payroll.....	\$ 80,555,739	\$ 89,520,851	\$ 92,654,081	\$ 93,366,659	\$ 95,896,286	\$ 100,274,819
Net pension liability as a percentage of covered payroll.....	271.94%	312.45%	315.40%	275.98%	308.97%	266.56%

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

See notes to required supplementary information.

SCHEDULE OF CONTRIBUTIONS
LOWELL CONTRIBUTORY RETIREMENT SYSTEM

Year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
December 31, 2019.....	\$ 28,821,259	\$ (28,821,259)	\$ -	\$ 100,274,819	28.74%
December 31, 2018.....	27,448,818	(27,448,818)	-	95,896,286	28.62%
December 31, 2017.....	26,141,731	(26,141,731)	-	93,366,659	28.00%
December 31, 2016.....	24,701,289	(24,701,289)	-	92,654,081	26.66%
December 31, 2015.....	21,837,654	(21,837,654)	-	89,520,851	24.39%
December 31, 2014.....	21,880,170	(21,880,170)	-	80,555,739	27.16%

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

See notes to required supplementary information.

SCHEDULE OF INVESTMENT RETURNS
LOWELL CONTRIBUTORY RETIREMENT SYSTEM

<u>Year</u>	<u>Annual money-weighted rate of return, net of investment expense</u>
December 31, 2019.....	15.66%
December 31, 2018.....	-2.29%
December 31, 2017.....	16.63%
December 31, 2016.....	7.01%
December 31, 2015.....	0.48%
December 31, 2014.....	7.81%

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

See notes to required supplementary information.

Pension Plan Schedules – City

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

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

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

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

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

Year	Proportion of the net pension liability (asset)	Proportionate share of the net pension liability (asset)	Covered payroll	Net pension liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
December 31, 2019.....	94.47%	\$ 252,502,172	\$ 95,093,940	265.53%	61.19%
December 31, 2018.....	94.52%	280,065,680	90,637,128	309.00%	55.40%
December 31, 2017.....	93.29%	240,373,682	88,302,128	272.22%	59.57%
December 31, 2016.....	93.50%	273,236,913	87,048,509	313.89%	52.99%
December 31, 2015.....	93.47%	261,434,717	84,104,839	310.84%	52.64%
December 31, 2014.....	93.01%	203,753,583	74,927,309	271.94%	58.94%

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

See notes to required supplementary information.

SCHEDULE OF THE CITY'S CONTRIBUTIONS
LOWELL CONTRIBUTORY RETIREMENT SYSTEM

Year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
June 30, 2020.....	\$ 27,226,906	\$ (27,226,906)	\$ -	\$ 96,044,879	28.35%
June 30, 2019.....	25,945,831	(25,945,831)	-	91,543,499	28.34%
June 30, 2018.....	24,386,745	(24,386,745)	-	89,185,149	27.34%
June 30, 2017.....	23,095,548	(23,095,548)	-	87,918,994	26.27%
June 30, 2016.....	20,410,761	(20,410,761)	-	84,945,887	24.03%
June 30, 2015.....	20,351,365	(20,351,365)	-	75,676,582	26.89%

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

See notes to required supplementary information.

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

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Therefore, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the associated collective net pension liability; the portion of the collective pension expense as both a revenue and pension expense recognized; and the Plan's fiduciary net position as a percentage of the total liability.

Year	Commonwealth's 100% Share of the Associated Net Pension Liability	Expense and Revenue Recognized for the Commonwealth's Support	Plan Fiduciary Net Position as a Percentage of the Total Liability
2020.....	\$ 366,012,093	\$ 44,385,319	53.95%
2019.....	347,886,364	35,253,246	54.84%
2018.....	345,205,049	36,030,056	54.25%
2017.....	322,999,676	32,948,084	52.73%
2016.....	303,469,832	24,614,104	55.38%
2015.....	240,400,372	16,701,768	61.64%

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

See notes to required supplementary information.

