

CITY OF LOWELL, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2013

CITY OF LOWELL, MASSACHUSETTS

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JUNE 30, 2013

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lowell, Massachusetts, as of and for the year ended June 30, 2013 (except for the Lowell Contributory Retirement System which is as of and for the year ended December 31, 2012), and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lowell, Massachusetts, as of June 30, 2013 (except for the Lowell Contributory Retirement System which is as of and for the year ended December 31, 2012), and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013, on our consideration of the City of Lowell, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lowell's internal control over financial reporting and compliance.



November 15, 2013

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, 2013. We encourage readers to consider the information presented in this report.

Financial Highlights

- The net position of the City exceeded its liabilities at the close of the most recent fiscal year by \$240.8 million.
- Governmental net position decreased by \$5.6 million. The decrease is attributable to a \$9.5 million increase in the other postemployment liability (OPEB); the use of \$2.3 million of fund balance related to the expenditure of prior year carry forwards; and an increase of \$760 thousand in the compensated absence sick and vacation accrual. These reductions were offset by recognition of capital grants of \$4.8 million related to MSBA projects, CH 90, the Concord River Greenway Project, and the Riverwalk and West Canal Improvement Project; the recognition of \$428 thousand gain from the sale city property; and a surplus of \$3.4 million in the employee health trust and mitigation funds established in fiscal year 2013 and reported as part of the general fund.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$40 million, an increase of \$1.3 million in comparison with the prior year. The increase is attributable to the recognition of \$2.4 million of permanent financing received for various general government projects; recognition of a premium on long-term debt of \$891 thousand; \$551 thousand from the sale of City property; and a surplus of \$3.4 million in the employee health trust and mitigation funds established in fiscal year 2013 and reported as part of the general fund. These increases were offset by the City's capital project expenditures; and the timing of grant expenditures and revenues.
- The City issued new debt of \$2.4 million for various governmental capital projects, and \$13.1 million for various water, sewer and parking capital projects during the fiscal year.
- In order to take advantage of favorable interest rates, the City issued \$4,740,000 of General Obligation Refunding Bonds on September 13, 2012. By doing so the City has decreased its aggregate debt service payments by \$673,125.

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future 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, and interest. The business type activities include costs relating to the sewer, 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 three categories: governmental funds, proprietary and fiduciary funds.

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

The City 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, and parking operations.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. The City uses internal service funds to account for health insurance activities and workers compensation benefits. Because these services primarily benefit governmental rather than business-type activities, they have been included within *governmental activities* in the government-wide financial statements. In July 2012 the City entered the Group Insurance Commission and its health insurance activities are now premium based. Activity in the internal service fund for fiscal year 2013 is related to runoff claims that occurred prior to fiscal year 2013.

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 position may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$240.8 million at the close of fiscal year 2013, an overall decrease of \$6.3 million from the prior year.

Net position of \$286.8 million reflects its net investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$27.8 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, a deficit of \$73.8 million, represents the impact of the \$128.9 million governmental and the \$4.2 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 position may serve, over time, as a useful indicator of a government's financial position. The assets of governmental activities exceeded liabilities by \$168.1 million at the close of the fiscal year 2013. Key components of the City's governmental financial position are listed below.

	<u>FY2013</u>	<u>FY2012</u>
Assets:		
Current assets.....	\$ 96,830,329	\$ 99,037,672
Noncurrent assets (excluding capital).....	32,615,514	37,669,754
Capital assets.....	291,760,929	292,719,363
Total assets.....	<u>421,206,772</u>	<u>429,426,789</u>
Liabilities:		
Current liabilities (excluding debt).....	26,626,651	28,729,456
Noncurrent liabilities (excluding debt).....	138,527,557	127,450,924
Current debt.....	12,631,775	15,992,032
Noncurrent debt.....	75,335,380	83,586,472
Total liabilities.....	<u>253,121,363</u>	<u>255,758,884</u>
Net Position:		
Invested in capital assets.....	236,446,116	238,402,370
Restricted.....	27,824,146	29,859,776
Unrestricted.....	(96,184,853)	(94,594,241)
Total net position.....	<u>\$ 168,085,409</u>	<u>\$ 173,667,905</u>

A significant portion of the City's governmental activities net position, \$236.4 million, reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding.

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

An additional portion of the net position of \$27.8 million represents resources that are subject to external restrictions on how they may be used. The remaining deficit balance of unrestricted net position in the amount of \$96.2 million is due to the OPEB liability which at year-end totaled \$128.9 million.

Included within the governmental activities noncurrent assets, unrelated to capital assets, are \$31.1 million in future year school construction reimbursement grants.

Governmental activity liabilities include \$85.6 million in general obligation bonds and intergovernmental loans; \$9.7 million in liabilities for unused vacation, special leave, and enhanced longevity benefits; and \$4.6 million in future year workers' compensation benefits.

The key elements of governmental activities are as follows:

	<u>FY2013</u>	<u>FY2012</u>
Program Revenues:		
Charges for services.....	\$ 15,302,666	\$ 16,880,958
Operating grants and contributions.....	205,512,198	201,696,339
Capital grants and contributions.....	<u>4,775,726</u>	<u>4,499,975</u>
Total program revenues.....	<u>225,590,590</u>	<u>223,077,272</u>
General Revenues:		
Real estate and personal property taxes.....	106,124,770	104,270,285
Tax liens.....	2,011,832	2,528,201
Motor vehicle and other excise taxes.....	7,318,198	6,525,018
Penalties and interest on taxes.....	2,114,566	1,646,843
Payments in lieu of taxes.....	823,163	903,626
Grants and contributions not restricted to specific programs.....	22,991,652	24,016,861
Premium from issuance of bonds.....	-	238,186
Unrestricted investment income.....	341,904	396,083
Gain on sale of capital assets.....	427,907	550,677
Miscellaneous.....	<u>991,623</u>	<u>1,096,951</u>
Total general revenues.....	<u>143,145,615</u>	<u>142,172,731</u>
Transfers, net.....	<u>4,215,915</u>	<u>4,379,441</u>
Expenses:		
General government.....	21,573,027	19,433,377
Public safety.....	65,316,957	65,519,765
Education.....	245,483,473	250,900,750
Public works.....	18,704,973	16,778,687
Human services.....	16,981,505	15,139,244
Culture and recreation.....	6,684,905	6,404,524
Interest.....	<u>3,789,776</u>	<u>3,625,698</u>
Total expenses.....	<u>378,534,616</u>	<u>377,802,045</u>
Change in net assets.....	<u>\$ (5,582,496)</u>	<u>\$ (8,172,601)</u>

The governmental activities net position decreased in the current year by \$5.6 million. The decrease in net position is due to several factors.

The OPEB liability increased \$9.5 million for the portion of the obligation that was not paid; \$2.3 million of fund balance was used related to the expenditure of prior year carry forwards; and there was an increase of \$760 thousand related to compensated absences. These expenses were offset by capital grants of \$4.8 million related to MSBA projects; CH 90, the Concord River Greenway Project, and the Riverwalk and West Canal Improvement Project; the recognition of a \$428 thousand gain from the sale of City property; and a surplus of \$3.4 million in the employee health trust and mitigation funds, established in fiscal year 2013, that is reported as part of the general fund.

Business-type Activities

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

	<u>FY2013</u>	<u>FY2012</u>
Assets:		
Current assets.....	\$ 38,888,615	\$ 37,038,504
Capital assets.....	204,462,551	199,814,060
Total assets.....	<u>243,351,166</u>	<u>236,852,564</u>
Liabilities:		
Current liabilities (excluding debt).....	4,641,765	3,983,567
Noncurrent liabilities (excluding debt).....	4,368,162	3,405,752
Current debt.....	7,112,908	6,773,865
Noncurrent debt.....	<u>154,530,447</u>	<u>149,259,543</u>
Total liabilities.....	<u>170,653,282</u>	<u>163,422,727</u>
Net Position:		
Net investment in capital assets.....	50,340,440	48,155,128
Unrestricted.....	<u>22,357,444</u>	<u>25,274,709</u>
Total net position.....	<u>72,697,884</u>	<u>73,429,837</u>
Program Revenues:		
Charges for services.....	32,294,891	34,772,875
Capital grants and contributions.....	<u>1,379,672</u>	<u>2,538,848</u>
Total program revenues.....	<u>33,674,563</u>	<u>37,311,723</u>
Transfers, net	<u>(4,215,915)</u>	<u>(4,379,441)</u>
Expenses:		
Sewer.....	16,948,584	15,330,531
Water.....	7,665,986	7,238,999
Parking.....	<u>5,576,031</u>	<u>5,369,936</u>
Total expenses.....	<u>30,190,601</u>	<u>27,939,466</u>
Change in net position	<u>\$ (731,953)</u>	<u>\$ 4,992,816</u>

Business type activities assets exceeded liabilities by \$72.7 million at the close of fiscal year 2013.

