

CITY OF LOWELL, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2011

CITY OF LOWELL, MASSACHUSETTS

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JUNE 30, 2011

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lowell, Massachusetts, as of and for the fiscal year ended June 30, 2011 (except for the Lowell Contributory Retirement System which is as of and for the year ended December 31, 2010), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lowell, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lowell, Massachusetts, as of June 30, 2011 (except for the Lowell Contributory Retirement System which is as of and for the year ended December 31, 2010), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2011, on our consideration of the City of Lowell, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on the following pages, and the schedule of revenues, expenditures and changes in fund balance – general fund – budget and actual, other postemployment benefit plan schedule of funding progress and employer contributions, other postemployment benefit plan actuarial methods and assumptions located after the notes to the basic financial statements are not a required part of the basic financial statements but are supplementary information required by the accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Powers & Sullivan, LLC".

December 21, 2011

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Lowell (the "City"), we offer readers of these basic financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented in this report.

Financial Highlights

- The net assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$250.3 million.
- Governmental net assets decreased by \$9.6 million. This decrease is mostly attributable to the additional liability recorded of \$26.4 million related to GASB Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the use of free cash to fund the general fund budget of \$1.4 million, and the use of \$4 million of fund balance related to the expenditure of prior year carryforwards. These reductions were offset by the operating surplus in the internal service fund of \$7.8 million; recognition of capital grants of \$2.5 million related to CH 90, the Concord River Greenway Project, and the Riverwalk and West Canal Improvement Project; the fact that principal payments on bonds exceeded depreciation by \$1.9 million; a decrease in the compensated absence accrual of \$1.2 million; the recognition of a \$372 thousand from the sale city property; and the recognition of a \$412 thousand premium on the issuance of debt.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$25.6 million, an increase of \$1.2 million in comparison with the prior year. The increase is primarily attributable to \$9.7 million of permanent financing received for various general government projects; the recognition of \$372 thousand from the sale of City property; and the recognition of a \$412 thousand premium on the issuance of debt. These increases were offset by the City's use of free cash to fund the operating budget, and the timing of grant expenditures versus the previous recognition of the related revenue.
- The City issued new debt of \$9.7 million for various governmental capital projects and \$4 million for various water and sewer capital projects during the fiscal year.
- The City also issued \$13 million of refunding bonds to take advantage of favorable interest rates. \$10.9 million of governmental bonds and \$2.1 million of enterprise bonds were refunded and are considered defeased. This transaction resulted in an overall net present value cash flow savings of \$1.3 million over the life of the new debt.

Overview of the Financial Statements

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

Government-wide financial statements - The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

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

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

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

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

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

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

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

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

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

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

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses the enterprise funds to account for its sewer, water, parking and arena operations.

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

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

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

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$250.3 million at the close of Fiscal 2011, an overall decrease of \$7.6 million from the prior year.

Net assets of \$288.5 million reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, \$31.2 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of a deficit \$69.4 million represents the impact of the recognition of a \$93.2 million governmental and a \$2.6 million enterprise liability associated with GASB #45. This indicates that the City does not have enough reserves to meet its ongoing long-term obligations to citizens and creditors.

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

Governmental Activities

As noted earlier net assets may serve, over time, as a useful indicator of a government's financial position. The assets of governmental activities exceeded liabilities by \$182.9 million at the close of the FY2011. Key components of the City's governmental financial position are listed below.

	<u>FY2011</u>	<u>FY2010</u>
Assets:		
Current assets.....	\$ 84,919,435	\$ 77,513,471
Noncurrent assets (excluding capital).....	45,772,421	58,005,678
Capital assets.....	<u>278,403,663</u>	<u>267,662,678</u>
Total assets.....	<u>409,095,519</u>	<u>403,181,827</u>
Liabilities:		
Current liabilities (excluding debt).....	27,855,474	32,089,184
Noncurrent liabilities (excluding debt).....	101,087,907	75,392,611
Current debt.....	16,640,128	18,759,540
Noncurrent debt.....	<u>80,588,879</u>	<u>84,394,407</u>
Total liabilities.....	<u>226,172,388</u>	<u>210,635,742</u>
Net Assets:		
Capital assets net of related debt.....	234,811,618	228,756,411
Restricted.....	31,228,802	25,215,122
Unrestricted.....	<u>(83,117,289)</u>	<u>(61,425,448)</u>
Total net assets.....	<u>\$ 182,923,131</u>	<u>\$ 192,546,085</u>

A significant portion of the City's governmental activities net assets, \$234.8 million, reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding.

The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt it should be noted that the resources to repay debt must be provided from other sources since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net assets of \$31.2 million represents resources that are subject to external restrictions on how they may be used. The remaining deficit balance of unrestricted net assets in the amount of \$83.1 million is mainly due to the implementation of GASB #45. It indicates that the City does not have enough reserves to meet its ongoing long-term obligations to citizens and creditors.

Included within the governmental activities noncurrent assets, unrelated to capital assets, are \$38.7 million in future year school construction reimbursement grants.

Governmental activity liabilities include \$94 million in general obligation bonds and intergovernmental loans; \$8.1 million in compensated absence liabilities for unused vacation, special leave, and enhanced longevity benefits payable; and \$5.5 million in future year workers' compensation benefits payable.

The key elements of governmental activities are as follows:

	<u>FY2011</u>	<u>FY2010</u>
Program Revenues:		
Charges for services.....	\$ 16,345,386	\$ 15,074,453
Operating grants and contributions.....	196,644,268	196,897,500
Capital grants and contributions.....	<u>2,525,412</u>	<u>3,661,958</u>
Total program revenues.....	<u>215,515,066</u>	<u>215,633,911</u>
General Revenues:		
Real estate and personal property taxes.....	103,173,761	96,287,904
Tax liens.....	722,092	2,178,456
Motor vehicle and other excise taxes.....	7,280,304	7,079,346
Penalties and interest on taxes.....	1,445,451	1,455,382
Payments in lieu of taxes.....	1,025,175	1,093,401
Grants and contributions not restricted to specific programs.....	33,839,668	27,352,820
Premium from issuance of bonds.....	412,309	-
Unrestricted investment income.....	390,095	406,397
Gain on sale of capital assets.....	372,000	1,603,774
Miscellaneous.....	<u>438,587</u>	<u>459,110</u>
Total general revenues.....	<u>149,099,442</u>	<u>137,916,590</u>
Transfers, net.....	<u>4,323,604</u>	<u>3,661,691</u>
Expenses:		
General government.....	20,520,653	19,583,210
Public safety.....	62,567,845	62,403,202
Education.....	243,890,398	248,161,431
Public works.....	21,195,004	17,530,055
Human services.....	20,020,219	16,878,639
Culture and recreation.....	6,291,408	6,232,796
Interest.....	<u>4,075,539</u>	<u>4,556,104</u>
Total expenses.....	<u>378,561,066</u>	<u>375,345,437</u>
Change in net assets.....	<u>\$ (9,622,954)</u>	<u>\$ (18,133,245)</u>

The governmental activities net assets decreased in the current year by \$9.6 million. The decreased in net assets is due to several factors.

The first is the net change in the GASB Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions accrual. In fiscal 2011 the City, recognized an accrual of \$93.2 million for its portion of the liability that was not paid, which is an increase of \$26.4 million over the prior year; second was the use of free cash to fund the City's operating budget of \$1.4 million, third was the use of \$4 million of fund balance related to the expenditure of prior year carryforwards. These decreases were somewhat offset by an operating surplus in the internal service fund of \$7.8 million; capital grants of \$2.5 million related to CH 90, the Concord River Greenway Project and the Riverwalk and West Canal Improvement Project; the fact that principal payments on bonds exceeded depreciation on capital assets by \$1.9 million, a decrease in the compensated absence accrual of \$1.2 million; the recognition of a \$372 thousand gain from the sale of capital assets; and the recognition of \$412 thousand premium on the issuance of debt.

Business-Type Activities

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

	<u>FY2011</u>	<u>FY2010</u>
Assets:		
Current assets.....	\$ 27,238,404	\$ 42,242,081
Capital assets.....	202,533,663	174,360,391
Total assets.....	<u>229,772,067</u>	<u>216,602,472</u>
Liabilities:		
Current liabilities (excluding debt).....	16,015,142	7,114,715
Noncurrent liabilities (excluding debt).....	2,683,366	2,110,984
Current debt.....	6,779,814	5,477,395
Noncurrent debt.....	136,881,730	139,680,144
Total liabilities.....	<u>162,360,052</u>	<u>154,383,238</u>
Net Assets:		
Capital assets net of related debt.....	53,686,771	47,424,311
Unrestricted.....	13,725,244	14,794,923
Total net assets.....	<u>67,412,015</u>	<u>62,219,234</u>
Program Revenues:		
Charges for services.....	31,163,298	30,011,910
Capital grants and contributions.....	7,428,269	1,912,008
Total program revenues.....	<u>38,591,567</u>	<u>31,923,918</u>
General Revenues:		
Gain (loss) on sale of capital assets.....	-	(19,418,749)
Transfers, net	<u>(4,323,604)</u>	<u>(3,661,691)</u>
Expenses:		
Sewer.....	14,775,560	13,264,581
Arena.....	315,812	1,019,929
Water.....	8,433,320	7,980,136
Parking.....	5,550,490	5,728,379
Total expenses.....	<u>29,075,182</u>	<u>27,993,025</u>
Change in net assets	<u>\$ 5,192,781</u>	<u>\$ (19,149,547)</u>

The sewer enterprise fund net assets increased by \$3.4 million during the current fiscal year. Most of the change is due to recognition of capital grants of approximately \$5.1 million associated with various MWPAT projects.