Other Postemployment Benefit Plan Schedules

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

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

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

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

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

	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020
Total OPEB Liability				
Service Cost.....	\$ 10,192,342	\$ 10,498,112	\$ 11,525,661	\$ 12,639,310
Interest.....	17,960,577	20,887,779	21,190,499	17,027,944
Changes of assumptions.....	73,907,164	-	74,151,731	127,938,324
Benefit payments.....	<u>(18,020,360)</u>	<u>(18,831,118)</u>	<u>(18,702,541)</u>	<u>(18,125,670)</u>
Net change in total OPEB liability.....	84,039,723	12,554,773	88,165,350	139,479,908
Total OPEB liability - beginning.....	<u>522,169,531</u>	<u>606,209,254</u>	<u>618,764,027</u>	<u>706,929,377</u>
Total OPEB liability - ending (a).....	<u>\$ 606,209,254</u>	<u>\$ 618,764,027</u>	<u>\$ 706,929,377</u>	<u>\$ 846,409,285</u>
Plan fiduciary net position				
Employer contributions.....	\$ -	\$ -	\$ 251,363	\$ 374,000
Employer contributions for OPEB payments.....	18,020,360	18,831,118	18,702,541	18,125,670
Net investment income.....	288,646	395,691	899,145	367,242
Benefit payments.....	<u>(18,020,360)</u>	<u>(18,831,118)</u>	<u>(18,702,541)</u>	<u>(18,125,670)</u>
Net change in plan fiduciary net position.....	288,646	395,691	1,150,508	741,242
Plan fiduciary net position - beginning of year.....	<u>8,032,385</u>	<u>8,321,031</u>	<u>8,716,722</u>	<u>9,867,230</u>
Plan fiduciary net position - end of year (b).....	<u>\$ 8,321,031</u>	<u>\$ 8,716,722</u>	<u>\$ 9,867,230</u>	<u>\$ 10,608,472</u>
Net OPEB liability - ending (a)-(b).....	<u>\$ 597,888,223</u>	<u>\$ 610,047,305</u>	<u>\$ 697,062,147</u>	<u>\$ 835,800,813</u>
Plan fiduciary net position as a percentage of the total OPEB liability.....	1.37%	1.41%	1.40%	1.25%
Covered-employee payroll.....	\$ 185,336,940	\$ 185,336,940	\$ 193,066,083	\$ 193,066,083
Net OPEB liability as a percentage of covered-employee payroll.....	322.60%	329.16%	361.05%	432.91%

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

See notes to required supplementary information.

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

<u>Year</u>	<u>Actuarially determined contribution</u>	<u>Contributions in relation to the actuarially determined contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Covered- employee payroll</u>	<u>Contributions as a percentage of covered- employee payroll</u>
June 30, 2020.....	\$ 46,145,149	\$ (18,499,670)	\$ 27,645,479	\$ 193,066,083	9.58%
June 30, 2019.....	47,336,248	(18,953,904)	28,382,344	193,066,083	9.82%
June 30, 2018.....	43,006,034	(18,831,118)	24,174,916	185,336,940	10.16%
June 30, 2017.....	42,029,149	(18,020,360)	24,008,789	185,336,940	9.72%

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

See notes to required supplementary information.

SCHEDULE OF INVESTMENT RETURNS
OTHER POSTEMPLOYMENT BENEFIT PLAN

<u>Year</u>	<u>Annual money-weighted rate of return, net of investment expense</u>
June 30, 2020.....	3.71%
June 30, 2019.....	6.07%
June 30, 2018.....	4.76%
June 30, 2017.....	3.59%

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

See notes to required supplementary information.

NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITYBudgetary Information

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

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

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original 2020 approved budget authorizing approximately \$373.7 million in current year appropriations, other financing uses, and other amounts to be raised and approximately \$67,000 in encumbrances and appropriations carried over from previous years. During 2020, the Council also approved a net increase in appropriations of \$8.7 million.

The amounts raised from other sources of approximately \$6.4 million were not included on the tax rate recapitulation sheet which resulted in a budget deficit.

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.