Net position of \$50.3 million reflect its net investment in capital assets less any debt used to acquire those assets that are still outstanding. The remaining balance of *unrestricted net position* of \$22.4 million may be used to meet ongoing obligations.

The sewer enterprise fund net position decreased by \$2.7 million during the current fiscal year. The decrease is primarily attributable to a new agreement being signed with member communities that implemented a provision in which hauled waste revenues will be shared with the communities rather than be credited to the City. Another contributing factors related to a \$1.5 million decrease in the recognition of capital grants associated with various MWPAT projects and an increase in overall operating costs such as sludge removal and utilities.

The water enterprise fund net position increased by \$2.5 million during the current fiscal year. The increase is primarily due to the water rates being designed to cover principal payments on long-term debt, direct and indirect costs and capital asset replacements. The fund also recognized capital grants of \$761 thousand associated with various MWPAT projects.

The parking enterprise fund net position decreased by \$475 thousand in the current year. This is primarily due to the clean-up of old parking ticket receivables that the City undertook in fiscal year 2013. Parking ticket receivables older than 2007 were written off. Other factors included an increase in subcontractor costs due to the implementation of the new kiosk payment system and an increase in the Other Postemployment Benefits Liability.

In June of 2013, the City voted to establish the Lowell Memorial Auditorium as an enterprise fund of the City. The Auditorium will be included within business-type activities beginning in fiscal year 2014.

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 \$40 million, an increase of \$1.3 million from the prior year. The increase is primarily attributable to the recognition of \$2.4 million of permanent financing received for various general government projects; the recognition of a \$891 thousand premium on long-term debt; \$551 thousand from the sale of City owned property; and a surplus of \$3.4 million in the employee health trust and mitigation funds established in fiscal year 2013 and reported as part of the general fund; and better than expected revenue collections. These increases were offset by the City's capital expenditures related to various on-going governmental capital projects; and the timing of grant expenditures versus the previous recognition of the related revenue.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund equaled \$15.4 million (which includes \$9.6 million set aside as stabilization), while total fund balance was \$25.5 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned and total fund balance represents 4.8% and 8.0% of general fund budgetary expenditures, respectively.

The general fund increased by \$4.7 million during fiscal year 2013. This was primarily due the recognition of a \$891 premium on the issuance of long-term debt; and a surplus of \$3.4 million in the employee health trust and mitigation funds established in fiscal year 2013 as a way to account for employee contributions to the health care plan now that the City is part of the GIC.

Total fiscal year 2013 general fund revenues and other financing sources totaled \$326 million, an increase of \$4.1 million or 1.3% compared the previous fiscal year. The primary change in revenues related to the fact that intergovernmental revenues increased roughly \$5.3 million due to increases in School Ch70 receipts.

Total general fund expenditures and transfers to other funds totaled \$321.3 million, an increase of \$12.4 million or 4.0% over the previous fiscal year. The increase is primarily attributable to salary increases across the board, as well as increases in pension and employee benefit expenditures.

The internal service fund had an ending fund balance of approximately \$11.7 million, an increase of \$5 thousand over the prior year. In July of 2012, the City entered into the Group Insurance Commission (GIC) and its health insurance activities are now premium based. The activity in the internal service fund relates to claims that had occurred prior to the date the City moved into the GIC.

General Fund Budgetary Highlights

The difference between the original budget of \$298.5 million and the final amended budget of \$307.4 million amounted to a net increase of \$8.9 million. During fiscal year 2013, the Council approved transfers from free cash totaling \$8.8 million to the stabilization fund and the health costs mitigation fund, as well as transfers between departments representing minor increases and decreases in various budget line items.

Capital Asset and Debt Administration

Capital Assets - The City's investment in capital assets for governmental activities as of June 30, 2013, amounts to \$291.8 million, net of accumulated depreciation. The investment in capital assets includes land; buildings; improvements; infrastructure; vehicles; machinery and equipment; books; and software. Additional information on the City's capital assets may be found in Note 4 to the basic financial statements.

The City's investment in capital assets for business type activities as of June 30, 2013 amounts to \$204.5 million, net of accumulated depreciation. The investment in capital assets for the business type activities predominately relates to both sewer and water infrastructure and systems and also the various parking garage facilities.

Long-term debt – In fiscal year 2013, Standard & Poor's upgraded the City's long-term bond rating from A to A+. While Moody's Investor Services affirmed Lowell's long-term bond rating of A1, it assigned a new "positive" outlook to the City.

In fiscal year 2013, the City issued general obligation bonds totaling \$19.5 million related to various public safety, public works, recreation, and water and sewer projects. Included in this amount is the refunding discussed below.

In order to take advantage of favorable interest rates, the City issued \$4,740,000 of General Obligation Refunding Bonds on September 13, 2012. \$5,225,000 of general obligation bonds were defeased 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 \$673,125 and has resulted in an economic gain of \$559,328. At June 30, 2013, \$4,515,000 of governmental bonds and \$710,000 of enterprise fund bonds are considered defeased.

At June 30, 2013, the City had total governmental bonded debt of \$85.6 million. Of this amount \$83.5 million is a general obligation of the City and the balance is guaranteed debt under the Section 108 Loan Program. The City issued \$6.5 million of governmental bonds in fiscal 2013 and refunded \$4.5 million of outstanding debt.

The sewer enterprise fund has \$101.7 million in long-term debt that is supported by the sewer rates and future MWPAT principal and interest subsidies. Currently, the City has \$5.2 million in authorized and unissued long-term debt relating to future sewer projects. The City issued \$6.8 million of bonds during fiscal year 2013 to fund various sewer projects and refund \$710,000 of outstanding debt.

The water enterprise fund has \$34.7 million in long-term debt that is supported by the water rates and future MWPAT principal and interest subsidies totaling \$1.7 million. Currently, the City has \$8.5 million in authorized and unissued long-term debt relating to future water projects. The City issued \$5.8 million in bonds during fiscal year 2013 to fund various water projects and refund \$314,000 of outstanding debt.

The parking enterprise fund has \$25.3 million in long-term debt that is supported by parking fees. The City issued \$480,000 in bonds during fiscal year 2013 to fund the parking kiosks project.

Next Year's Budget

The Mayor and City Council have approved the original fiscal year 2014 general fund operating budget of \$303.9 million. Management's continued cost reduction measures have had both short and long-term impacts. Management held wage increases to a minimum while negotiating health insurance changes that netted \$9.6 million in savings after concessions. Lowell accomplished this by terminating self-insurance and entering the Commonwealth's Group Insurance Commission plans. The City is also embarking on \$21.0 million of bond-financed energy conservation improvements, purchasing streetlights from National Grid and replacing older equipment. Finally, the City outsourced its cemetery maintenance which has saved several hundred thousand dollars over the past three years. All of these initiatives will ease pressure on operating costs now and in the future.

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

The growth in local property taxes was held to a 0% increase. Chapter 70 school aid increased by \$3.4 million, and Lowell increased its local contribution to the schools by \$3.4 million. Other general fund revenues have planned increases of \$5 million.

Budgeted enterprise revenues increased for several reasons. The City created a new enterprise fund for the Lowell Memorial Auditorium, and included an initial revenue budget of \$1,085,000. The Water revenue estimate increased by \$469,000, but is still far less than actual 2013 collections. Parking revenues are essentially flat. Wastewater revenues actually decreased by \$177,000.