The arena enterprise fund net assets decreased by \$220 thousand during the current fiscal year. The decrease is due to the fact that commissions received was not enough to cover current year debt service and the City voted to use some of the funds from the sale of the Arena to fund the renovation of a new police garage facility.

The water enterprise fund net assets increased by \$2.2 million during the current fiscal year. This increase is primarily due to the fund establishing rates to cover all direct and indirect costs associated with the water activities, as well as, the recognition of capital grants of approximately \$2.1 million associated with various MWPAT projects.

The parking enterprise fund net assets decreased by \$178 thousand in the current year. This is primarily the effect of reporting all costs associated with the parking operations including long-term debt interest, depreciation and transfers out to the general fund.

Business type activities assets exceeded liabilities by \$67.4 million at the close of fiscal year 2011.

Net assets of \$53.7 million reflect its investment in capital assets less any debt used to acquire those assets that are still outstanding. The remaining balance of *unrestricted net assets* of \$13.7 million may be used to meet ongoing obligations.

Financial Analysis of the Government's Funds

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

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

As of the end of the fiscal year, governmental funds reported combined ending fund balances of \$25.6 million, an increase of \$4.4 million from the prior year. The increase is attributable to \$9.7 million of permanent financing received for general government projects, the sale of City owned property for \$372 thousand, and the recognition of a \$412 thousand premium on the issuance of debt. These increases were offset by the City's use of free cash to fund the operating budget, and the timing of grant expenditures versus the previous recognition of the related revenue.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund equaled \$2.1 million (which includes \$1.2 million set aside as stabilization), while total fund balance was \$7.8 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 0.7% of general fund expenditures while total fund balance represents 2.7% of general fund expenditures.

The general fund decreased by \$3.2 million during fiscal year 2011. This was due to the City's anticipated use of free cash to fund the operating budget.

Total fiscal year 2011 general fund revenues and other financing sources totaled \$310.1 million, an increase of \$6.7 million or 2.5% compared the previous fiscal year. Contributing to this change was the fact that:

- Real estate and personal property taxes increased by approximately \$5.8 million due to an increase in the fiscal year 2011 levy.
- Intergovernmental revenues decreased roughly \$280 thousand due to a \$2.2 million increase in on-behalf payments related to the Massachusetts Teachers Retirement Board, offset by decreases in both general state aid and School CH 70 receipts.
- An increase in tax lien revenues of \$660 thousand.

Total general fund expenditures and transfers to other funds totaled \$312.3 million, an increase of \$11.3 million or 3.6% over the previous fiscal year. The increase is primarily attributable to increases in pension costs, employee benefits and Public Works related expenditures offset by reductions within other categories.

The state fiscal stabilization fund is used to account for federal funds that were received through the American Recovery and Reinvestment Act. During fiscal year 2011, the City received \$615 thousand of such funds that were used to supplement the education budget.

The internal service fund had an ending fund balance of approximately \$8.8 million, an increase of \$7.8 million over the prior year. The increase is primarily attributable to the City experiencing a better than expected claims year and the receipt of \$2.3 million of stop loss and Early Retiree Reinsurance revenues.

General Fund Budgetary Highlights

The City's budget remained relatively unchanged throughout the year. The difference between the original budget of \$286.9 million and the final amended budget of \$287.9 million amounted to a net increase of \$1 million. This increase was the net effect of various increases and decreases across the board, with the largest increase being for pension benefits.

Capital Asset and Debt Administration

Capital Assets - The City's investment in capital assets for governmental activities as of June 30, 2011, amounts to \$278.4 million, net of accumulated depreciation of \$277.5 million. The investment in capital assets includes land; buildings; systems; improvements; machinery and equipment; park facilities; streets; sidewalks. Additional information on the City's capital assets may be found in Note 4 to the basic financial statements.

The City's investment in capital assets for business type activities as of June 30, 2011 amounts to \$202.5 million, net of accumulated depreciation of \$107.1 million. The investment in capital assets for the business type activities predominately relates sewer and water infrastructure and systems and various parking garages improvements.

Long-term debt - At June 30, 2011, the City had total governmental bonded debt of \$94 million. Of this amount \$91.4 million is a general obligation of the City and the balance is guaranteed debt under the Section 108 Loan Program. Additional information concerning the Section 108 Loan Program may be found in Note 7 to the basic financial statements. As explained in Note 7 to the basic financial statements, the City recognized general obligation bonds totaling \$9.7 million related to various public safety, public works, recreation, water and sewer projects.

In order to take advantage of favorable interest rates, the City issued \$12,881,000 of General Obligation Refunding Bonds on September 16, 2011. \$13,035,000 of general obligation bonds were advance refunded by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the basic financial statements. The City has decreased its aggregate debt service payments by \$1.3 million. Accordingly, \$10.9 million and \$2.1 million of governmental and enterprise debt is considered defeased.

The sewer enterprise fund has \$82.5 million in long-term debt that is supported by the sewer rates and future MWPAT principal and interest subsidies totaling \$2.1 million. Currently the City has \$9.6 million in authorized and unissued long-term debt relating to future sewer projects. The City issued \$4.0 million of general obligation bonds during fiscal year 2011 to fund various sewer projects.

The water enterprise fund has \$32.9 million in long-term debt that is supported by the water rates and future MWPAT principal and interest subsidies totaling \$3.2 million. Currently the City has \$15.1 million in authorized and unissued long-term debt relating to future sewer projects.

The parking enterprise fund has \$27 million in long-term debt that is supported by parking fees. The City issued \$900 thousand of general obligation bonds during fiscal year 2011 to fund various parking projects.

The arena enterprise fund has \$1.3 million in long-term debt that is fully supported by a general fund subsidy since the sale of the arena.

Next Year's Budget

The Mayor and City Council have approved the original fiscal year 2012 general fund operating budget of \$304 million. Management continued cost reduction measures that had both short and long term impacts. Management held wage increases to a minimum while negotiating health insurance changes that netted \$1 million in savings after concessions. Lowell's expensive indemnity plan was eliminated for non-school active employees in exchange for two \$500 raises over two years. The City is also embarking on \$20 million of bond-financed energy conservation improvements, purchasing streetlights from National Grid and replacing older equipment. Finally, the City outsourced its cemetery maintenance which will save several hundred thousand dollars over the next three years. All of these initiatives will ease pressure on operating costs now and in the future.

As part of the energy conservation program, the City is completing the transition from a Centrex telephone system to an Internet Protocol system which should save about \$100,000 annually.

The growth in local property taxes was held to a 2.3% increase to support this budget while absorbing the further loss of \$1 million in unrestricted state aid. Chapter 70 school aid increased by \$7 million, however Lowell maintained its local contribution to the schools. Other General Fund revenues remained flat.

Enterprise revenues increased for several reasons. Wastewater further developed its hauled waste program which added \$1 million in new revenues from outside the City. Parking added about \$250,000 largely as a result of the success of the replacement of traditional meters with electronic kiosks. Water instituted a rate increase on January 1, 2011 which increased 2012 revenues by \$700,000. Furthermore, their large industrial meter replacement project has yielded higher and more accurate readings.

Requests for Information

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

Basic Financial Statements

STATEMENT OF NET ASSETS

June 30, 2011

	<i>Primary Government</i>		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 52,495,149	\$ 13,680,963	\$ 66,176,112
Investments.....	1,434,416	-	1,434,416
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	2,727,957	-	2,727,957
Tax liens.....	645,227	-	645,227
Motor vehicle excise taxes.....	1,717,837	-	1,717,837
User fees.....	-	8,529,725	8,529,725
Water fees.....	42,643	-	42,643
Trash fees.....	749,543	-	749,543
Departmental and other.....	6,850	1,287,448	1,294,298
Intergovernmental.....	20,695,307	3,740,268	24,435,575
Loans.....	557,798	-	557,798
Tax foreclosures.....	3,354,555	-	3,354,555
Working capital deposit.....	174,600	-	174,600
Deferred charges on refunding.....	317,553	-	317,553
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Tax liens.....	4,121,095	-	4,121,095
Intergovernmental.....	38,728,989	-	38,728,989
Loans.....	2,180,000	-	2,180,000
Deferred charges on refunding.....	742,337	-	742,337
Capital assets, net of accumulated depreciation.....	278,403,663	202,533,663	480,937,326
TOTAL ASSETS.....	409,095,519	229,772,067	638,867,586
LIABILITIES			
CURRENT:			
Warrants payable.....	4,564,197	3,649,145	8,213,342
Accrued payroll.....	6,772,357	-	6,772,357
Health claims payable.....	2,904,000	-	2,904,000
Tax refunds payable.....	2,195,000	-	2,195,000
Accrued interest.....	1,171,379	1,712,952	2,884,331
Other liabilities.....	3,662,230	-	3,662,230
Compensated absences.....	4,919,042	381,078	5,300,120
Workers' compensation.....	834,000	-	834,000
Unamortized premium on bonds payable.....	276,910	-	276,910
Notes payable.....	3,255,000	10,271,967	13,526,967
Bonds payable.....	13,385,128	6,779,814	20,164,942
NONCURRENT:			
Compensated absences.....	3,197,362	126,434	3,323,796
Workers' compensation.....	4,697,000	-	4,697,000
Postemployment benefits.....	93,193,545	2,556,932	95,750,477
Unamortized premium on bonds payable.....	556,359	-	556,359
Bonds and notes payable.....	80,588,879	136,881,730	217,470,609
TOTAL LIABILITIES.....	226,172,388	162,360,052	388,532,440
NET ASSETS			
Invested in capital assets, net of related debt.....	234,811,618	53,686,771	288,498,389
Restricted for:			
Chapter 17 special reserve.....	4,237,808	-	4,237,808
Streets.....	2,175,450	-	2,175,450
Community development.....	7,216,585	-	7,216,585
Loans.....	2,737,798	-	2,737,798
Permanent funds:			
Expendable.....	162,981	-	162,981
Nonexpendable.....	1,617,003	-	1,617,003
Gifts and Grants.....	13,081,177	-	13,081,177
Unrestricted.....	(83,117,289)	13,725,244	(69,392,045)
TOTAL NET ASSETS.....	\$ 182,923,131	\$ 67,412,015	\$ 250,335,146