Budgetary - GAAP Reconciliation

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

A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2020, is as follows:

Net change in fund balance - budgetary basis.....	\$	(190,789)
<u>Perspective differences:</u>		
Activity of the stabilization funds recorded in the general fund for GAAP.....		2,568,064
Activity of the employee benefit trust fund recorded in the general fund for GAAP.....		468,860
<u>Basis of accounting differences:</u>		
Net change in recording tax refunds payable.....		189,700
Net change in recording 60 day receipts.....		724,076
Recognition of revenue for on-behalf payments.....		44,385,319
Recognition of expenditures for on-behalf payments.....		<u>(44,385,319)</u>
Net change in fund balance - GAAP basis.....	\$	<u>3,759,911</u>

NOTE B – PENSION PLAN

Pension Plan Schedules – Retirement System

Schedule of Changes in the Net Pension Liability and Related Ratios

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

Schedule of Contributions

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

Schedule of Investment Returns

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

Pension Plan Schedules - CitySchedule of the City's Proportionate Share of the Net Pension Liability

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

Schedule of City's Contributions

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

Schedule of the Special Funding Amounts of the Net Pension Liabilities

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

Changes in Assumptions – None.

Changes in Plan Provisions – None.

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

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

Additionally, retired teachers and their spouses receive health insurance through the Group Insurance Commission of the Commonwealth of Massachusetts (GIC). Each participating municipality is assessed for the governmental share of health and life insurance premiums paid on behalf of its teacher retirees by the state.

The Other Postemployment Benefit PlanSchedule of Changes in the City's Net Other Postemployment Benefit Liability and Related Ratios

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

Schedule of the City's Contributions

The Schedule of the City's Contributions includes the City's annual required contribution to the Plan, along with the contribution made in relation to the actuarially determined contribution and the covered-employee payroll. The City is not required to fully fund this contribution. It also demonstrates the contributions as a percentage of covered-employee payroll. Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported. Methods and assumptions used to determine contribution rates are as follows:

Valuation date.....	July 1, 2018.
Actuarial cost method.....	Entry age normal as a percentage of payroll.
Asset valuation method.....	Fair value of assets as of the reporting date, June 30, 2020.
Investment rate of return.....	2.44%, previously 3.10%.
Discount rate.....	2.44%, previously 3.10%.
Inflation rate.....	Assumed 2.0%.
Projected salary increases.....	3.0% per year.
Healthcare cost trend rate.....	8.0%, decreasing by 0.5% per year to an ultimate rate of 5.0% for 2026 and later.
Mortality rates.....	RP 2014 Healthy Male and Female Tables are based on the Combined Healthy Table for both pre & post retirement projected with mortality improvements using Projection Scale AA for 4.5 years, (i.e., from date of table to the valuation date), plus 10 years generational improvement for a total of 14.5 years.

Schedule of Investment Returns

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

Changes of Assumptions – The discount rate was decreased from 3.10% to 2.44%.

Changes in Provisions – None.

CITY OF LOWELL, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2020



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

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lowell, Massachusetts as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City personnel and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management of the City of Lowell, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties.

Powers + Sullivan, LLC

April 1, 2021

CITY OF LOWELL, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2020

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Prior Year Comments - Resolved

General Ledger Journal Entries

Prior Year Comment

Journal entries are generally used to record year-end accruals, to reclassify transactions and to record non-cash transactions. During our audit, we reviewed several of the general ledger journal entries and found that the supporting documentation was not always readily available. However, supporting documentation was eventually compiled and provided.

It is important to maintain supporting documentation for the journal entries in the event that turnover occurs in a key financial position or an individual is out of work for an extended period. The supporting documentation might be needed to make an internal decision and may be needed by an outside agency to assure the validity of such journal entries, such as federal, state or independent auditors. Having supporting documentation readily available and filed numerically with copies of the journal entries will protect the City in the event that such a situation arises.

In the prior year we recommended the City ensure all journal entries be filed numerically with supporting documentation in the City's journal entry binder.

Status

Resolved. The City provided supporting documentation for all adjusting entries requested during our testing.

Prior Year Comments - Unresolved

Section 108 Loan Fund

Prior Year Comment

In previous management letters we noted that, as part of the Federal Section 108 loan program, the City received federal funds in the form of loans from the Department of Housing and Urban Development (HUD) to then loan out to eligible companies for urban development. The City receives loan payments of principal and interest from the eligible companies and then pays HUD the required loan payments due. The activity related to this Section 108 loan program was accounted for in fund 2267 and the balance of the loans outstanding was recorded in fund 1134.