Requests for Information

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

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Basic Financial Statements

STATEMENT OF NET POSITION

June 30, 2013

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 66,714,975	\$ 25,061,211	\$ 91,776,186
Investments.....	1,665,596	-	1,665,596
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,990,836	-	1,990,836
Tax liens.....	627,800	-	627,800
Motor vehicle excise taxes.....	2,588,764	-	2,588,764
User fees.....	-	8,837,425	8,837,425
Trash fees.....	706,643	-	706,643
Departmental and other.....	6,440	829,356	835,796
Intergovernmental.....	18,331,636	4,160,623	22,492,259
Loans.....	403,491	-	403,491
Tax foreclosures.....	3,425,567	-	3,425,567
Working capital deposit.....	193,800	-	193,800
Deferred charges on refunding.....	174,781	-	174,781
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Tax liens.....	5,098,656	-	5,098,656
Intergovernmental.....	25,328,155	-	25,328,155
Loans.....	1,860,000	-	1,860,000
Deferred charges on refunding.....	328,703	-	328,703
Capital assets, nondepreciable.....	30,918,913	2,844,421	33,763,334
Capital assets, net of accumulated depreciation.....	260,842,016	201,618,130	462,460,146
TOTAL ASSETS.....	421,206,772	243,351,166	664,557,938
LIABILITIES			
CURRENT:			
Warrants payable.....	3,873,972	2,228,826	6,102,798
Accrued liabilities.....	521,000	-	521,000
Accrued payroll.....	8,553,852	-	8,553,852
Tax refunds payable.....	1,485,000	-	1,485,000
Accrued interest.....	1,039,374	2,039,797	3,079,171
Other liabilities.....	4,434,820	-	4,434,820
Compensated absences.....	5,859,776	373,142	6,232,918
Workers' compensation.....	422,000	-	422,000
Unamortized premium on bonds payable.....	436,857	-	436,857
Notes payable.....	2,415,000	-	2,415,000
Bonds payable.....	10,216,775	7,112,908	17,329,683
NONCURRENT:			
Compensated absences.....	3,834,734	120,048	3,954,782
Workers' compensation.....	4,219,000	-	4,219,000
Postemployment benefits.....	128,944,371	4,248,114	133,192,485
Unamortized premium on bonds payable.....	1,529,452	-	1,529,452
Bonds and notes payable.....	75,335,380	154,530,447	229,865,827
TOTAL LIABILITIES.....	253,121,363	170,653,282	423,774,645
NET POSITION			
Net investment in capital assets.....	236,446,116	50,340,440	286,786,556
Restricted for:			
Chapter 17 special reserve.....	4,237,808	-	4,237,808
Streets.....	1,782,400	-	1,782,400
Community development.....	9,714,199	-	9,714,199
Loans.....	2,263,491	-	2,263,491
Permanent funds:			
Expendable.....	154,407	-	154,407
Nonexpendable.....	1,630,039	-	1,630,039
Gifts and Grants.....	8,041,802	-	8,041,802
Unrestricted.....	(96,184,853)	22,357,444	(73,827,409)
TOTAL NET POSITION.....	\$ 168,085,409	\$ 72,697,884	\$ 240,783,293

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2013

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.....	\$ 21,573,027	\$ 6,541,120	\$ 1,123,439	\$ -	\$ (13,908,468)
Public safety.....	65,316,957	2,849,471	2,001,012	-	(60,466,474)
Education.....	245,483,473	1,324,812	186,810,853	4,138,480	(53,209,328)
Public works.....	18,704,973	3,498,177	168,080	258,269	(14,780,447)
Human services.....	16,981,505	512,287	14,500,998	378,977	(1,589,243)
Culture and recreation.....	6,684,905	576,799	643,613	-	(5,464,493)
Interest.....	3,789,776	-	264,203	-	(3,525,573)
Total Governmental Activities.....	<u>378,534,616</u>	<u>15,302,666</u>	<u>205,512,198</u>	<u>4,775,726</u>	(152,944,026)
<i>Business-Type Activities:</i>					
Sewer.....	16,948,584	16,067,173	-	618,220	(263,191)
Water.....	7,665,986	10,747,540	-	761,452	3,843,006
Parking.....	5,576,031	5,480,178	-	-	(95,853)
Total Business-Type Activities.....	<u>30,190,601</u>	<u>32,294,891</u>	<u>-</u>	<u>1,379,672</u>	3,483,962
Total Primary Government.....	<u>\$ 408,725,217</u>	<u>\$ 47,597,557</u>	<u>\$ 205,512,198</u>	<u>\$ 6,155,398</u>	\$ (149,460,064)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ (152,944,026)	\$ 3,483,962	\$ (149,460,064)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	106,124,770	-	106,124,770
Tax liens.....	2,011,832	-	2,011,832
Motor vehicle and other excise taxes.....	7,318,198	-	7,318,198
Penalties and interest on taxes.....	2,114,566	-	2,114,566
Payments in lieu of taxes.....	823,163	-	823,163
Grants and contributions not restricted to specific programs.....	22,991,652	-	22,991,652
Unrestricted investment income.....	341,904	-	341,904
Gain (Loss) on disposal of capital assets....	427,907	-	427,907
Miscellaneous.....	991,623	-	991,623
<i>Transfers, net</i>	4,215,915	(4,215,915)	-
Total general revenues and transfers.....	147,361,530	(4,215,915)	143,145,615
Change in net position.....	(5,582,496)	(731,953)	(6,314,449)
<i>Net Position:</i>			
Beginning of year (as revised).....	173,667,905	73,429,837	247,097,742
End of year.....	\$ <u>168,085,409</u>	\$ <u>72,697,884</u>	\$ <u>240,783,293</u>

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2013

ASSETS	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents.....	\$ 41,549,567	\$ 13,481,148	\$ 55,030,715
Investments.....	-	1,665,596	1,665,596
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	1,990,836	-	1,990,836
Tax liens.....	5,726,456	-	5,726,456
Motor vehicle & other excise taxes.....	2,588,764	-	2,588,764
Trash fees.....	706,643	-	706,643
Departmental and other.....	6,440	-	6,440
Intergovernmental.....	31,090,926	12,568,865	43,659,791
Loans.....	-	2,263,491	2,263,491
Tax foreclosures.....	3,425,567	-	3,425,567
Working capital deposit.....	193,800	-	193,800
TOTAL ASSETS.....	\$ 87,278,999	\$ 29,979,100	\$ 117,258,099
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 2,294,984	\$ 1,578,988	\$ 3,873,972
Accrued liabilities.....	521,000	-	521,000
Accrued payroll.....	8,553,852	-	8,553,852
Tax refunds payable.....	1,485,000	-	1,485,000
Accrued interest on short-term debt.....	26,682	-	26,682
Other liabilities.....	4,434,820	-	4,434,820
Deferred revenues.....	44,433,252	11,496,601	55,929,853
Notes payable.....	-	2,415,000	2,415,000
TOTAL LIABILITIES.....	61,749,590	15,490,589	77,240,179
FUND BALANCES:			
Nonspendable.....	-	1,630,039	1,630,039
Restricted.....	4,237,808	10,887,382	15,125,190
Committed.....	3,719,315	5,035,924	8,755,239
Assigned.....	2,213,357	-	2,213,357
Unassigned.....	15,358,929	(3,064,834)	12,294,095
TOTAL FUND BALANCES.....	25,529,409	14,488,511	40,017,920
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 87,278,999	\$ 29,979,100	\$ 117,258,099

See notes to basic financial statements.

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

JUNE 30, 2013

Total governmental fund balances.....		\$ 40,017,920
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		291,760,929
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		55,929,853
Internal service funds are used by management to account for retirees' health insurance and workers' compensation activities.		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.....		11,684,260
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(1,012,692)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds payable.....	(85,552,155)	
Workers compensation.....	(4,641,000)	
Unamortized premium on bonds payable.....	(1,966,309)	
Postemployment benefits.....	(128,944,371)	
Compensated absences.....	(9,694,510)	
Net effect of reporting long-term liabilities.....		(230,798,345)
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.....		503,484
Net position of governmental activities.....		\$ 168,085,409