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2011

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.....	\$ 20,520,653	\$ 5,592,020	\$ 1,985,416	\$ -	\$ (12,943,217)
Public safety.....	62,567,845	3,633,512	2,572,122	-	(56,362,211)
Education.....	243,890,398	1,092,123	176,903,374	-	(65,894,901)
Public works.....	21,195,004	3,445,101	51,867	1,858,932	(15,839,104)
Human services.....	20,020,219	1,977,540	14,582,587	666,480	(2,793,612)
Culture and recreation.....	6,291,408	605,090	308,514	-	(5,377,804)
Interest.....	4,075,539	-	240,388	-	(3,835,151)
Total Governmental Activities.....	378,561,066	16,345,386	196,644,268	2,525,412	(163,046,000)
<i>Business-Type Activities:</i>					
Sewer.....	14,775,560	15,266,343	-	5,321,222	5,812,005
Arena.....	315,812	128,999	-	-	(186,813)
Water.....	8,433,320	10,002,485	-	2,107,047	3,676,212
Parking.....	5,550,490	5,765,471	-	-	214,981
Total Business-Type Activities.....	29,075,182	31,163,298	-	7,428,269	9,516,385
Total Primary Government.....	\$ 407,636,248	\$ 47,508,684	\$ 196,644,268	\$ 9,953,681	\$ (153,529,615)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (163,046,000)	\$ 9,516,385	\$ (153,529,615)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	103,173,761	-	103,173,761
Tax liens.....	722,092	-	722,092
Motor vehicle and other excise taxes.....	7,280,304	-	7,280,304
Penalties and interest on taxes.....	1,445,451	-	1,445,451
Payments in lieu of taxes.....	1,025,175	-	1,025,175
Grants and contributions not restricted to specific programs.....	33,839,668	-	33,839,668
Unrestricted investment income.....	390,095	-	390,095
Premium from issuance of bonds.....	412,309	-	412,309
Gain (Loss) on disposal of capital assets....	372,000	-	372,000
Miscellaneous.....	438,587	-	438,587
<i>Transfers, net</i>	4,323,604	(4,323,604)	-
Total general revenues and transfers.....	153,423,046	(4,323,604)	149,099,442
Change in net assets.....	(9,622,954)	5,192,781	(4,430,173)
<i>Net Assets:</i>			
Beginning of year.....	192,546,085	62,219,234	254,765,319
End of year.....	\$ <u>182,923,131</u>	\$ <u>67,412,015</u>	\$ <u>250,335,146</u>

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2011

ASSETS	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents.....	\$ 23,024,300	\$ 17,927,016	\$ 40,951,316
Investments.....	-	1,434,416	1,434,416
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	2,727,957	-	2,727,957
Tax liens.....	4,766,322	-	4,766,322
Motor vehicle & other excise taxes.....	1,717,837	-	1,717,837
Water fees.....	42,643	-	42,643
Trash fees.....	749,543	-	749,543
Departmental and other.....	6,850	-	6,850
Intergovernmental.....	49,149,435	10,274,861	59,424,296
Loans.....	-	2,737,798	2,737,798
Tax foreclosures.....	3,354,555	-	3,354,555
TOTAL ASSETS.....	\$ 85,539,442	\$ 32,374,091	\$ 117,913,533
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 2,596,487	\$ 1,967,710	\$ 4,564,197
Accrued payroll.....	6,772,357	-	6,772,357
Tax refunds payable.....	2,195,000	-	2,195,000
Accrued interest on short-term debt.....	37,219	-	37,219
Other liabilities.....	3,662,230	-	3,662,230
Deferred revenues.....	62,441,013	9,392,035	71,833,048
Notes payable.....	-	3,255,000	3,255,000
TOTAL LIABILITIES.....	77,704,306	14,614,745	92,319,051
FUND BALANCES:			
Nonspendable.....	-	1,617,003	1,617,003
Restricted.....	4,237,808	13,566,978	17,804,786
Committed.....	308,205	2,575,365	2,883,570
Assigned.....	1,207,809	-	1,207,809
Unassigned.....	2,081,314	-	2,081,314
TOTAL FUND BALANCES.....	7,835,136	17,759,346	25,594,482
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 85,539,442	\$ 32,374,091	\$ 117,913,533

See notes to basic financial statements.

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

JUNE 30, 2011

Total governmental fund balances.....		\$ 25,594,482
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		278,403,663
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		71,833,048
Internal service funds are used by management to account for retirees' health insurance and workers' compensation activities.		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....		8,814,433
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(1,134,160)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds payable.....	(93,974,007)	
Workers compensation.....	(5,531,000)	
Unamortized premium on bonds payable.....	(833,269)	
Postemployment benefits.....	(93,193,545)	
Compensated absences.....	<u>(8,116,404)</u>	
Net effect of reporting long-term liabilities.....		(201,648,225)
In the statement of activities, deferred losses are reported for refundings of debt, which are amortized over the shorter of the remaining life of the refunding bonds or refunded bonds. In governmental funds, defeasances of debt are expensed when the refunding bonds are issued.....		<u>1,059,890</u>
Net assets of governmental activities.....		<u>\$ 182,923,131</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

	General	State Fiscal Stabilization Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 102,045,595	\$ -	\$ -	\$ 102,045,595
Tax liens.....	2,505,532	-	-	2,505,532
Motor vehicle and other excise taxes.....	7,414,643	-	-	7,414,643
Trash disposal.....	2,991,576	-	-	2,991,576
Penalties and interest on taxes.....	1,445,451	-	-	1,445,451
Payments in lieu of taxes.....	1,025,175	-	-	1,025,175
Intergovernmental.....	179,282,703	614,660	65,069,165	244,966,528
Departmental and other.....	7,266,267	-	5,866,316	13,132,583
Contributions.....	-	-	107,562	107,562
Investment income.....	333,009	-	48,152	381,161
Miscellaneous.....	-	-	161,775	161,775
TOTAL REVENUES.....	304,309,951	614,660	71,252,970	376,177,581
EXPENDITURES:				
Current:				
General government.....	14,797,290	-	11,488,102	26,285,392
Public safety.....	36,653,303	-	3,867,516	40,520,819
Education.....	135,625,430	614,660	37,011,562	173,251,652
Public works.....	15,046,675	-	2,370,488	17,417,163
Human services.....	3,043,934	-	18,430,245	21,474,179
Culture and recreation.....	3,071,608	-	815,041	3,886,649
Pension benefits.....	42,556,937	-	-	42,556,937
Employee benefits.....	29,388,836	-	-	29,388,836
State and county charges.....	12,473,238	-	-	12,473,238
Debt service:				
Principal.....	14,964,540	-	295,000	15,259,540
Interest.....	4,067,661	-	23,874	4,091,535
TOTAL EXPENDITURES.....	311,689,452	614,660	74,301,828	386,605,940
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(7,379,501)	-	(3,048,858)	(10,428,359)
OTHER FINANCING SOURCES (USES):				
Proceeds from bonds and notes.....	-	-	9,715,000	9,715,000
Proceeds from refunding bonds.....	10,774,600	-	-	10,774,600
Premium from issuance of bonds.....	412,309	-	-	412,309
Premium from issuance of refunding bonds.....	982,069	-	-	982,069
Payments to refunded bond escrow agent.....	(11,756,669)	-	-	(11,756,669)
Sale of capital assets.....	-	-	372,000	372,000
Transfers in.....	4,430,318	-	1,130,836	5,561,154
Transfers out.....	(633,506)	-	(604,044)	(1,237,550)
TOTAL OTHER FINANCING SOURCES (USES).....	4,209,121	-	10,613,792	14,822,913
NET CHANGE IN FUND BALANCES.....	(3,170,380)	-	7,564,934	4,394,554
FUND BALANCES AT BEGINNING OF YEAR.....	11,005,516	-	10,194,412	21,199,928
FUND BALANCES AT END OF YEAR.....	\$ 7,835,136	\$ -	\$ 17,759,346	\$ 25,594,482

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds.....		\$ 4,394,554
<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.....	24,138,931	
Depreciation expense.....	<u>(13,397,946)</u>	
Net effect of reporting capital assets.....		10,740,985
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		(12,356,318)
<p>The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Proceeds from bonds and notes.....	(9,715,000)	
Proceeds from refunding bonds.....	(10,774,600)	
Payments to refunded bond escrow agent.....	11,756,669	
Premium from issuance of refunding bonds.....	(982,069)	
Debt service principal payments.....	15,259,540	
Loss on refunding debt.....	<u>135,400</u>	
Net effect of reporting long term debt.....		5,679,940
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	1,170,174	
Net change in accrued interest on long-term debt.....	(85,850)	
Net change in workers compensation accrual.....	(504,000)	
Postemployment benefit accrual.....	(26,414,680)	
Amortization of premiums on refunding.....	355,549	
Amortization of deferred charge on refunding.....	<u>(389,102)</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		(25,867,909)
<p>Internal service funds are used by management to account for health insurance and workers' compensation activities.</p>		
The net activity of internal service funds is reported with Governmental Activities.....		<u>7,785,794</u>
Change in net assets of governmental activities.....		\$ <u>(9,622,954)</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2011