Additionally, fund 1134 has a cash balance of \$79,000 that has not changed for multiple years. The City is further maintaining another Section 108 fund, fund 1135, and is reporting a cash balance of \$126,000 that has not changed for multiple years.

We recommended that procedures be implemented to assure that when debt payments on Section 108 loans are made that the liability balance maintained in fund 1134 be adjusted accordingly. We also recommended that management determine the nature of the cash balances in funds 1134 and 1135 and determine the proper disposition of these balances.

Current Status

During fiscal year 2020, the City paid off the outstanding balance of the Section 108 loan and appropriately removed the related receivable.

The City made no determination of the nature of the cash balances maintained within funds 1134 and 1135. We continue to recommend that management determine the nature of the cash balances in these funds and determine the proper disposition of these balances.

Purchase Order Dates

Prior Year Comment

In previous management letters we noted during expenditure testing several purchase orders were dated later than the corresponding invoice dates. Creating purchase orders after the invoice is received bypasses the City's purchasing policies and defeats the internal control that a purchase order system is intended to provide. Purchase orders allow the City to ensure that budgetary funds are available and that the purchase has been properly approved before funds are expended.

We recommended the City implement a process to ensure that purchase orders are initiated prior to the procurement of goods and services.

Current Status

We noted that there are still purchase orders with dates subsequent to the invoice date. We continue to recommend that a policy regarding the approval of purchase orders prior to the purchase of goods or services by any Department be implemented. A situation could arise where goods or services have been ordered and no budget is available to support the purchase.

Tax Foreclosures

Prior Year Comment

In accordance with the Massachusetts General Laws, the City has taken ownership, through the foreclosure process, of various properties as a result of prior owners not being current with real estate and other applicable municipal charges. The City maintains an accounting of activity relative to the items included in the foreclosure account. A review of the list of foreclosed properties indicates some are currently being utilized by the City for a municipal function.

Current Status

We continue to recommend any foreclosed property deemed to have a municipal use be reclassified from the foreclosure list and into the City's capital asset listing.

Budget Reconciliation

Prior Year Comment

The City's general ledger accounting system, MUNIS, is utilized to maintain budgetary control. The City was unable to provide a complete and accurate reconciliation of the original and final budget recorded in the general ledger to the tax rate recapitulation and City Council votes. This can put the City at risk of overspending appropriations.

Current Status

During our reconciliation of the fiscal year 2020 budget, we noted the original budget within MUNIS did not articulate back to the approved tax rate recapitulation. Upon further review it was determined the schedule used to report the departmental budget requests did not properly total the departmental budgets as there was a formula error. As a result, the original appropriation budget as approved by City Council did not agree to the individual line items entered into MUNIS by approximately \$6.4 million. This amount is higher than the approved appropriation level as part of the tax rate recapitulation sheet.

Also, during the tax rate setting process the City determined the entire amount available from other funds was not required as funding, as the budget figures were lower due to the schedule having a formula error, and therefore did not include the full amount on the recap, causing an overall budget funding shortfall to the actual departmental line item budgets entered into MUNIS.

Due to hiring and spending freezes in place from the COVID-19 pandemic, the general fund produced more departmental turnbacks than normal, and as such, did not overspend the appropriations. The budget deficit was only identified as part of the audit, which further indicates the lack of a reconciliation process between the City Council votes, the tax rate recapitulation sheet and the general ledger by the City Auditor's Office.

We continue to recommend the City implement a process to verify the budgetary compliance by reconciling from the City Council votes to the amounts reported on the tax rate recapitulation sheet, to the amounts recorded in the City's general ledger. Timely reconciliations will identify potential budget shortfalls at a point when they can be addressed.

General Ledger Maintenance

Prior Year Comment

The City maintains hundreds of individual funds within the general ledger. At times, the activities accounted for in a specific fund are completed and the fund is labeled as closed and subsequently used again for another purpose.

While the re-use of closed funds is an acceptable practice, we noted through review of the general ledger closed funds that the budgetary fund balance accounts have not been closed out. Although they net to zero and do not impact the financial reporting of the City, retaining unnecessary accounts and funds in the general ledger can lead to confusion and inaccuracy in posting transactions or creating journal entries.