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2013

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Real estate and personal property taxes, net of tax refunds.....	\$ 105,163,278	\$ -	\$ 105,163,278
Tax liens.....	1,710,462	-	1,710,462
Motor vehicle and other excise taxes.....	6,224,782	-	6,224,782
Trash disposal.....	3,121,164	-	3,121,164
Penalties and interest on taxes.....	2,114,566	-	2,114,566
Payments in lieu of taxes.....	823,163	-	823,163
Intergovernmental.....	192,170,321	47,314,210	239,484,531
Departmental and other.....	9,106,864	4,266,878	13,373,742
Contributions.....	-	23,742	23,742
Investment income.....	320,912	11,333	332,245
Miscellaneous.....	-	783,563	783,563
TOTAL REVENUES.....	320,755,512	52,399,726	373,155,238
EXPENDITURES:			
Current:			
General government.....	14,599,824	2,391,601	16,991,425
Public safety.....	39,494,359	2,878,753	42,373,112
Education.....	133,850,301	38,827,763	172,678,064
Public works.....	14,355,130	2,678,855	17,033,985
Human services.....	3,651,244	11,767,755	15,418,999
Culture and recreation.....	3,593,644	383,027	3,976,671
Pension benefits.....	47,873,614	-	47,873,614
Employee benefits.....	35,780,014	-	35,780,014
State and county charges.....	11,591,022	-	11,591,022
Debt service:			
Principal.....	12,537,029	160,000	12,697,029
Interest.....	3,470,923	18,911	3,489,834
TOTAL EXPENDITURES.....	320,797,104	59,106,665	379,903,769
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(41,592)	(6,706,939)	(6,748,531)
OTHER FINANCING SOURCES (USES):			
Proceeds from bonds and notes.....	-	2,400,000	2,400,000
Proceeds from refunding bonds.....	4,081,000	-	4,081,000
Premium from issuance of bonds.....	891,382	-	891,382
Premium from issuance of refunding bonds.....	710,574	-	710,574
Payments to refunded bond escrow agent.....	(4,791,574)	-	(4,791,574)
Sale of capital assets.....	-	551,400	551,400
Transfers in.....	4,311,041	665,699	4,976,740
Transfers out.....	(480,000)	(280,825)	(760,825)
TOTAL OTHER FINANCING SOURCES (USES).....	4,722,423	3,336,274	8,058,697
NET CHANGE IN FUND BALANCES.....	4,680,831	(3,370,665)	1,310,166
FUND BALANCES AT BEGINNING OF YEAR.....	20,848,578	17,859,176	38,707,754
FUND BALANCES AT END OF YEAR.....	\$ 25,529,409	\$ 14,488,511	\$ 40,017,920

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, 2013

Net change in fund balances - total governmental funds.....		\$ 1,310,166
<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.....	13,287,631	
Depreciation expense.....	<u>(14,122,572)</u>	
Net effect of reporting capital assets.....		(834,941)
<p>In the Statement of Activities, only the <i>gain</i> on the sale of capital assets is reported, whereas in the governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net position differs from the change in fund balance by the cost of the capital assets sold.....</p>		
		(123,493)
<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>		
		(4,856,599)
<p>The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Proceeds from bonds and notes.....	(2,400,000)	
Premium from issuance of bonds.....	(891,382)	
Proceeds from refunding bonds.....	(4,081,000)	
Payments to refunded bond escrow agent.....	4,791,574	
Premium from issuance of refunding bonds.....	(710,574)	
Deferred loss on refunding.....	(276,254)	
Debt service principal payments.....	<u>12,697,029</u>	
Net effect of reporting long term debt.....		9,129,393
<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.....	(760,209)	
Net change in accrued interest on long-term debt.....	23,159	
Net change in workers compensation accrual.....	39,000	
Postemployment benefit accrual.....	(9,467,191)	
Amortization of premiums on refunding.....	192,006	
Amortization of deferred charge on refunding.....	<u>(238,853)</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		(10,212,088)
<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>5,066</u>
Change in net position of governmental activities.....		<u>\$ (5,582,496)</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2013

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Parking	Total	
ASSETS					
CURRENT:					
Cash and cash equivalents.....	\$ 18,168,160	\$ 4,345,460	\$ 2,547,591	\$ 25,061,211	\$ 11,684,260
Receivables, net of allowance for uncollectibles:					
User fees.....	4,961,453	3,875,972	-	8,837,425	-
Departmental and other.....	-	-	829,356	829,356	-
Intergovernmental.....	2,216,852	1,943,771	-	4,160,623	-
Total current assets.....	<u>25,346,465</u>	<u>10,165,203</u>	<u>3,376,947</u>	<u>38,888,615</u>	<u>11,684,260</u>
NONCURRENT:					
Capital assets, nondepreciable.....	1,235,798	746,856	861,766	2,844,420	-
Capital assets, net of accumulated depreciation.....	<u>130,870,623</u>	<u>36,204,617</u>	<u>34,542,891</u>	<u>201,618,131</u>	<u>-</u>
Total noncurrent assets.....	<u>132,106,421</u>	<u>36,951,473</u>	<u>35,404,657</u>	<u>204,462,551</u>	<u>-</u>
TOTAL ASSETS.....	<u>157,452,886</u>	<u>47,116,676</u>	<u>38,781,604</u>	<u>243,351,166</u>	<u>11,684,260</u>
LIABILITIES					
CURRENT:					
Warrants payable.....	1,639,871	565,941	23,014	2,228,826	-
Accrued interest.....	1,250,089	426,084	363,624	2,039,797	-
Compensated absences.....	231,414	130,781	10,947	373,142	-
Bonds payable.....	<u>3,736,740</u>	<u>2,206,168</u>	<u>1,170,000</u>	<u>7,112,908</u>	<u>-</u>
Total current liabilities.....	<u>6,858,114</u>	<u>3,328,974</u>	<u>1,567,585</u>	<u>11,754,673</u>	<u>-</u>
NONCURRENT:					
Compensated absences.....	75,117	43,606	1,325	120,048	-
Postemployment benefits.....	2,244,596	1,662,338	341,180	4,248,114	-
Bonds payable.....	<u>97,939,297</u>	<u>32,506,150</u>	<u>24,085,000</u>	<u>154,530,447</u>	<u>-</u>
Total noncurrent liabilities.....	<u>100,259,010</u>	<u>34,212,094</u>	<u>24,427,505</u>	<u>158,898,609</u>	<u>-</u>
TOTAL LIABILITIES.....	<u>107,117,124</u>	<u>37,541,068</u>	<u>25,995,090</u>	<u>170,653,282</u>	<u>-</u>
NET POSITION					
Net investment in capital assets.....	35,310,705	4,182,926	10,846,809	50,340,440	-
Unrestricted.....	<u>15,025,057</u>	<u>5,392,682</u>	<u>1,939,705</u>	<u>22,357,444</u>	<u>11,684,260</u>
TOTAL NET POSITION.....	<u>\$ 50,335,762</u>	<u>\$ 9,575,608</u>	<u>\$ 12,786,514</u>	<u>\$ 72,697,884</u>	<u>\$ 11,684,260</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Parking	Total	
OPERATING REVENUES:					
Employee contributions	\$ -	\$ -	\$ -	\$ -	\$ 646
Employer contributions	-	-	-	-	4,057,227
Charges for services	15,874,012	10,746,092	5,480,178	32,100,282	-
Other	193,161	1,448	-	194,609	402,265
TOTAL OPERATING REVENUES	16,067,173	10,747,540	5,480,178	32,294,891	4,460,138
OPERATING EXPENSES:					
Cost of services and administration	9,892,691	4,572,416	3,022,169	17,487,276	-
Depreciation	4,047,698	2,072,481	1,360,453	7,480,632	-
Employee benefits	-	-	-	-	4,464,731
TOTAL OPERATING EXPENSES	13,940,389	6,644,897	4,382,622	24,967,908	4,464,731
OPERATING INCOME (LOSS)	2,126,784	4,102,643	1,097,556	7,326,983	(4,593)
NONOPERATING REVENUES (EXPENSES):					
Investment income	-	-	-	-	9,659
Interest expense	(3,008,195)	(1,021,089)	(1,193,409)	(5,222,693)	-
Intergovernmental	618,220	761,452	-	1,379,672	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET	(2,389,975)	(259,637)	(1,193,409)	(3,843,021)	9,659
INCOME (LOSS) BEFORE TRANSFERS	(263,191)	3,843,006	(95,853)	3,483,962	5,066
TRANSFERS:					
Transfers out	(2,459,437)	(1,376,990)	(379,488)	(4,215,915)	-
CHANGE IN NET POSITION	(2,722,628)	2,466,016	(475,341)	(731,953)	5,066
NET POSITION AT BEGINNING OF YEAR	53,058,390	7,109,592	13,261,855	73,429,837	11,679,194
NET POSITION AT END OF YEAR	\$ 50,335,762	\$ 9,575,608	\$ 12,786,514	\$ 72,697,884	\$ 11,684,260