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Arena Commission	Water	Parking	Total	
ASSETS						
CURRENT:						
Cash and cash equivalents.....	\$ 10,037,346	\$ 129,999	\$ 2,066,291	\$ 1,447,327	\$ 13,680,963	\$ 11,543,833
Receivables, net of allowance for uncollectibles:						
User fees.....	4,959,009	-	3,570,716	-	8,529,725	-
Departmental and other.....	-	-	-	1,287,448	1,287,448	-
Intergovernmental.....	2,855,089	-	885,179	-	3,740,268	-
Working capital deposit.....	-	-	-	-	-	174,600
Total current assets.....	<u>17,851,444</u>	<u>129,999</u>	<u>6,522,186</u>	<u>2,734,775</u>	<u>27,238,404</u>	<u>11,718,433</u>
NONCURRENT:						
Capital assets, net of accumulated depreciation.....	131,597,176	-	32,804,165	38,132,322	202,533,663	-
TOTAL ASSETS.....	<u>149,448,620</u>	<u>129,999</u>	<u>39,326,351</u>	<u>40,867,097</u>	<u>229,772,067</u>	<u>11,718,433</u>
LIABILITIES						
CURRENT:						
Warrants payable.....	2,674,740	-	577,823	396,582	3,649,145	-
Health claims payable.....	-	-	-	-	-	2,904,000
Accrued interest.....	1,095,942	3,078	227,173	386,759	1,712,952	-
Compensated absences.....	219,685	-	142,324	19,069	381,078	-
Notes payable.....	10,271,967	-	-	-	10,271,967	-
Bonds payable.....	3,246,938	263,725	2,209,151	1,060,000	6,779,814	-
Total current liabilities.....	<u>17,509,272</u>	<u>266,803</u>	<u>3,156,471</u>	<u>1,862,410</u>	<u>22,794,956</u>	<u>2,904,000</u>
NONCURRENT:						
Compensated absences.....	68,314	-	54,930	3,190	126,434	-
Postemployment benefits.....	1,350,269	-	1,071,223	135,440	2,556,932	-
Bonds payable.....	79,245,533	1,082,625	30,663,272	25,890,300	136,881,730	-
Total noncurrent liabilities.....	<u>80,664,116</u>	<u>1,082,625</u>	<u>31,789,425</u>	<u>26,028,930</u>	<u>139,565,096</u>	<u>-</u>
TOTAL LIABILITIES.....	<u>98,173,388</u>	<u>1,349,428</u>	<u>34,945,896</u>	<u>27,891,340</u>	<u>162,360,052</u>	<u>2,904,000</u>
NET ASSETS						
Invested in capital assets, net of related debt.....	41,687,827	-	816,921	11,182,022	53,686,770	-
Unrestricted.....	9,587,405	(1,219,429)	3,563,534	1,793,735	13,725,245	8,814,433
TOTAL NET ASSETS.....	<u>\$ 51,275,232</u>	<u>\$ (1,219,429)</u>	<u>\$ 4,380,455</u>	<u>\$ 12,975,757</u>	<u>\$ 67,412,015</u>	<u>\$ 8,814,433</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Arena Commission	Water	Parking	Total	
OPERATING REVENUES:						
Employee contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,184,056
Employer contributions	-	-	-	-	-	44,330,448
Charges for services	15,092,935	128,999	10,002,485	5,765,471	30,989,890	-
Intergovernmental.....	-	-	-	-	-	30,973
Other.....	173,408	-	-	-	173,408	2,283,699
TOTAL OPERATING REVENUES	15,266,343	128,999	10,002,485	5,765,471	31,163,298	61,829,176
OPERATING EXPENSES:						
Cost of services and administration	8,507,338	-	5,882,372	2,896,380	17,286,090	-
Depreciation.....	3,613,894	-	1,515,712	1,359,608	6,489,214	-
Employee benefits	-	-	-	-	-	54,052,316
TOTAL OPERATING EXPENSES	12,121,232	-	7,398,084	4,255,988	23,775,304	54,052,316
OPERATING INCOME (LOSS).....	3,145,111	128,999	2,604,401	1,509,483	7,387,994	7,776,860
NONOPERATING REVENUES (EXPENSES):						
Investment income.....	-	-	-	-	-	8,934
Interest expense.....	(2,654,328)	(315,812)	(1,035,236)	(1,294,502)	(5,299,878)	-
Intergovernmental.....	5,321,222	-	2,107,047	-	7,428,269	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	2,666,894	(315,812)	1,071,811	(1,294,502)	2,128,391	8,934
INCOME (LOSS) BEFORE TRANSFERS.....	5,812,005	(186,813)	3,676,212	214,981	9,516,385	7,785,794
TRANSFERS:						
Transfers in.....	-	516,560	-	-	516,560	-
Transfers out.....	(2,429,278)	(549,500)	(1,468,683)	(392,703)	(4,840,164)	-
TOTAL OPERATING TRANSFERS.....	(2,429,278)	(32,940)	(1,468,683)	(392,703)	(4,323,604)	-
CHANGE IN NET ASSETS.....	3,382,727	(219,753)	2,207,529	(177,722)	5,192,781	7,785,794
NET ASSETS AT BEGINNING OF YEAR.....	47,892,505	(999,676)	2,172,926	13,153,479	62,219,234	1,028,639
NET ASSETS AT END OF YEAR.....	\$ 51,275,232	\$ (1,219,429)	\$ 4,380,455	\$ 12,975,757	\$ 67,412,015	\$ 8,814,433

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Arena Commission	Water	Parking	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users.....	\$ 15,251,525	\$ 379,499	\$ 9,279,933	\$ 5,790,147	\$ 30,701,104	\$ -
Receipts from interfund services provided.....	-	-	-	-	-	59,514,504
Receipts from insurance reimbursements.....	-	-	-	-	-	2,283,699
Receipts from other governments.....	-	-	-	-	-	30,973
Payments to vendors.....	(4,915,107)	-	(3,100,640)	(2,197,071)	(10,212,818)	-
Payments to employees.....	(2,666,485)	-	(2,218,035)	(306,007)	(5,190,527)	-
Payments for interfund services used.....	-	-	-	-	-	(54,072,879)
NET CASH FROM OPERATING ACTIVITIES.....	7,669,933	379,499	3,961,258	3,287,069	15,297,759	7,756,297
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Transfers in.....	-	516,560	-	-	516,560	-
Transfers out.....	(2,429,278)	(549,500)	(1,468,683)	(392,703)	(4,840,164)	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(2,429,278)	(32,940)	(1,468,683)	(392,703)	(4,323,604)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Proceeds from the issuance of bonds and notes.....	24,142,526	-	7,874,436	-	32,016,962	-
Acquisition and construction of capital assets.....	(30,303,026)	-	(6,829,656)	(164,387)	(37,297,069)	-
Principal payments on bonds and notes.....	(11,713,616)	(266,125)	(3,130,675)	(1,029,400)	(16,139,816)	-
Interest expense.....	(2,044,795)	(316,248)	(605,505)	(1,301,188)	(4,267,736)	-
Intergovernmental revenue.....	10,444,350	-	1,671,998	-	12,116,348	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(9,474,561)	(582,373)	(1,019,402)	(2,494,975)	(13,571,311)	-
CASH FLOWS FROM INVESTING ACTIVITIES:						
Investment income.....	-	-	-	-	-	8,934
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(4,233,906)	(235,814)	1,473,173	399,391	(2,597,156)	7,765,231
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	14,271,252	365,813	593,118	1,047,936	16,278,119	3,778,602
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 10,037,346	\$ 129,999	\$ 2,066,291	\$ 1,447,327	\$ 13,680,963	\$ 11,543,833
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:						
Operating income (loss).....	\$ 3,145,111	\$ 128,999	\$ 2,604,401	\$ 1,509,483	\$ 7,387,994	\$ 7,776,860
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation.....	3,613,894	-	1,515,712	1,359,608	6,489,214	-
Changes in assets and liabilities:						
Accounts receivable.....	(14,818)	250,500	(722,552)	-	(486,870)	-
Departmental and other.....	-	-	-	24,676	24,676	-
Working capital deposit.....	-	-	-	-	-	(14,850)
Warrants payable.....	672,071	-	(89,801)	349,296	931,566	(713)
Health claims payable.....	-	-	-	-	-	(5,000)
Postemployment benefits.....	239,518	-	557,973	44,402	841,893	-
Accrued compensated absences.....	14,157	-	95,525	(396)	109,286	-
Total adjustments.....	4,524,822	250,500	1,356,857	1,777,586	7,909,765	(20,563)
NET CASH FROM OPERATING ACTIVITIES.....	\$ 7,669,933	\$ 379,499	\$ 3,961,258	\$ 3,287,069	\$ 15,297,759	\$ 7,756,297

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

	Pension Trust Fund (as of December 31, 2010)	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 8,348,079	\$ 157,025	\$ 1,604,278
Investments.....	229,797,923	-	-
Interest and dividends.....	326	-	-
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	8,089,060	-	-
TOTAL ASSETS.....	246,235,388	157,025	1,604,278
LIABILITIES			
Warrants payable.....	-	-	23,045
Liabilities due depositors.....	-	-	1,259,323
Other liabilities.....	-	-	321,910
TOTAL LIABILITIES.....	-	-	1,604,278
NET ASSETS			
Held in trust for pension benefits and other purposes.....	\$ 246,235,388	\$ 157,025	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2011

	Pension Trust Fund (as of December 31, 2010)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 16,711,373	\$ -
Employee.....	7,110,603	-
Private donations.....	25,550	1,532
Total contributions.....	23,847,526	1,532
Net investment income (loss):		
Net change in fair value of investments.....	22,011,067	-
Interest.....	6,098,357	164
Total investment income (loss).....	28,109,424	164
Less: investment expense.....	(1,016,171)	-
Net investment income (loss).....	27,093,253	164
Intergovernmental.....	641,676	-
Transfers from other systems.....	563,419	-
TOTAL ADDITIONS.....	52,145,874	1,696
DEDUCTIONS:		
Administration.....	333,485	-
Transfers to other systems.....	2,985,454	-
Retirement benefits and refunds.....	28,609,843	-
TOTAL DEDUCTIONS.....	31,928,782	-
CHANGE IN NET ASSETS.....	20,217,092	1,696
NET ASSETS AT BEGINNING OF YEAR.....	226,018,296	155,329
NET ASSETS AT END OF YEAR.....	\$ 246,235,388	\$ 157,025

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

Availability of Financial Information for Component Units

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 375 Merrimack Street, Lowell, Massachusetts, 01852.