Current Status

We continue to recommend that the City Auditor's Office review the closed funds and make the appropriate adjustments to zero out all budgetary fund balance accounts.

Current Year Comments

Checks Written to and from the City

Current Year Comment

The City currently issues checks to the “City of Lowell” as part of the weekly payroll warrant. These checks are issued when the payroll warrants are run and include GIC withholdings, dental withholdings, life insurance withholdings, and other fringe benefits such as Medicare and workers compensation. The Human Resource Department then brings the checks to the Treasurer’s Office to be deposited back into the City’s bank account. The process should be completed via standard payroll entries within the general ledger software, MUNIS, instead of issuing checks. The need to issue checks instead of completing journals within the ledger indicates there is an underlying set up issue within the payroll process.

The process of issuing checks to the City as part of the payroll or vendor warrant process increases the risk of the City funds being misappropriated, causes additional reconciliation work for the Treasurer’s and Auditor’s Offices, and creates year end cut off issues, if deposits are not made timely. At June 30, 2020, there were checks totaling \$288,334 made payable to the City that had not been deposited in the bank and therefore caused a timing issue between the Treasurers cash and the cash balance recorded in the general ledger.

During our review of the checks written to and from the City, we noted other checks written for: parking, water utility, police details and some checks written to the Lowell Public Schools. Eliminating the process of writing checks to ourselves will reduce risks associated with the warrant process.

Recommendation

We recommend that the City review its practice of issuing checks to itself and implement new policies to stop creation of these checks and alleviate the timing and reconciliation issues caused as a result.

Preparation of the Schedule of Expenditures of Federal Award

Current Year Comment

As part of the annual audit, the City is required to prepare and file a Schedule of Expenditures of Federal Awards (SEFA) with the Federal Audit Clearinghouse. To meet the reporting requirement, the following information is necessary:

- The Catalog of Federal Domestic Assistance (CFDA) number associated with each grant.
- The Federal agency the funds were received from or State agency the funds were passed through.
- The amount of funds expended in the year under audit by CFDA number.
- The pass-through entity identifying number for each grant received through a State agency.
- The amount provided to subrecipients, as applicable.

The City attempts to identify this information by including the CFDA number within the applicable fund name of the City’s general ledger system, however, we have noted these numbers are not updated as the CFDA numbers change, or as the ledger funds are reused. Further, new grant funds are not always set up with the CFDA number within the fund name. Additionally, there are some significant Federally funded projects which are not entirely recorded within the City’s general ledger system. This leaves the City susceptible to the risk of not reporting all expenditures of Federal awards on the SEFA, as required by the grant agreements.

Recommendation

We recommend that the City work with all departments to develop a comprehensive listing of all Federal awards the City receives and expends, including where they are being recorded in the general ledger and establish procedures to allow for the compiling of this information in a timely manner each year. This file should be provided as part of the year end audit to be used in preparation of the City's SEFA. Additionally, we recommend the City ensure all CFDA numbers are properly reflected within the City's general ledger fund name to aid in proper reporting.

Long-Term and Short-Term Bond Premiums

Current Year Comment

As part of Massachusetts General Laws Chapter 218 of the Acts of 2016, the Governor signed into law "An Act to Modernize Municipal Finance and Government (Act)". The Act prescribed two methods of accounting for premiums received as part of a bond issue.

They are as follows:

- 1) The municipality may apply the premiums to reduce the amount required to borrow for a particular project. The statute provides that such an authorization *must be made* in the vote authorizing the borrowing in accordance with MGL CH44, Sec. 20.
- 2) A municipality may apply the premium in a manner similar to previously issued bond authorizations. The premium would then be recorded in a "Receipts Reserved for Appropriation Fund". The premiums can then be appropriated to pay for capital related costs in accordance with MGL CH44, Sec. 20.

In both cases, the total borrowing authorization of the project is reduced by the premium appropriated to the project.

The City had premiums received in 2018 and again in 2020 that were deposited into the capital stabilization fund. These premiums, if not voted to fund the project, should be recorded in a "Receipts Reserved for Appropriation Fund" or in the corresponding enterprise fund. The City Council can then vote to move the governmental premiums to the capital stabilization fund.