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FISCAL YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Parking	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users.....	\$ 16,202,174	\$ 11,103,626	\$ 5,966,718	\$ 33,272,518	\$ -
Receipts from interfund services provided.....	-	-	-	-	4,057,873
Receipts from insurance reimbursements.....	-	-	-	-	402,265
Payments to vendors.....	(6,478,448)	(2,106,456)	(2,394,660)	(10,979,564)	-
Payments to employees.....	(2,798,735)	(2,091,541)	(432,752)	(5,323,028)	-
Payments for interfund services used.....	-	-	-	-	(7,016,603)
NET CASH FROM OPERATING ACTIVITIES.....	6,924,991	6,905,629	3,139,306	16,969,926	(2,556,465)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers out.....	(2,459,437)	(1,376,990)	(379,488)	(4,215,915)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from the issuance of bonds and notes.....	6,805,964	3,888,551	480,000	11,174,515	-
Premium from the issuance of refunding bonds.....	64,075	50,668	-	114,743	-
Deferred charges on refunding.....	(35,959)	(28,104)	-	(64,063)	-
Acquisition and construction of capital assets.....	(2,770,870)	(5,241,723)	-	(8,012,593)	-
Principal payments on bonds and notes.....	(3,783,293)	(3,052,569)	(1,115,300)	(7,951,162)	-
Interest expense.....	(2,616,948)	(798,509)	(1,199,380)	(4,614,837)	-
Intergovernmental revenue.....	371,666	373,983	-	745,649	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(1,965,365)	(4,807,703)	(1,834,680)	(8,607,748)	-
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment income.....	-	-	-	-	9,659
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	2,500,189	720,936	925,138	4,146,263	(2,546,806)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	15,667,971	3,624,524	1,622,453	20,914,948	14,231,066
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 18,168,160	\$ 4,345,460	\$ 2,547,591	\$ 25,061,211	\$ 11,684,260
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:					
Operating income (loss).....	\$ 2,126,784	\$ 4,102,643	\$ 1,097,556	\$ 7,326,983	\$ (4,593)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation.....	4,047,698	2,072,481	1,360,453	7,480,632	-
Changes in assets and liabilities:					
Accounts receivable.....	135,001	356,086	486,540	977,627	-
Working capital deposit.....	-	-	-	-	174,600
Warrants payable.....	81,334	124,727	23,014	229,075	(5,472)
Health claims payable.....	-	-	-	-	(2,721,000)
Postemployment benefits.....	513,507	288,995	167,542	970,044	-
Accrued compensated absences.....	20,667	(39,303)	4,201	(14,435)	-
Total adjustments.....	4,798,207	2,802,986	2,041,750	9,642,943	(2,551,872)
NET CASH FROM OPERATING ACTIVITIES.....	\$ 6,924,991	\$ 6,905,629	\$ 3,139,306	\$ 16,969,926	\$ (2,556,465)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:					
Principal and interest long-term debt subsidy.....	\$ 246,554	\$ 387,469	\$ -	\$ 634,023	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2013

	Pension Trust Fund (as of December 31, 2012)	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 8,185,034	\$ 159,487	\$ 910,814
Investments.....	247,783,119	-	-
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	8,854,612	-	-
TOTAL ASSETS.....	264,822,765	159,487	910,814
LIABILITIES			
Warrants payable.....	-	-	43,455
Liabilities due depositors.....	-	-	860,633
Other liabilities.....	-	-	6,726
TOTAL LIABILITIES.....	-	-	910,814
NET POSITION			
Held in trust for pension benefits and other purposes.....	\$ <u>264,822,765</u>	\$ <u>159,487</u>	\$ <u>-</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FISCAL YEAR ENDED JUNE 30, 2013

	Pension Trust Fund (as of December 31, 2012)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 17,709,223	\$ -
Employee.....	7,623,493	-
Private donations.....	21,000	500
Total contributions.....	25,353,716	500
Net investment income (loss):		
Net change in fair value of investments.....	30,951,033	-
Interest.....	(76,366)	171
Total investment income (loss).....	30,874,667	171
Less: investment expense.....	(1,281,272)	-
Net investment income (loss).....	29,593,395	171
Intergovernmental.....	584,953	-
Transfers from other systems.....	995,063	-
TOTAL ADDITIONS.....	56,527,127	671
DEDUCTIONS:		
Administration.....	354,760	-
Transfers to other systems.....	918,953	-
Retirement benefits and refunds.....	30,631,282	-
TOTAL DEDUCTIONS.....	31,904,995	-
CHANGE IN NET POSITION.....	24,622,132	671
NET POSITION AT BEGINNING OF YEAR.....	240,200,633	158,816
NET POSITION AT END OF YEAR.....	\$ 264,822,765	\$ 159,487

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

Fund Financial Statements

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

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

Major Fund Criteria

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

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

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

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

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

The following major governmental fund is reported:

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

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

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

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

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

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

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

The following major proprietary funds are reported:

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

The *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. As of July 1, 2012, the City entered the Group Insurance Commission and its health insurance activities are now premium based. Activity in the internal service fund for fiscal year 2013 related to runoff claims that occurred prior to fiscal year 2013.

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, improvements, machinery and equipment, vehicles and infrastructure (e.g., roads, water mains, sewer mains, and similar items), books and software are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

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

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

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

All purchases and construction costs in excess of \$25,000 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. Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements (Net Position)

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

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

I. Net Position Flow Assumption

Government-Wide Financial Statements (Net Position)

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

J. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

K. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

L. 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.

M. Net Position and Fund Equity

Government-Wide Financial Statements (Net position)

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

Net position reported as "net investment in capital assets" includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of

capital related debt are not considered to be capital assets. Outstanding debt related to future reimbursements from the state's school building program is not considered to be capital related debt.

Net position has been "restricted for" the following:

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

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

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

"Loans" represents community development outstanding loans receivable balances.

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

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

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

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

Fund Financial Statements (Fund Balances)

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

The governmental fund balance classifications are as follows:

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

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

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

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

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

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

N. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

O. Investment Income

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

P. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

Q. 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.

R. Individual Fund Deficits

Several individual fund deficits exist at June 30, 2013, within the Special Revenue and Capital Project Funds. These deficits will be funded through grants, issuance of long-term debt and available fund balances.

S. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

T. Prior Period Revision

As part of the dissolution of the Arena enterprise fund, the City absorbed the remaining liability for long-term debt outstanding related to past Arena capital projects. As a result a beginning balance revision of \$1,082,625 of long-term debt from the Business-Type activities to the Governmental Activities has occurred. This resulted in an increase in Business-Type Activities beginning net position and a corresponding decrease in the Governmental Activities net position.

NOTE 2 - CASH AND INVESTMENTS

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

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

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The government’s investment policy states that financial institutions shall be selected first and foremost with regard to safety as recognized by a top rating with the Veribanc or similar rating service. At fiscal year-end, the carrying amount of deposits totaled \$92,737,577 and the bank balance totaled \$97,723,215. Of the bank balance, \$2,052,251 was covered by Federal Depository Insurance, \$13,740,911 was covered by the Depositors Insurance Fund, \$62,317,562 was collateralized, and \$19,612,491 was uninsured and uncollateralized.

At December 31, 2012, carrying amount of deposits for the System totaled \$8,185,034 and the bank balance totaled \$8,437,002. 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, 2013, the City had the following investments:

Investment Type	Fair Value	Maturity			
		Under 1 Year	1-5 Years	Over 10 Years	
<u>Debt Securities</u>					
Federal Home Loans Mtg Corp.....	\$ 121,421	\$ 10,127	\$ 45,426	\$ -	\$ 65,868
Federal National Mortgage Association.....	135,788	-	21,361	11,849	102,578
Federal Farm Credit Bank.....	60,764	60,764	-	-	-
Governmental National Mortgage Association.....	159,452	-	3,045	-	156,407
Federal Home Loan Bank.....	209,302	209,302	-	-	-
Corporate Bonds.....	179,620	20,219	153,999	5,402	-
Municipal Bonds.....	389,175	-	389,175	-	-
Total Debt Securities.....	1,255,522	\$ 300,412	\$ 613,006	\$ 17,251	\$ 324,853
<u>Other Investments</u>					
Brokered CDs.....	410,074				
MMDT.....	108,910				
Total Investments.....	\$ 1,774,506				

Of the \$121,421 of the Federal Home Loan Mortgage Corp investment, \$10,127 was rated AA+ and the remainder was not rated. For the Federal National Mortgage Association, \$15,196 was rated AA+ and the remainder was not rated. All \$60,764 of Federal Farm Credit Bank investments was rated AA+. The entire \$159,452 of Governmental National Mortgage Association was not rated. \$70,498 of Federal Home Loan bank was rated AAA and the remaining \$138,804 was rated AA+. \$63,043 of Corporate Bonds was rated A-, \$57,251 was rated A, \$22,325 was rated A+, \$15,620 was rated AA-, and \$21,381 was rated AA+. Of the investments in Municipal Bonds \$299,428 was rated AA-, \$5,286 was rated AA, \$73,655, and \$10,806 was not rated.