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

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

Fund Financial Statements

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

Major Fund Criteria

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

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

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

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

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

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

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

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

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

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

Fund Financial Statements

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

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

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

The following major governmental fund is reported:

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

The *state fiscal stabilization fund* was used to account for Federal stimulus funds received that passed through the state fiscal stabilization fund.

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

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

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

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

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

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

The following major proprietary funds are reported:

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

The *arena enterprise fund* is used to account for the Tsongas Arena activities.

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

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

Additionally, the following proprietary fund type is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to employees' health insurance.

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

The following fiduciary fund types are reported:

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

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

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

Government-Wide and Fund Financial Statements

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes and Tax Liens

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

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

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

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

Motor Vehicle Excise

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

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

Water

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

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

Sewer

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

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

Trash

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

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

Departmental and Other

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

Intergovernmental

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

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

Loans

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

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

F. Inventories

Government-Wide and Fund Financial Statements

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

G. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which include land, land improvements, buildings, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial

statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

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

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

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

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

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

Governmental Fund Financial Statements

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

H. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

I. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

J. Deferred Revenue

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

K. Net Assets and Fund Equity

Government-Wide Financial Statements (Net Assets)

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

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

Net assets have been "restricted for" the following:

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

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

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

"Loans" represents community development outstanding loans receivable balances.

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

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

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

Fund Financial Statements (Fund Balances)

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

The governmental fund balance classifications are as follows:

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

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

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority.

“Assigned” fund balance includes amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed.

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

L. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

M. Investment Income

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

N. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

O. Use of Estimates

Government-Wide and Fund Financial Statements

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

P. Individual Fund Deficits

Several individual fund deficits exist at June 30, 2011, within the Special Revenue Funds and Capital Project Funds. These deficits will be funded through grants, issuance of long-term debt and available fund balances.

Q. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 - CASH AND INVESTMENTS

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

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

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

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$67,827,540 and the bank balance totaled \$75,859,651. Of the bank balance, \$1,553,920 was covered by Federal Depository Insurance, \$62,773 was covered by the Depositors Insurance Fund, \$33,041,687 was collateralized, and \$41,201,271 was uninsured and uncollateralized.

At December 31, 2010, carrying amount of deposits for the System totaled \$8,348,079 and the bank balance totaled \$8,572,259. All of the bank balance was covered by the Federal Depository Insurance and none of the funds were exposed to custodial risk.

Investments

As of June 30, 2011, the City had the following investments:

Investment Type	Fair Value	Maturity		
		1-5 Years	6-10 Years	Over 10 Years
Debt Securities				
Federal Home Loans Mtg Corp.....	\$ 308,135	\$ -	\$ 100,530	\$ 207,605
Federal National Mortgage Association.....	252,233	25,590	-	226,643
Governmental National Mortgage Association....	103,773	537	-	103,236
Brokered CDs.....	100,000	100,000	-	-
Federal Home Loan Bank*.....	229,631	229,631	-	-
Bank of America Corporation*.....	50,728	50,728	-	-
Municipal Bonds*.....	389,916	245,325	144,591	-
Total Debt Securities.....	1,434,416	\$ 651,811	\$ 245,121	\$ 537,484
Other Investments				
MMDT.....	109,875			
Total Investments.....	\$ 1,544,291			

*Municipal bonds consist of Cook County Ill School District No.148 general obligation bonds of \$86,715 with a rating of AA+, Atlantic City N J BRD Ed Taxable –Build America bonds of \$48,341 with a rating of AA-, Dracut Mass Pension obligation bonds of \$41,684 with a rating of AA+, Van Buren Michigan Public Schools general obligation bonds for \$49,580 with a rating of AA-, Pima County Arizona Uni School District of \$61,167 with a rating of AA-, Washington ST Taxable -2011T bond of \$50,899 with a rating of AAA, and Fond Du Lac County Wis GO Prom Nts of \$51,530 with a rating of Aa2. The Bank of America bond is rated A, Federal Home Loan Bank and all other investments are rated AAA.

As of December 31, 2010, the System had the following investments:

<u>Other Investments</u>	
Equity Securities.....	\$ 665,683
Alternative Investments.....	1,930,582
Real Estate Investments.....	1,071,873
PRIT Fund.....	<u>226,129,785</u>
 Total Investments.....	 \$ <u><u>229,797,923</u></u>

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the investments \$308,135 in Federal Home Loan Mortgages, \$252,233 in Federal National Mortgage Association, \$103,773 in Government National Mortgage Association, \$100,000 in Brokered CDs, \$229,631 in Federal Home Loan Bank, \$50,728 in Bank of America Corporation, and \$389,916 in municipal bonds, the City has a custodial credit risk exposure of \$1,434,416 because the related securities are uninsured, unregistered and held by the counterparty. The City does not have an investment policy for custodial credit risk.

For an investment, this is the risk that, in the event of a failure by the counterparty, the System will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the System’s investments \$665,683 in Equity Securities, the System has custodial credit risk exposure of \$665,683 because the related securities are uninsured, unregistered and held by the counterparty. The System does not have an investment policy related to custodial credit risk.

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

The City participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 3 months.

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from 0.8 to 11.26 years.

Credit Risk

The City has not adopted a formal policy related to credit risk.

The System has not adopted a formal policy related to credit risk. At December 31, 2010 the System does not have any rated investments.

Concentration of Credit Risk

The City has not adopted a formal policy related to the amount that may be invested in any one issuer. At June 30, 2011 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, 2010 the System's investment in any one issuer did not exceed 5% of the total amount invested.

NOTE 3 - RECEIVABLES

At June 30, 2011, receivables for the individual major governmental funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Real estate and personal property taxes.....	\$ 3,661,147	\$ (933,190)	\$ 2,727,957
Tax liens.....	5,271,697	(505,375)	4,766,322
Motor vehicle and other excise taxes.....	3,227,680	(1,509,843)	1,717,837
Water fees.....	42,643	-	42,643
Trash fees.....	749,543	-	749,543
Departmental and other.....	6,850	-	6,850
Intergovernmental.....	59,424,296	-	59,424,296
Loans.....	2,737,798	-	2,737,798
Total	<u>\$ 75,121,654</u>	<u>\$ (2,948,408)</u>	<u>\$ 72,173,246</u>

At June 30, 2011, receivables for the enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
User fees.....	\$ 8,529,725	\$ -	\$ 8,529,725
Departmental and other.....	1,727,041	(439,593)	1,287,448
Intergovernmental.....	3,740,268	-	3,740,268
Total	<u>\$ 13,997,034</u>	<u>\$ (439,593)</u>	<u>\$ 13,557,441</u>

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

	General Fund	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 3,185,230	\$ -	\$ 3,185,230
Tax liens.....	4,766,322	-	4,766,322
Motor vehicle and other excise taxes.....	1,717,837	-	1,717,837
Water fees.....	42,643	-	42,643
Trash fees.....	749,543	-	749,543
Departmental and other.....	6,850	-	6,850
Intergovernmental.....	48,673,959	9,392,035	58,065,994
<u>Other asset type:</u>			
Tax foreclosures.....	3,298,629	-	3,298,629
Total.....	<u>\$ 62,441,013</u>	<u>\$ 9,392,035</u>	<u>\$ 71,833,048</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 28,907,286	\$ -	\$ -	\$ 28,907,286
Construction in progress.....	-	1,215,882	-	1,215,882
Total capital assets not being depreciated.....	<u>28,907,286</u>	<u>1,215,882</u>	<u>-</u>	<u>30,123,168</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	338,333,127	1,300,515	-	339,633,642
Capital improvements (other than buildings).....	18,088,281	278,195	-	18,366,476
Infrastructure.....	118,843,170	20,093,916	-	138,937,086
Vehicles.....	11,935,619	293,527	(129,698)	12,099,448
Equipment.....	4,656,323	581,526	-	5,237,849
Books.....	10,613,452	375,370	-	10,988,822
Software.....	495,990	-	-	495,990
Total capital assets being depreciated.....	<u>502,965,962</u>	<u>22,923,049</u>	<u>(129,698)</u>	<u>525,759,313</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(165,891,471)	(8,356,032)	-	(174,247,503)
Capital improvements (other than buildings).....	(7,769,297)	(700,842)	-	(8,470,139)
Infrastructure.....	(69,645,945)	(3,122,177)	-	(72,768,122)
Vehicles.....	(8,638,798)	(480,207)	129,698	(8,989,307)
Equipment.....	(2,292,287)	(372,914)	-	(2,665,201)
Books.....	(9,437,641)	(365,774)	-	(9,803,415)
Software.....	(535,131)	-	-	(535,131)
Total accumulated depreciation.....	<u>(264,210,570)</u>	<u>(13,397,946)</u>	<u>129,698</u>	<u>(277,478,818)</u>
Total capital assets being depreciated, net.....	<u>238,755,392</u>	<u>9,525,103</u>	<u>-</u>	<u>248,280,495</u>
Total governmental activities capital assets, net.....	<u>\$ 267,662,678</u>	<u>\$ 10,740,985</u>	<u>\$ -</u>	<u>\$ 278,403,663</u>