Recommendation

We recommend that the record the entries to move the 2018 and 2020 premiums as discussed above, and also implement procedures to properly account for new premiums received based on the guidance of the Massachusetts General Laws Chapter 218 of the Acts of 2016, "An Act to Modernize Municipal Finance and Government". An audit adjustment has been made for both premiums noted above.

We also recommend that the City Council take a vote to authorize the movement of the premiums to the capital stabilization fund.



Conor Baldwin
Chief Financial Officer

MEMORANDUM

TO: Eileen M. Donoghue, City Manager

FROM: Conor Baldwin, Chief Financial Officer

CC: Sheryl Wright, Interim City Auditor

DATE: March 21, 2021

RE: FY2020 Audit – Management Letter response from Finance Department

The City Auditor, Superintendent of Schools, and I—on behalf of the finance department—have signed off on release of the independent audit of the FY2020 financials. The final versions of the three major documents: the FY2020 Basic Financial Statements, the Schedule of Federal Expenditures, and the FY2020 Management Letter, constitute the product of our annual engagement with the outside audit firm, Powers & Sullivan.

Each year, the city—through the City Auditor’s office—engages an audit firm to conduct testing of the city’s financial activity, prepare the city’s basic financial statements, and provide commentary on the strength of the city’s internal controls over fiscal activities. The result of this year’s work is enclosed under the City Auditor’s portion of the agenda. This memo is intended to serve as a supplemental, informational item from the finance department in response to comments made by the audit firm. This document demonstrates the action plan for strengthening internal controls in the coming year.

Overall, the number of comments on the management letter is indicative of strong financial management. It is also notable that in this year’s management letter that there are no comments which rise to the level of *material weakness* or *significant deficiency* in internal controls; two of the strongest terms associated with an audit of this scope. Rather, there are recommendations or comments which indicate opportunities for strengthening internal controls, which will be duly noted by the finance team and serve as the basis for internal audit projects in FY2021 and FY2022. For each comment, whether unresolved from a prior year or a new comment, a response is provided herein.

It is noteworthy to highlight in financial statements, that at the close of FY2020, the City’s governmental funds reported combined ending fund balance of \$68 million, an increase of \$25.4 million in comparison with the prior year (FY19). On the other hand, we must be cognizant of the City’s growing liabilities, for example other post-employment benefits (“OPEB”) continue to be on the rise as well. The net OPEB liability as of 6/30/2020 was \$793.4 million.

The following pages represent the finance department’s response and corrective action plan for each of the comments listed on the FY2020 Management Letter as new and/or unresolved.



Conor Baldwin
Chief Financial Officer

Prior Year Comments – **Resolved**

(For details of the management comment, please refer to the FY2019 management letter)

- General Ledger Journal Entries



Conor Baldwin
Chief Financial Officer

Prior Year Comments – Unresolved

1. SECTION 108 LOAN FUND

DEPARTMENT(S):

Department of Planning and Development ('DPD')

CURRENT STATUS:

“During fiscal year 2020, the City paid off the outstanding balance of the Section 108 loan and appropriately removed the related receivable.

The City made no determination of the nature of the cash balances maintained within funds 1134 and 1135. [Powers & Sullivan] continue[s] to recommend that management determine the nature of the cash balances in these funds and determine the proper disposition of these balances.”

MANAGEMENT RESPONSE:

While progress was made on this comment, the staffing turnover in Auditing and COVID-19 delayed the city's ability to bring closure to this issue in FY2020.

The city's finance department and the Interim City Auditor will continue to work with the Deputy Director of Planning and Development to identify the original source and intended use of these funds. It is anticipated that, after additional research, an ultimate disposition of the remaining funds will be determined. The city will either expend the funds on an eligible purpose or transfer the remaining balance to the general fund to close to free cash at the end of FY2021. Final disposition of the amount and closeout of the comment is expected this year.

2. PURCHASE ORDER DATES

DEPARTMENT(S):

All Departments (Including Schools)

CURRENT STATUS:

“[Powers & Sullivan] noted that there are still purchase orders with dates subsequent to the invoice date. We continue to recommend that a policy regarding the approval of purchase orders



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Chief Financial Officer

prior to the purchase of goods or services by any Department be implemented. A situation could arise where goods or services have been ordered and no budget is available to support the purchase.”