As of December 31, 2012, the System had the following investments:

<u>Other Investments</u>	
Equity Securities.....	\$ 839,180
Alternative Investments.....	1,522,352
Real Estate Investments.....	1,339,794
PRIT Fund.....	<u>244,081,793</u>
 Total Investments.....	 <u>\$ 247,783,119</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, \$121,421 in Federal Home Loan Mortgages, \$135,788 in Federal National Mortgage Association, \$60,764 in Federal Farm Credit Bank, \$159,452 in Government National Mortgage Association, \$209,302 in Federal Home Loan Bank, \$179,620 in Corporate Bonds, and \$389,175 in municipal bonds, the City has a custodial credit risk exposure of \$1,255,522 because the related securities are uninsured, unregistered and held by the counterparty. The City’s investment policy states that with the exception of U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or Agencies, and State Investment Pools, that no more than 50% of the City’s investments shall be invested in a single institution.

For an investment, this is the risk that, in the event of a failure by the counterparty, the System will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the System’s investments \$839,180 in Equity Securities, the System has custodial credit risk exposure of \$839,180 because the related securities are uninsured, unregistered and held by the counterparty. The System does not have an investment policy related to custodial credit risk.

Interest Rate Risk

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

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

The City participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of ranging from 45 days to 55 days.

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .08 to 10.37 years.

Credit Risk

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

The System has not adopted a formal policy related to credit risk. At December 31, 2012 the System does not have any rated investments.

Concentration of Credit Risk

The City’s investment policy states that with the exception of U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or Agencies, and State Investment Pools, that no more than 5% of the City’s investments shall be invested in a single institution. At June 30, 2013 the City’s investment in any one issuer did not exceed 5% of the total amount invested as described within the guidelines of GASB #40.

The System has not adopted a formal policy related to the amount that may be invested in any one issuer. At December 31, 2012 the System’s investment in any one issuer did not exceed 5% of the total amount invested.

NOTE 3 - RECEIVABLES

At June 30, 2013, 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:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
Real estate and personal property taxes..... \$	3,021,818	\$ (1,030,982)	\$ 1,990,836
Tax liens.....	6,373,320	(646,864)	5,726,456
Motor vehicle and other excise taxes.....	4,257,010	(1,668,246)	2,588,764
Trash fees.....	706,643	-	706,643
Departmental and other.....	6,440	-	6,440
Intergovernmental.....	43,659,791	-	43,659,791
Loans.....	<u>2,263,491</u>	<u>-</u>	<u>2,263,491</u>
Total	<u>\$ 60,288,513</u>	<u>\$ (3,346,092)</u>	<u>\$ 56,942,421</u>

At June 30, 2013, receivables for the enterprise funds consist of the following:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
User fees..... \$	8,837,425	\$ -	\$ 8,837,425
Departmental and other.....	829,356	-	829,356
Intergovernmental.....	<u>4,160,623</u>	<u>-</u>	<u>4,160,623</u>
Total	<u>\$ 13,827,404</u>	<u>\$ -</u>	<u>\$ 13,827,404</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.....	\$ 1,783,263	\$ -	\$ 1,783,263
Tax liens.....	5,726,456	-	5,726,456
Motor vehicle and other excise taxes.....	2,588,764	-	2,588,764
Sewer fees.....	1,782,400	-	1,782,400
Trash fees.....	706,643	-	706,643
Departmental and other.....	6,440	-	6,440
Intergovernmental.....	28,413,719	11,496,601	39,910,320
<u>Other asset type:</u>			
Tax foreclosures.....	3,425,567	-	3,425,567
Total.....	<u>\$ 44,433,252</u>	<u>\$ 11,496,601</u>	<u>\$ 55,929,853</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 31,042,406	\$ -	\$ (123,493)	\$ 30,918,913
Construction in progress.....	2,298,280	-	(2,298,280)	-
Total capital assets not being depreciated.....	<u>33,340,686</u>	<u>-</u>	<u>(2,421,773)</u>	<u>30,918,913</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	340,255,097	-	(616,718)	339,638,379
Capital improvements (other than buildings).....	18,855,154	5,256,898	-	24,112,052
Infrastructure.....	157,922,493	8,881,706	-	166,804,199
Vehicles.....	13,990,104	478,482	(91,922)	14,376,664
Equipment.....	5,451,853	621,530	(77,488)	5,995,895
Books.....	11,338,793	347,295	-	11,686,088
Software.....	495,990	-	-	495,990
Total capital assets being depreciated.....	<u>548,309,484</u>	<u>15,585,911</u>	<u>(786,128)</u>	<u>563,109,267</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(182,634,229)	(7,895,731)	616,718	(189,913,242)
Capital improvements (other than buildings).....	(9,183,892)	(964,228)	-	(10,148,120)
Infrastructure.....	(75,321,950)	(2,328,883)	-	(77,650,833)
Vehicles.....	(8,775,262)	(1,323,699)	91,922	(10,007,039)
Equipment.....	(2,675,902)	(894,250)	77,488	(3,492,664)
Books.....	(9,843,582)	(715,781)	-	(10,559,363)
Software.....	(495,990)	-	-	(495,990)
Total accumulated depreciation.....	<u>(288,930,807)</u>	<u>(14,122,572)</u>	<u>786,128</u>	<u>(302,267,251)</u>
Total capital assets being depreciated, net.....	<u>259,378,677</u>	<u>1,463,339</u>	<u>-</u>	<u>260,842,016</u>
Total governmental activities capital assets, net.....	<u>\$ 292,719,363</u>	<u>\$ 1,463,339</u>	<u>\$ (2,421,773)</u>	<u>\$ 291,760,929</u>

Business-Type Activities:	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,844,421	\$ -	\$ -	\$ 2,844,421
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	24,288,769	-	-	24,288,769
Capital improvements (other than buildings).....	19,691,342	5,422,866	-	25,114,208
Infrastructure.....	267,350,053	3,540,909	-	270,890,962
Vehicles.....	1,655,558	320,927	-	1,976,485
Equipment.....	1,020,336	-	-	1,020,336
Total capital assets being depreciated.....	<u>314,006,058</u>	<u>9,284,702</u>	<u>-</u>	<u>323,290,760</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(16,486,947)	(1,309,736)	-	(17,796,683)
Capital improvements (other than buildings).....	(3,114,105)	(1,225,691)	-	(4,339,796)
Infrastructure.....	(92,836,298)	(4,793,446)	-	(97,629,744)
Vehicles.....	(1,001,937)	(121,235)	-	(1,123,172)
Equipment.....	(752,711)	(30,524)	-	(783,235)
Total accumulated depreciation.....	<u>(114,191,998)</u>	<u>(7,480,632)</u>	<u>-</u>	<u>(121,672,630)</u>
Total capital assets being depreciated, net.....	<u>199,814,060</u>	<u>1,804,070</u>	<u>-</u>	<u>201,618,130</u>
Total business-type activities capital assets, net.....	<u>\$ 202,658,481</u>	<u>\$ 1,804,070</u>	<u>\$ -</u>	<u>\$ 204,462,551</u>

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

Governmental Activities:	
General government.....	\$ 1,064,031
Public safety.....	2,074,891
Education.....	7,540,901
Public works.....	1,735,857
Human services.....	200,417
Culture and recreation.....	<u>1,506,475</u>
Total depreciation expense - governmental activities.....	<u>\$ 14,122,572</u>
Business-Type Activities:	
Sewer.....	\$ 4,047,698
Water.....	2,072,481
Parking.....	<u>1,360,453</u>
Total depreciation expense - business-type activities.....	<u>\$ 7,480,632</u>

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2013, are summarized as follows:

Operating Transfers Out:	Operating Transfers In:		
	General Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 480,000	\$ 480,000
Nonmajor Governmental Funds.....	95,126	185,699	280,825
Sewer Enterprise Fund.....	2,459,437	-	2,459,437
Water Enterprise Fund.....	1,376,990	-	1,376,990
Parking Enterprise Fund.....	379,488	-	379,488
Total.....	\$ 4,311,041	\$ 665,699	\$ 4,976,740

Transfers out of the General Fund represent a transfer to a Capital Projects Fund for a current year principal pay down of a BAN. Transfers into the general fund represent amounts voted to fund fiscal year 2013 operations, including indirect cost transfers from the enterprise funds as well as various budgeted transfers from non-major funds.