Business-Type Activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,844,421	\$ -	\$ -	\$ 2,844,421
Total capital assets not being depreciated.....	<u>2,844,421</u>	<u>-</u>	<u>-</u>	<u>2,844,421</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	24,272,376	16,393	-	24,288,769
Capital improvements (other than buildings).....	10,613,985	6,809,822	-	17,423,807
Infrastructure.....	235,201,253	27,447,141	-	262,648,394
Vehicles.....	1,348,958	165,620	-	1,514,578
Equipment.....	715,099	223,510	-	938,609
Total capital assets being depreciated.....	<u>272,151,671</u>	<u>34,662,486</u>	<u>-</u>	<u>306,814,157</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(13,854,347)	(1,316,290)	-	(15,170,637)
Capital improvements (other than buildings).....	(1,545,322)	(670,925)	-	(2,216,247)
Infrastructure.....	(83,669,067)	(4,424,060)	-	(88,093,127)
Vehicles.....	(851,867)	(66,763)	-	(918,630)
Equipment.....	(715,098)	(11,176)	-	(726,274)
Total accumulated depreciation.....	<u>(100,635,701)</u>	<u>(6,489,214)</u>	<u>-</u>	<u>(107,124,915)</u>
Total capital assets being depreciated, net.....	<u>171,515,970</u>	<u>28,173,272</u>	<u>-</u>	<u>199,689,242</u>
Total business-type activities capital assets, net.....	<u>\$ 174,360,391</u>	<u>\$ 28,173,272</u>	<u>\$ -</u>	<u>\$ 202,533,663</u>

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

Governmental Activities:	
General government.....	\$ 707,758
Public safety.....	1,796,625
Education.....	6,476,775
Public works.....	3,032,948
Human services.....	76,221
Culture and recreation.....	<u>1,307,619</u>
Total depreciation expense - governmental activities.....	<u>\$ 13,397,946</u>
Business-Type Activities:	
Water.....	\$ 1,515,712
Sewer.....	3,613,894
Parking.....	<u>1,359,608</u>
Total depreciation expense - business-type activities.....	<u>\$ 6,489,214</u>

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2011, are summarized as follows:

Operating Transfers Out:	Operating Transfers In:			Total
	General Fund	Nonmajor Governmental Funds	Arena Enterprise Fund	
General Fund.....	\$ -	\$ 116,946	\$ 516,560	\$ 633,506
Nonmajor Governmental Funds.....	139,654	464,390	-	604,044
Sewer Enterprise Fund.....	2,429,278	-	-	2,429,278
Water Enterprise Fund.....	1,468,683	-	-	1,468,683
Parking Enterprise Fund.....	392,703	-	-	392,703
Arena Enterprise Fund.....	-	549,500	-	549,500
Total.....	\$ 4,430,318	\$ 1,130,836	\$ 516,560	\$ 6,077,714

Transfers out of the General Fund represent subsidies to the Arena Enterprise Fund and a transfer to parks and recreation. Transfers in represent amounts voted to fund fiscal year 2011 operations and the funding of various capital projects.

NOTE 6 - SHORT-TERM FINANCING

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

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

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

Details related to the short-term debt activity for the fiscal year ended June 30, 2011, is as follows:

Type	Description	Maturity Date	Rate %	Balance at June 30 2010	Renewed/ Issued	Retired/ Redeemed	Balance at June 30 2011
SAAN	State Aid Anticipation.....	8/20/10	2.68%	\$ 3,500,000	\$ -	\$ 3,500,000	\$ -
BAN	Public Safety Center.....	9/17/10	2.00%	275,000	-	275,000	-
BAN	Remodeling, Recreation & Equipment....	9/17/10	2.00%	500,000	-	500,000	-
BAN	Land Acquisition.....	9/17/10	2.00%	350,000	-	350,000	-
BAN	Public Safety Center.....	9/17/10	1.00%	250,000	-	250,000	-
BAN	Remodeling, Recreation & Equipment....	9/17/10	1.00%	200,000	-	200,000	-
BAN	Land Acquisition.....	9/17/10	1.00%	25,000	-	25,000	-
BAN	Streetlights.....	9/17/10	1.00%	130,000	-	130,000	-
SAAN	State Aid Anticipation.....	8/19/11	1.00%	-	1,000,000	-	1,000,000
SAAN	State Aid Anticipation.....	8/19/11	1.50%	-	2,085,000	-	2,085,000
BAN	Streetlights.....	9/16/11	1.25%	-	170,000	-	170,000
BAN	LaLacheur Park.....	9/16/11	2.30%	-	65,000	-	65,000
BAN	Rogers School Roof.....	9/16/11	2.30%	-	615,000	-	615,000
BAN	Land Acquisition.....	9/16/11	2.30%	-	50,000	-	50,000
Subtotal Governmental Short Term Debt.....				<u>5,230,000</u>	<u>3,985,000</u>	<u>5,230,000</u>	<u>3,985,000</u>
BAN	Water.....	9/17/10	1.00%	<u>1,105,000</u>	-	<u>1,105,000</u>	-
BAN	Sewer.....	9/17/10	2.00%	775,000	-	775,000	-
BAN	Sewer.....	9/17/10	2.00%	1,100,000	-	1,100,000	-
BAN	Sewer.....	9/17/10	2.00%	1,500,000	-	1,500,000	-
BAN	Sewer.....	9/17/10	1.00%	300,000	-	300,000	-
BAN	Sewer.....	9/17/10	1.00%	5,130,000	-	5,130,000	-
BAN	Sewer.....	9/16/11	2.25%	-	1,000,000	-	1,000,000
BAN	Sewer.....	9/16/11	1.25%	-	2,430,000	-	2,430,000
BAN	Sewer.....	9/16/11	2.30%	-	570,000	-	570,000
BAN	Sewer.....	6/17/12	2.00%	-	10,271,967	-	10,271,967
Subtotal Sewer Enterprise Fund.....				<u>8,805,000</u>	<u>14,271,967</u>	<u>8,805,000</u>	<u>14,271,967</u>
Subtotal Business-Type Short Term Debt.....				<u>9,910,000</u>	<u>14,271,967</u>	<u>9,910,000</u>	<u>14,271,967</u>
Total Short-Term Debt.....				<u>\$ 15,140,000</u>	<u>\$ 18,256,967</u>	<u>\$ 15,140,000</u>	18,256,967
General obligation bonds issued 9/16/11 (see note 7).....							<u>(4,730,000)</u>
Total.....							<u>\$ 13,526,967</u>

Of the \$13,526,967 of total outstanding short term debt outstanding at year end, the \$170,000 BAN was rolled over for a period of one year at an interest rate of 1.25% with a new maturity date of 9/16/12, on August 19, 2011, the City paid down \$465,000 of the \$3.1 million SAAN with grant proceeds, and rolled \$2.6 million into a new SAAN that is due August 19, 2012. The \$10.3 million Sewer BAN relates to an interim loan in which will be permanently financed during fiscal year 2012 through the Massachusetts Water Pollution Abatement Trust.

NOTE 7 - LONG-TERM DEBT

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

In previous fiscal years, certain general obligation bonds and enterprise fund bonds were defeased by placing the proceeds of bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2011, \$8,500,000 and \$360,000 of bonds outstanding from these advance refundings are considered defeased in relation to the governmental funds and the enterprise funds, respectively.

In order to take advantage of favorable interest rates, the City issued \$12,881,000 of General Obligation Refunding Bonds on September 16, 2010. \$13,035,000 of general obligation bonds were advance refunded by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the basic financial statements. The City has decreased its aggregate debt service payments by \$1.3 million. Accordingly, \$10.9 million and \$2.1 million of governmental and enterprise debt is considered defeased.

On September 16, 2011, the City issued \$4,730,000 of general obligation debt that related to BAN's outstanding as of June 30, 2011 and was recognized in the current year. The current year financial statements have recognized bond proceeds in the amount of \$730,000 in the governmental funds, \$1 million in the water enterprise fund, and \$3 million in the sewer enterprise fund.

Details related to the outstanding indebtedness as of June 30, 2011, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2010	Issued	Refunded	Redeemed	Outstanding at June 30, 2011
Schools.....	2.00-6.00	\$ 74,721,859	\$ 7,207,950	\$ 6,695,000	\$ 13,177,246	\$ 62,057,563
General.....	2.00-6.00	21,800,253	13,281,650	4,215,000	1,705,944	29,160,959
Cawley Stadium.	3.00-5.41	356,835	-	-	81,350	275,485
Section 108.....	8.20	275,000	-	-	135,000	140,000
Section 108.....	variable	2,500,000	-	-	160,000	2,340,000
Total.....		<u>\$ 99,653,947</u>	<u>\$ 20,489,600</u>	<u>\$ 10,910,000</u>	<u>\$ 15,259,540</u>	<u>\$ 93,974,007</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012..... \$	13,385,128	\$ 4,323,611	\$ 17,708,739
2013.....	11,564,654	3,782,520	15,347,174
2014.....	9,102,950	3,291,489	12,394,439
2015.....	9,221,050	2,854,245	12,075,295
2016.....	8,453,100	2,418,066	10,871,166
2017.....	5,339,400	2,078,812	7,418,212
2018.....	5,382,725	1,808,838	7,191,563
2019.....	5,441,000	1,523,224	6,964,224
2020.....	5,546,000	1,233,113	6,779,113
2021.....	4,078,000	968,642	5,046,642
2022.....	4,105,000	724,233	4,829,233
2023.....	3,275,000	513,856	3,788,856
2024.....	1,500,000	424,893	1,924,893
2025.....	1,510,000	360,502	1,870,502
2026.....	1,225,000	298,666	1,523,666
2027.....	1,235,000	236,349	1,471,349
2028.....	1,170,000	174,673	1,344,673
2029.....	1,190,000	113,337	1,303,337
2030.....	1,080,000	53,734	1,133,734
2031.....	140,000	3,591	143,591
2032.....	30,000	533	30,533
Total..... \$	<u>93,974,007</u>	<u>\$ 27,186,923</u>	<u>\$ 121,160,930</u>

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2011, approximately \$11,785,000 of such assistance was received. Approximately \$50,082,000 will be received in future fiscal years. Of this amount, \$49,149,000 represents reimbursement of approved construction costs, and \$932,000 represents reimbursement of long-term interest costs. Accordingly, an intergovernmental receivable of \$49,149,000 and corresponding deferred revenue have been reported in governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

At June 30, 2011 the City carried \$2,480,000 of debt, issued in prior fiscal years, under the United States Department of Housing and Urban Development's (HUD) Section 108 Loan Guarantee Program. The purpose of the program is to enable local governments to provide financing to urban renewal projects operated by either the government or third party developers. Debt issued under this program is secured by future entitlement allocations to the City under HUD's Community Development Block Grant (CDBG) Program. The City expects to receive \$2,422,213 in future fiscal years as debt repayments from developers who were the recipients of the loan funds. Accordingly a receivable of \$2,422,213 has been recorded in the non-major governmental funds. The balance of the debt represents an amount attributable to a City owned renewal project for which principal payments have been programmed to be made from CDBG funds over the next five years. After such time, the City expects to sell the property and repay any remaining debt associated with the City owned project. At June 30, 2011 the interest rate on this debt remains variable and is determined quarterly based on three month London Interbank Offered Rate plus 20 basis points.