MANAGEMENT RESPONSE:

The finance department continues to take this issue very seriously. Adherence to the city’s existing financial policies and procedures is a critical component of good fiscal management. The city has a strong local, legal framework for procuring goods and services, found in the Code of Ordinances (Chapter §28-32), which requires Department Heads to wait for a purchase order award before procuring any goods or services.

In 2020 and 2021, management has discussed and disseminated reminders to all department leadership, documents related to the policy. The finance department and, specifically the purchasing department, continue to work with departmental project managers and finance staff to train them in the appropriate best practices. The city’s MUNIS accounting system provides excellent workflow procedures to guarantee the process is followed to a certain extent, but it cannot eliminate human error.

Revised policy reminders and training schedules will be released again in FY2021 to appropriate staff. The finance team is also considering revised policy language for the Reserve System Ordinance to recommend to the City Manager for consideration by the City Council to amend the Ordinance to strengthen and codify some internal controls and consider the implementation of pre-encumbrances within the MUNIS system to resolve issues related to delays in contract negotiations on larger projects.

3. TAX FORECLOSURES

DEPARTMENT(S):

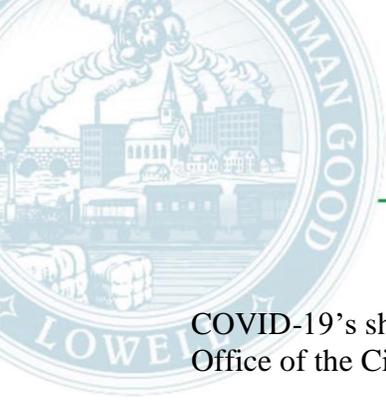
City Treasurer/ City Auditor/ Law Department

CURRENT STATUS:

“[Powers & Sullivan] continues to recommend any foreclosed property deemed to have a municipal use be reclassified from the foreclosure list and into the City’s capital asset listing.”

MANAGEMENT RESPONSE:

This matter will continue be researched/ analyzed by each department and, depending on the current use of each asset, will be categorized appropriately by the City Auditor. Because of



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COVID-19's shut down of many in-person operations in 2020-2021 and the turnover in the Office of the City Auditor, sufficient progress was unable to be made in the current audit period.

4. BUDGET RECONCILIATION

DEPARTMENT(S):

Finance/ City Auditor

Current Status

During [Powers & Sullivan's] reconciliation of the fiscal year 2020 budget, [they] noted the original budget within MUNIS did not articulate back to the approved tax rate recapitulation. Upon further review it was determined the schedule used to report the departmental budget requests did not properly total the departmental budgets as there was a formula error. As a result, the original appropriation budget as approved by City Council did not agree to the individual line items entered into MUNIS by approximately \$6.4 million. This amount is higher than the approved appropriation level as part of the tax rate recapitulation sheet. Also, during the tax rate setting process the City determined the entire amount available from other funds was not required as funding, as the budget figures were lower due to the schedule having a formula error, and therefore did not include the full amount on the recap, causing an overall budget funding shortfall to the actual departmental line item budgets entered into MUNIS.

Due to hiring and spending freezes in place from the COVID-19 pandemic, the general fund produced more departmental turn-backs than normal, and as such, did not overspend the appropriations. The budget deficit was only identified as part of the audit, which further indicates the lack of a reconciliation process between the City Council votes, the tax rate recapitulation sheet and the general ledger by the City Auditor's Office.

[Powers & Sullivan] continue to recommend the City implement a process to verify the budgetary compliance by reconciling from the City Council votes to the amounts reported on the tax rate recapitulation sheet, to the amounts recorded in the City's general ledger. Timely reconciliations will identify potential budget shortfalls at a point when they can be addressed.

MANAGEMENT RESPONSE:

The Interim City Auditor and CFO are currently developing a more comprehensive system of recording and documenting all votes to reconcile the ledger and the tax rate recapitulation sheet each year after the tax rate is set by the DOR. One had previously existed but the significant turnover in the Office of the City Auditor required modifications of the process as previously designed and retraining of staff involved.