NOTE 6 - SHORT-TERM FINANCING

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

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

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

Details related to the short-term debt activity for the fiscal year ended June 30, 2013, is as follows:

Type	Description	Maturity Date	Rate %	Balance at June 30 2012	Renewed/ Issued	Retired/ Redeemed	Balance at June 30 2013
SAAN	State Aid Anticipation.....	8/17/12	.80%-1.25%	\$ 2,620,000	\$ -	\$ (2,620,000)	\$ -
BAN	Municipal Purpose.....	9/14/12	.90%-1.1%	1,580,000	-	(1,580,000)	-
BAN	Municipal Purpose.....	9/14/12	1.00%	8,690,000	-	(8,690,000)	-
BAN	Municipal Purpose.....	9/13/13	0.65%	-	675,000	-	675,000
SAAN	State Aid Anticipation.....	8/16/13	1.25%	-	2,140,000	-	2,140,000
BAN	Municipal Purpose.....	9/13/13	.30%-1.00%	-	1,970,000	-	1,970,000
Subtotal Governmental Short Term Debt.....				<u>12,890,000</u>	<u>4,785,000</u>	<u>(12,890,000)</u>	<u>4,785,000</u>
BAN	Water Improvements.....	9/14/12	1.00%	750,000	-	(750,000)	-
BAN	MWPAT Water Interim Note.....	5/31/13	2.00%	1,104,672	-	(1,104,672)	-
BAN	Water Improvements.....	9/13/13	.30%-1.00%	-	500,000	-	500,000
Subtotal Water Enterprise Fund.....				<u>1,854,672</u>	<u>500,000</u>	<u>(1,854,672)</u>	<u>500,000</u>
BAN	Sewer Improvements.....	9/16/11	1.25%	-	5,150,000	-	5,150,000
BAN	Parking Improvements.....	9/13/13	.30%-1.00%	-	480,000	-	480,000
Subtotal Business-Type Short Term Debt.....				<u>1,854,672</u>	<u>6,130,000</u>	<u>(1,854,672)</u>	<u>6,130,000</u>
Total Short-Term Debt.....				<u>\$ 14,744,672</u>	<u>\$ 10,915,000</u>	<u>\$ (14,744,672)</u>	<u>10,915,000</u>
General obligation bonds issued 9/12/13 (see note 7).....							<u>(8,500,000)</u>
Total.....							<u>\$ 2,415,000</u>

Subsequent to year end \$8,500,000 of BAN's were redeemed by the issuance of general obligation bonds and \$275,000 of BAN's were rolled over for a period of one year at an interest rate of 1% and a maturity date of September 12, 2014. On August 16, 2013 the City redeemed \$495,000 of the \$2,140,000 SAAN, and rolled the remaining \$1,645,000 into a new SAAN with an interest rate of 1% and a due date of August 15, 2014.

NOTE 7 - LONG-TERM DEBT

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

On September 13, 2012, the City issued \$10,375,000 of general obligation debt and \$4,740,000 of refunding bonds. \$10,345,000 of the issuance was recognized in fiscal 2012 because it was used to pay down BAN's outstanding at June 30, 2012. The remaining \$30,000 of general obligation debt and the \$4,740,000 of refunding bonds have been recognized in the current year. Accordingly, the City has recognized bond proceeds in the amount of \$4,111,000 in the governmental funds, \$291,000 in the water enterprise fund and \$368,000 in the sewer enterprise fund.

As noted above, in order to take advantage of favorable interest rates, the City issued \$4,740,000 of General Obligation Refunding Bonds on September 13, 2012. \$5,225,000 of general obligation bonds were defeased 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 \$673,125 and has resulted in an economic gain of \$559,328. At June 30, 2013, \$4,515,000 of governmental bonds and \$710,000 of enterprise fund bonds are considered defeased.

Details related to the outstanding indebtedness as of June 30, 2013, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Maturities Through	Interest Rate (%)	Outstanding at June 30, 2012	Issued	Refunded	Redeemed	Outstanding at June 30, 2013
Schools.....	2033	2.00-6.00	\$ 52,503,398	\$ 5,321,000	\$ 4,318,224	\$ 9,665,743	\$ 43,840,431
General.....	2033	2.00-6.00	41,401,221	1,160,000	197,096	2,797,896	39,566,229
Cawley Stadium.....	2018	3.00-5.41	198,885	-	-	73,390	125,495
Section 108.....	2025	variable	2,180,000	-	-	160,000	2,020,000
Total.....			<u>\$ 96,283,504</u>	<u>\$ 6,481,000</u>	<u>\$ 4,515,320</u>	<u>\$ 12,697,029</u>	<u>\$ 85,552,155</u>

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

Fiscal Year	Principal	Interest	Total
2014.....	\$ 10,216,775	\$ 3,658,586	\$ 13,875,361
2015.....	10,497,504	3,257,432	13,754,936
2016.....	9,622,743	2,815,553	12,438,296
2017.....	6,378,218	2,467,040	8,845,258
2018.....	6,412,508	2,179,563	8,592,071
2019.....	6,362,058	1,873,296	8,235,354
2020.....	6,434,058	1,559,162	7,993,220
2021.....	4,951,058	1,266,015	6,217,073
2022.....	4,981,298	993,242	5,974,540
2023.....	3,380,935	755,801	4,136,736
2024.....	2,330,000	640,488	2,970,488
2025.....	2,335,000	549,600	2,884,600
2026.....	2,050,000	461,328	2,511,328
2027.....	2,055,000	372,112	2,427,112
2028.....	1,960,000	285,533	2,245,533
2029.....	1,960,000	201,536	2,161,536
2030.....	1,840,000	119,157	1,959,157
2031.....	895,000	46,048	941,048
2032.....	650,000	20,937	670,937
2033.....	175,000	6,594	181,594
2034.....	65,000	1,625	66,625
Total.....	<u>\$ 85,552,155</u>	<u>\$ 23,530,651</u>	<u>\$ 109,082,806</u>

The Commonwealth has approved school construction assistance to the City. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2013, approximately \$8,165,000 of such assistance was received. Approximately \$31,091,000 will be received in future fiscal years. Of this amount, \$30,457,000 represents reimbursement of approved construction costs, and \$634,000 represents reimbursement of long-term interest costs. Accordingly, an intergovernmental receivable of \$31,091,000 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, 2013, the City carried \$2,020,000 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 \$2,020,000 in future fiscal years as debt repayments from developers who were the recipients of the loan funds. Accordingly a receivable of \$2,020,000 has been recorded in the non-major governmental funds. The balance of the debt represents an amount attributable to a City owned renewal project for which principal payments have been programmed to be made from CDBG funds over the next five years. After such time, the City expects to sell the property and repay any remaining debt associated with the City owned project. At June 30, 2013 the interest rate on this debt remains variable and is determined quarterly based on three month London Interbank Offered Rate plus 20 basis points.

Bonds and Notes Payable Schedule – Enterprise Funds

Project	Maturities Through	Interest Rate (%)	Outstanding at June 30, 2012	Issued	Refunded	Redeemed	Outstanding at June 30, 2013
Sewer.....	2043	2.00-7.70	\$ 98,710,355	\$ 6,805,964	\$ 396,116	\$ 3,444,166	\$ 101,676,037
Water.....	2033	2.00-6.00	31,432,753	5,769,119	313,564	2,175,990	34,712,318
Parking.....	2028	4.00-5.00	25,890,300	480,000	-	1,115,300	25,255,000
Total.....			<u>\$ 156,033,408</u>	<u>\$ 13,055,083</u>	<u>\$ 709,680</u>	<u>\$ 6,735,456</u>	<u>\$ 161,643,355</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
2014.....	\$ 7,112,908	\$ 5,419,188	\$ 12,532,096
2015.....	7,631,876	5,268,537	12,900,413
2016.....	7,812,710	4,961,705	12,774,415
2017.....	7,991,891	4,641,874	12,633,765
2018.....	8,173,869	4,319,754	12,493,623
2019.....	8,367,242	3,988,861	12,356,103
2020.....	8,549,848	3,632,636	12,182,484
2021.....	8,629,182	3,282,809	11,911,991
2022.....	8,127,044	2,951,128	11,078,172
2023.....	8,102,319	2,630,129	10,732,448
2024.....	7,695,016	2,332,861	10,027,877
2025.....	7,883,674	2,051,878	9,935,552
2026.....	7,539,268	1,798,369	9,337,637
2027.....	7,436,491	1,550,026	8,986,517
2028.....	7,447,636	1,250,066	8,697,702
2029.....	4,789,560	1,096,781	5,886,341
2030.....	4,559,938	954,687	5,514,625
2031.....	4,389,072	819,839	5,208,911
2032.....	3,527,661	700,961	4,228,622
2033.....	3,400,762	596,961	3,997,723
2034.....	3,050,988	504,284	3,555,272
2035.....	2,839,220	430,253	3,269,473
2036.....	2,909,135	361,571	3,270,706
2037.....	2,980,776	291,186	3,271,962
2038.....	2,756,989	222,511	2,979,500
2039 - 2043.....	7,938,280	3,188,579	11,126,859
Total.....	\$ <u>161,643,355</u>	\$ <u>59,247,435</u>	\$ <u>220,890,790</u>

The City is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for principal in the amount of \$2,566,711 and interest costs for \$2,137,075. Thus, net MWPAT loan repayments, including interest, are scheduled to be \$28,209,087. 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 2013 principal and interest subsidies totaled approximately \$247,000 and \$387,000, respectively.