Bonds and Notes Payable Schedule – Enterprise Funds

Project	Interest Rate (%)	Outstanding at June 30, 2010	Issued	Refunded	Redeemed	Outstanding at June 30, 2011
Sewer.....	2.00-7.70	\$ 80,866,997	\$ 4,579,000	\$ 585,000	\$ 2,368,526	\$ 82,492,471
Water.....	2.00-6.00	34,667,067	387,100	390,000	1,791,744	32,872,423
Parking.....	4.00-5.00	27,970,000	1,140,300	1,150,000	1,010,000	26,950,300
Tsongas Arena..	3.00-5.73	1,612,475	-	-	266,125	1,346,350
Total.....		<u>\$ 145,116,539</u>	<u>\$ 6,106,400</u>	<u>\$ 2,125,000</u>	<u>\$ 5,436,395</u>	<u>\$ 143,661,544</u>

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

Fiscal Year	Principal	Interest	Total
2012.....	\$ 6,779,814	\$ 5,067,760	\$ 11,847,574
2013.....	7,065,869	4,855,335	11,921,204
2014.....	6,630,965	4,578,363	11,209,328
2015.....	6,797,804	4,299,821	11,097,625
2016.....	6,877,562	4,019,758	10,897,320
2017.....	6,923,230	3,720,908	10,644,138
2018.....	7,092,058	3,424,064	10,516,122
2019.....	7,215,144	3,121,969	10,337,113
2020.....	7,375,739	2,799,461	10,175,200
2021.....	7,442,598	2,485,639	9,928,237
2022.....	6,920,750	2,190,413	9,111,163
2023.....	6,870,224	1,906,396	8,776,620
2024.....	6,491,051	1,648,192	8,139,243
2025.....	6,663,264	1,409,644	8,072,908
2026.....	6,296,889	1,201,783	7,498,672
2027.....	6,171,607	1,002,388	7,173,995
2028.....	6,159,701	753,108	6,912,809
2029.....	3,478,009	650,850	4,128,859
2030.....	3,227,474	560,296	3,787,770
2031.....	3,031,939	477,523	3,509,462
2032.....	2,145,258	411,302	2,556,560
2033.....	1,992,474	360,535	2,353,009
2034.....	2,040,836	312,173	2,353,009
2035.....	2,090,373	262,637	2,353,010
2036.....	2,141,113	211,898	2,353,011
2037.....	2,193,090	159,916	2,353,006
2038.....	1,949,134	110,115	2,059,249
2039.....	1,996,739	62,510	2,059,249
2040.....	790,813	28,930	819,743
2041.....	810,023	9,720	819,743
Total.....	<u>\$ 143,661,544</u>	<u>\$ 52,103,407</u>	<u>\$ 195,764,951</u>

The City is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for principal in the amount of \$3,252,443 and interest costs for \$3,439,017. Thus, net MWPAT loan repayments, including interest, are scheduled to be \$33,153,147. The principal subsidies are guaranteed. The interest subsidies are supported through future investment income and are expected to be made, although not guaranteed. Since the City is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The fiscal year 2011 principal and interest subsidies totaled approximately \$215,000 and \$473,000, respectively.

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, 2011, the City had the following authorized and unissued debt:

Purpose	Amount
School Construction.....	\$ 18,860,000
Water.....	15,066,350
Sewer.....	9,575,924
Streetlights.....	270,000
Energy Improvements.....	13,003,076
Land.....	2,805,000
Public Safety Center.....	175,000
Remodeling, Recreation, and Equipment....	4,159,939
Total.....	\$ 63,915,289

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2011, the following changes occurred in long-term liabilities:

Governmental Activities:	FY 2010 Beginning Balance	Additions	Reductions	FY 2011 Ending Balance	Current Portion
Bonds and notes payable.....	\$ 99,653,947	\$ 20,489,600	\$ (26,169,540)	\$ 93,974,007	\$ 13,385,128
Workers' compensation.....	5,027,000	1,577,000	(1,073,000)	5,531,000	834,000
Compensated absences.....	9,286,577	4,289,927	(5,460,100)	8,116,404	4,919,042
Unamortized premium on bonds payable...	1,188,817	-	(355,548)	833,269	276,910
Postemployment benefits.....	66,778,865	26,414,680	-	93,193,545	-
Total governmental activity long-term liabilities.....	\$ 181,935,206	\$ 52,771,207	\$ (33,058,188)	\$ 201,648,225	\$ 19,415,080
Business-Type Activities:	FY 2010 Ending Balance	Additions	Reductions	FY 2011 Ending Balance	Current Portion
Bonds and notes payable.....	\$ 145,116,539	\$ 6,106,400	\$ (7,561,395)	\$ 143,661,544	\$ 6,779,814
Compensated absences.....	488,971	390,613	(372,072)	507,512	381,078
Postemployment benefits.....	1,994,085	562,847	-	2,556,932	-
Total business type activity long-term liabilities.....	\$ 147,599,595	\$ 7,059,860	\$ (7,933,467)	\$ 146,725,988	\$ 7,160,892

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

The City has adopted GASB Statement #54, Fund Balance Reporting and Governmental Fund Type Definitions as part of its fiscal year 2011 reporting. Implementation of GASB #54 is required for fiscal years beginning after June 15, 2010. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the City's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

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

At year end the balance of the General Stabilization Fund is \$1.4 million and is reported as unassigned fund balance within the General Fund, and the School Construction Stabilization Fund is \$308 thousand and is reported as committed fund balance within the General Fund.

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

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

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

As of June 30, 2011, the governmental fund balances consisted of the following:

	GOVERNMENTAL FUNDS		
	General	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES			
Nonspendable:			
Permanent fund principal.....	\$ -	\$ 1,617,003	\$ 1,617,003
Restricted for:			
Chapter 17 special reserve.....	4,237,808	-	4,237,808
Gift and grant funds.....	-	6,896,170	6,896,170
Federal grant funds.....	-	3,683,843	3,683,843
Section 108 funds.....	-	2,501,164	2,501,164
Sale of city property funds.....	-	322,820	322,820
Spendable permanent funds.....	-	162,981	162,981
Committed to:			
Revolving funds.....	-	1,915,784	1,915,784
Capital Projects.....	-	659,581	659,581
Stabilization school construction	308,205	-	308,205
Assigned to:			
General government.....	144,820	-	144,820
Public safety.....	24,925	-	24,925
Education.....	1,009,108	-	1,009,108
Public works.....	9,397	-	9,397
Human services.....	1,117	-	1,117
Culture and recreation.....	18,442	-	18,442
Unassigned.....	2,081,314	-	2,081,314
TOTAL FUND BALANCES (DEFICIT).....	\$ 7,835,136	\$ 17,759,346	\$ 25,594,482

NOTE 9 - RISK FINANCING

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

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

- (a) *Workers' Compensation* - Workers' compensation claims are administered by the City's Law Department and are funded on a pay-as-you-go basis from annual appropriations. The City handles all administration related to the workers' compensation program. The City has recorded a liability of \$5,531,000 at June 30, 2011, which represents an estimate of all outstanding claims as of that date. Changes in the reported liability since July 1, 2009 are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2010.... \$	6,939,000	\$ (501,423)	\$ (1,410,577)	\$ 5,027,000
Fiscal Year 2011.....	5,027,000	1,116,428	(612,428)	5,531,000

(b) *Health Insurance* - The City estimates its' Incurred But Not Reported (IBNR) claims based on a two month claims paid average. The City purchases individual stop loss insurance for claims in excess of the \$150,000 coverage provided by the City. At June 30, 2011, the amount of the liability for health insurance claims totaled \$2,904,485. Changes in the reported liability since July 1, 2009, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2010.....	3,632,000	63,044,721	(63,767,721)	2,909,000
Fiscal Year 2011.....	2,909,000	54,048,286	(54,052,316)	2,904,000

NOTE 10 - PENSION PLAN

Plan Description - The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Lowell Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$26,872,000 for the fiscal year ended June 30, 2011 are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Lowell Contributory Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 375 Merrimack Street, Lowell, Massachusetts, 01852.

At December 31, 2010, the System's membership consists of the following:

Active members.....	1,793
Inactive members.....	131
Retirees and beneficiaries currently receiving benefits.....	<u>1,154</u>
Total.....	<u><u>3,078</u></u>

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 9% of annual covered compensation. The City is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the City to contribute 91% of the total. Chapter 32 of the MGL governs the contributions of plan members and the City.