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Chief Financial Officer

As was noted in the comment from the audit firm, there exist management controls which maintain budgetary control. However, it is the responsibility of the City Auditor to exercise that control through the accounting system (MUNIS) and to ensure it agrees to all state reporting. Fortunately, the financials controls put in place by the City Manager and exercised by the finance department were more than sufficient to maintain compliance in FY2020.

A process has since been developed, with the assistance of the Interim City Auditor which will serve as a framework for reconciliation in all years moving forward (starting with FY2021). This process will be improved over time and integrated into the normal tax rate setting process and subsequent reconciliation process in the general ledger each year. It is also of even greater importance that the next City Auditor have experience with the various state reporting requirements and processes so that the reconciliation process can occur without interruption or delay.

5. GENERAL LEDGER MAINTENANCE

DEPARTMENT(S):

Finance/ City Auditor

CURRENT STATUS:

[Powers & Sullivan] continue to recommend that the City Auditor's Office review the closed funds and make the appropriate adjustments to zero out all budgetary fund balance accounts.

MANAGEMENT RESPONSE:

The former City Auditor had been actively involved in a comprehensive review of the general ledger and, prior to her departure, was planning to make recommendations, both short-term and long-term, for improvements to the existing funds and accounts in MUNIS.

While not fully complete, the work done will be reviewed by the finance department and Interim City Auditor so that an implementation schedule will be recommended. Because some of the remaining balances are associated with grants, additional research is necessary before determining final disposition of all balances.



Conor Baldwin
Chief Financial Officer

CURRENT YEAR COMMENTS

1. CHECKS WRITTEN TO AND FROM THE CITY

DEPARTMENT(S):

City Auditor (Payroll)/ City Treasurer/ Human Relations/ All Departments

RECOMMENDATION:

[Powers & Sullivan] recommends that the City review its practice of issuing checks to itself and implement new policies to stop creation of these checks and alleviate the timing and reconciliation issues caused as a result.

MANAGEMENT RESPONSE:

This practice has existed in the City for decades and has been identified by the current City Treasurer as an antiquated process which has the potential to make the reconciliation process more difficult. As a result, the City Treasurer had been working with the former City Auditor and several of the larger departments who utilize this process to develop alternate procedures to accomplish the same result using journal entries on the city's general ledger.

The ultimate fix to this process involves some additional enhancements to the payroll process, specifically as it relates to employee deductions. A new payroll supervisor for the city has been hired within the current fiscal year and this process enhancement will be made a top priority for her.

2. PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARD

DEPARTMENT(S):

City Auditor/ City Treasurer/ DPD/ LPD/ DPW

RECOMMENDATION:

[Powers & Sullivan] recommend that the City work with all departments to develop a comprehensive listing of all Federal awards the City receives and expends, including where they are being recorded in the general ledger and establish procedures to allow for the compiling of this information in a timely manner each year. This file should be provided as part of the year end audit to be used in preparation of the City's SEFA.



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Chief Financial Officer

Additionally, [Powers & Sullivan] recommend the City ensure all CFDA numbers are properly reflected within the City's general ledger fund name to aid in proper reporting.

MANAGEMENT RESPONSE:

The City has received several significant federal awards in the last decade. The finance department will work with the new City Auditor to develop a comprehensive list for internal tracking purposes, including all CDFA numbers. Because of the size and scope of the project and the lack of a current full-time Auditor, the Interim City Auditor and finance department will research the availability and costs of engaging an outside audit/ CPA firm to assist in the development of this schedule to expedite its production.

3. LONG-TERM AND SHORT-TERM BOND PREMIUMS

DEPARTMENT(S):

City Auditor/ City Treasurer/ Finance

RECOMMENDATION:

[Powers & Sullivan] recommend to record the entries to move the 2018 and 2020 premiums as discussed [in the management letter], and also implement procedures to properly account for new premiums received based on the guidance of the Massachusetts General Laws Chapter 218 of the Acts of 2016, "An Act to Modernize Municipal Finance and Government". An audit adjustment has been made for both premiums noted above. We also recommend that the City Council take a vote to authorize the movement of the premiums to the capital stabilization fund.

MANAGEMENT RESPONSE:

The City has reviewed this comment and will work with the Law Department to prepare the vote to move the vote into the capital stabilization fund and close out this comment for the current year.