Annual Pension Cost - The City's contributions to the System for the fiscal years ended June 30, 2011, 2010, and 2009 were \$15,556,895, \$14,887,651, and \$14,546,534, respectively, which equaled its required contribution for each fiscal year. At June 30, 2011, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2010 actuarial valuation using the entry age normal actuarial cost method.

The actuarial assumptions included an 8.25% investment rate of return and projected salary increases of 3.0% during year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2011, was 11 years.

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/10	\$ 248,611,238	\$ 438,406,738	\$ 189,795,500	\$ 56.7%	\$ 77,383,209	\$ 245.3%
01/01/08	263,107,199	413,775,000	150,667,801	63.6%	72,950,000	206.5%
01/01/07	233,197,405	396,390,223	163,192,818	58.8%	79,636,851	204.9%
01/01/06	215,006,620	367,392,106	152,385,486	58.5%	75,223,915	202.6%
01/01/05	209,877,811	348,778,564	138,900,753	60.2%	68,778,711	202.0%
01/01/04	212,820,983	333,362,336	120,541,353	63.8%	70,987,841	169.8%
01/01/03	193,158,554	316,822,473	123,663,919	61.0%	75,040,045	164.8%

Non-contributory Retirement Allowance – City employees with military veteran status and at least 30 years of service to the City, who began work prior to July 1, 1939, and others meeting eligibility criteria are entitled to a non-contributory pension benefit equal to 72% of their highest rate of pay. Employees covered by this section of the plan are not included in the actuarial valuation and there is no available estimate of the related actuarial liability. The City funds these benefits from an annual general fund appropriation. The general fund expenditure for fiscal year 2011 was \$128,000.

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

Funding Policy - The contribution requirements of plan members and the City are established and may be amended through collective bargaining. The required contribution is based on projected pay-as-you-go financing requirements. The City contributes 75 percent of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 25 percent of their premium costs. For fiscal year 2011, the City contributed \$14,605,754 to the plan.

Annual OPEB Cost and Net OPEB Obligation - The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$	41,163,431
Interest on net OPEB obligation.....		2,407,053
Adjustment to annual required contribution.....		<u>(1,987,203)</u>
Annual OPEB cost (expense).....		41,583,281
Contributions made.....		<u>(14,605,754)</u>
Increase/Decrease in net OPEB obligation.....		26,977,527
Net OPEB obligation - beginning of year.....		<u>68,772,950</u>
Net OPEB obligation - end of year.....	\$	<u><u>95,750,477</u></u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2009	\$ 31,916,608	27.3%	\$ 43,195,265
6/30/2010	35,263,146	27.5%	68,772,950
6/30/2011	41,583,281	35.1%	95,750,477

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the July 1, 2010, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method was used. The actuarial assumptions included a 3.5 percent investment rate of return net of investment expenses, and an annual healthcare cost trend rate of 7.5 percent initially, graded to 5 percent after five years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, was thirty years.

NOTE 12 - COMMITMENTS

The City has entered into, or is planning to enter into, contracts totaling approximately \$64 million for school, sewer, arena, various remodeling/recreation projects, the public safety center and water projects. These projects will be funded through the issuance of long-term debt, state grants and federal grants.

NOTE 13 - CONTINGENCIES

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2011, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various other legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2011, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2011.

NOTE 14 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2011, the following GASB pronouncements were implemented:

- GASB Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented in fiscal year 2011. Financial statements changes include new fund balance designations and the reclassification of stabilization funds from the special revenue fund to the general fund. Notes to the basic financial statements were changed to provide additional disclosure on the new designations of fund balance.
- The GASB issued Statement #59, *Financial Statements Omnibus*, which is required to be implemented in fiscal year 2011. Management believes this pronouncement will require additional disclosure relative to investments held by the Town.

Future GASB Pronouncements:

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013. Management expects that the implementation of this pronouncement will have an impact on the basic financial statements.
- The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will not have a significant impact on the basic financial statements.
- The GASB issued Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will not have a significant impact on the basic financial statements.
- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will have a significant impact on the basic financial statements.
- The GASB issued Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*, which is required to be implemented in fiscal year 2012. Management does not believe that this pronouncement will require additional disclosure or impact the basic financial statements.

Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 103,208,089	\$ 103,208,089	\$ 103,095,298
Tax liens.....	-	1,833,000	1,833,000	1,833,000
Motor vehicle and other excise taxes.....	-	6,443,000	6,443,000	6,873,000
Trash disposal.....	-	3,058,000	3,058,000	3,058,000
Penalties and interest on taxes.....	-	1,366,000	1,366,000	1,366,000
Payments in lieu of taxes.....	-	912,000	912,000	912,000
Intergovernmental.....	-	151,836,397	151,836,397	151,627,651
Departmental and other.....	-	7,123,027	7,123,027	7,638,443
Investment income.....	-	353,000	353,000	353,000
TOTAL REVENUES.....	-	276,132,513	276,132,513	276,756,392
EXPENDITURES:				
Current:				
General government.....	195,089	11,883,274	12,078,363	15,479,445
Public safety.....	8,600	36,329,057	36,337,657	36,950,047
Education.....	4,762,285	135,769,501	140,531,786	136,824,912
Public works.....	175,437	12,439,100	12,614,537	13,005,445
Human services.....	854	2,903,033	2,903,887	3,085,887
Culture and recreation.....	7,065	3,261,572	3,268,637	3,268,366
Pension benefits.....	-	14,696,390	14,696,390	15,696,390
Employee benefits.....	-	29,134,928	29,134,928	29,367,036
State and county charges.....	-	12,812,702	12,812,702	12,659,497
Debt service:				
Principal.....	-	14,964,540	14,964,540	15,379,540
Interest.....	-	4,615,771	4,615,771	4,322,969
TOTAL EXPENDITURES.....	5,149,330	278,809,868	283,959,198	286,039,534
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(5,149,330)	(2,677,355)	(7,826,685)	(9,283,142)
OTHER FINANCING SOURCES (USES):				
Premium from issuance of bonds.....	-	120,000	120,000	237,000
Transfers in.....	-	4,290,664	4,290,664	4,430,318
Transfers out.....	-	(2,981,895)	(2,981,895)	(1,882,092)
TOTAL OTHER FINANCING SOURCES (USES).....	-	1,428,769	1,428,769	2,785,226
NET CHANGE IN FUND BALANCE.....	(5,149,330)	(1,248,586)	(6,397,916)	(6,497,916)
BUDGETARY FUND BALANCE, Beginning of year.....	-	13,264,940	13,264,940	13,264,940
BUDGETARY FUND BALANCE, End of year.....	\$ (5,149,330)	\$ 12,016,354	\$ 6,867,024	\$ 6,767,024

See notes to basic financial statements.

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
\$ 101,313,575	\$ -	\$ (1,781,723)
2,505,532	-	672,532
7,414,643	-	541,643
2,991,576	-	(66,424)
1,445,451	-	79,451
1,025,175	-	113,175
152,410,703	-	783,052
7,266,267	-	(372,176)
332,621	-	(20,379)
<u>276,705,543</u>	<u>-</u>	<u>(50,849)</u>
14,797,290	144,820	537,335
36,653,303	24,925	271,819
135,815,804	1,009,108	-
15,046,675	9,397	(2,050,627)
3,043,934	1,117	40,836
3,071,608	18,442	178,316
15,684,937	-	11,453
29,323,325	-	43,711
12,473,238	-	186,259
14,964,540	-	415,000
4,128,939	-	194,030
<u>285,003,593</u>	<u>1,207,809</u>	<u>(171,868)</u>
<u>(8,298,050)</u>	<u>(1,207,809)</u>	<u>(222,717)</u>
412,309	-	175,309
4,430,318	-	-
(1,882,092)	-	-
<u>2,960,535</u>	<u>-</u>	<u>175,309</u>
(5,337,515)	(1,207,809)	(47,408)
<u>13,264,940</u>	<u>-</u>	<u>-</u>
<u>\$ 7,927,425</u>	<u>\$ (1,207,809)</u>	<u>\$ (47,408)</u>

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

June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/08	\$ -	\$ 432,751,582	\$ 432,751,582	0.0%	\$ 170,183,191	254.3%
07/01/10	-	689,936,566	689,936,566	0.0%	177,396,732	388.9%

Schedule of Employer Contributions

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

See notes to required supplementary information.

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

Actuarial Methods:

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

Actuarial Assumptions:

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

Plan Membership:

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

See notes to required supplementary information.

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

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

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

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2011 approved budget authorizing approximately \$286.9 million in current year appropriations, other financing uses, and other amounts to be raised and approximately \$5.1 million in encumbrances and appropriations carried over from previous fiscal years. During fiscal year 2011, the Council approved transfers between departments, minor increases and decreases in various budget line items all for a net increase in appropriations totaling approximately \$981 thousand.

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

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2011, is as follows:

Net change in fund balance - budgetary basis.....	\$ (5,337,515)
<u>Perspective difference:</u>	
Stabilization Funds recorded in the General Fund for GAAP.....	1,248,974
<u>Basis of accounting differences:</u>	
Net change in recording 60-day receipts accrual.....	131,806
Net change in recording tax refunds payable.....	600,000
Net change in short-term interest accrual.....	61,278
Net change in unrecorded liabilities.....	125,077
Increase in revenues due to on-behalf payments.....	26,872,014
Increase in expenditures due to on-behalf payments.....	<u>(26,872,014)</u>
Net change in fund balance - GAAP basis.....	<u>\$ (3,170,380)</u>

C. Appropriation Deficit

The City has an appropriation deficit of \$2,050,627 in its snow and ice account. This deficit will be funded by future amounts to be raised and available funds.

NOTE B – OTHER POSTEMPLOYMENT BENEFITS

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

The City currently finances its other post-employment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the City has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

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

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

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

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