The City is scheduled to be subsidized directly by the Department of the Treasury on a periodic basis for interest costs in the amount of \$788,139, related to the issuance of Qualified Energy Conservation Bonds. Thus net loan repayments, including interest, are scheduled to be \$2,764,473. 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 2013 interest subsidy totaled approximately \$81,505.

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, 2013, the City had the following authorized and unissued debt:

Purpose	Amount
School Construction.....	\$ 18,100,000
Water.....	8,534,967
Sewer.....	5,167,616
Streetlights.....	100,000
Energy Improvements.....	3,320,278
Land.....	1,730,000
Public Safety Center.....	120,000
LeLacheur Park.....	635,000
Parking Kiosks.....	2,000,000
Rogers Roof.....	110,000
Capital Plan.....	18,879,641
Green Repair.....	2,862,788
Total.....	\$ 61,560,290

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2013, the following changes occurred in long-term liabilities:

Governmental Activities:	FY 2012 Beginning Balance	Additions	Reductions	FY 2013 Ending Balance	Current Portion
Bonds and notes payable.....	\$ 96,283,504	\$ 6,481,000	\$ (17,212,349)	\$ 85,552,155	\$ 10,216,775
Workers' compensation.....	4,680,000	559,000	(598,000)	4,641,000	422,000
Compensated absences.....	8,934,301	6,167,119	(5,406,910)	9,694,510	5,859,776
Unamortized premium on bonds payable...	556,359	1,601,956	(192,006)	1,966,309	436,857
Postemployment benefits.....	119,477,180	9,467,191	-	128,944,371	-
Total governmental activity long-term liabilities.....	\$ 229,931,344	\$ 24,276,266	\$ (23,409,265)	\$ 230,798,345	\$ 16,935,408
 Business-Type Activities:	 FY 2012 Ending Balance	 Additions	 Reductions	 FY 2013 Ending Balance	 Current Portion
Bonds and notes payable.....	\$ 156,033,408	\$ 13,055,083	\$ (7,445,136)	\$ 161,643,355	\$ 7,112,908
Compensated absences.....	507,625	365,508	(379,943)	493,190	120,048
Postemployment benefits.....	3,278,070	970,044	-	4,248,114	-
Total business type activity long-term liabilities.....	\$ 159,819,103	\$ 14,390,635	\$ (7,825,079)	\$ 166,384,659	\$ 7,232,956

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

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

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

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

At year end, the balance of the General Stabilization Fund is \$9.6 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.

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

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

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

As of June 30, 2013, the governmental fund balances consisted of the following:

	GOVERNMENTAL FUNDS		
	General	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES			
Nonspendable:			
Permanent fund principal..... \$	-	\$ 1,630,039	\$ 1,630,039
Restricted for:			
Chapter 17 special reserve.....	4,237,808	-	4,237,808
Gift and grant funds.....	-	6,490,322	6,490,322
Federal grant funds.....	-	1,551,480	1,551,480
Section 108 funds.....	-	2,098,951	2,098,951
Sale of city property funds.....	-	592,222	592,222
Spendable permanent funds.....	-	154,407	154,407
Committed to:			
Revolving funds.....	-	1,171,263	1,171,263
Capital Projects.....	-	3,864,661	3,864,661
Stabilization school construction	308,205	-	308,205
EE Benefits and Mitigation Fund.....	3,411,110	-	3,411,110
Assigned to:			
General government.....	131,423	-	131,423
Public safety.....	5,645	-	5,645
Education.....	1,819,168	-	1,819,168
Public works.....	240,240	-	240,240
Human services.....	610	-	610
Culture and recreation.....	16,271	-	16,271
Unassigned.....	15,358,929	(3,064,834)	12,294,095
TOTAL FUND BALANCES..... \$	<u>25,529,409</u>	<u>\$ 14,488,511</u>	<u>\$ 40,017,920</u>

NOTE 9 - RISK FINANCING

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

Beginning July 1, 2012, the City entered into the Group Insurance Commission. As a result all of its health insurance activities are now premium based. Activity in the self-insurance fund for fiscal year 2013 relates to claims that occurred prior to July 1, 2012. A review of runoff claims was completed as of the end of fiscal year 2013, and it was determined that an allowance for incurred but not reported claims is no longer required.

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

The City has recorded a liability of \$4,641,000 at June 30, 2013, which represents an estimate of all outstanding claims as of that date. Changes in the reported liability since July 1, 2011 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 2012.....	\$ 5,531,000	\$ (519,510)	\$ (331,490)	\$ 4,680,000
Fiscal Year 2013.....	4,680,000	356,467	(395,467)	4,641,000

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 \$31,218,000 for the fiscal year ended June 30, 2013 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, 2012, the System’s membership consists of the following:

Active members.....	1,810
Inactive members.....	111
Retirees and beneficiaries currently receiving benefits.....	<u>1,154</u>
Total.....	<u>3,075</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, 2013, 2012, and 2011 were \$16,160,771, \$15,665,446, and \$15,556,895, respectively, which equaled its required contribution for each fiscal year. At June 30, 2013, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2011 actuarial valuation using the entry age normal actuarial cost method.

The actuarial assumptions included an 8.25% investment rate of return and projected salary increases of 3.0% during year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2011, was 21 years.

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/11	\$ 270,215,328	\$ 449,425,349	\$ 179,210,021	60.1%	\$ 76,217,796	235.1%
01/01/10	248,611,238	438,406,738	189,795,500	56.7%	77,383,209	245.3%
01/01/08	263,107,199	413,775,000	150,667,801	63.6%	72,950,000	206.5%
01/01/07	233,197,405	396,390,223	163,192,818	58.8%	79,636,851	204.9%

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 2013 was \$61,601.

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

Funding Policy - The contribution requirements of plan members and the City are established and may be amended through collective bargaining. The required contribution is based on projected pay-as-you-go financing requirements. The City contributes 75% of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 25 percent of their premium costs. For fiscal year 2013, the City contributed \$14,182,656 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.....	\$ 35,697,196
Interest on net OPEB obligation.....	4,296,435
Adjustment to annual required contribution.....	<u>(15,373,740)</u>
Annual OPEB cost (expense).....	24,619,891
Contributions made.....	<u>(14,182,656)</u>
Increase/Decrease in net OPEB obligation.....	10,437,235
Net OPEB obligation - beginning of year.....	<u>122,755,250</u>
Net OPEB obligation - end of year.....	<u>\$ 133,192,485</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:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 24,619,891	57.6%	\$ 133,192,485
6/30/2012	43,339,082	37.7%	122,755,250
6/30/2011	41,583,281	35.1%	95,750,477

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

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

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

In the July 1, 2012, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 3.5 percent investment rate of return net of investment expenses, and an annual healthcare cost trend rate of 9 percent initially, graded to 5 percent after eight years. The actuarial value of assets was zero since the benefit is unfunded. The UAAL is being amortized as a level dollar open basis. The remaining amortization period at June 30, 2013, was 30 years.

NOTE 12 - COMMITMENTS

The City has entered into, or is planning to enter into, contracts totaling approximately \$61.6 million for school, sewer, various remodeling/recreation projects, various energy improvement projects, the public safety center and water projects. These projects will be funded through the issuance of long-term debt, and state grants and federal grants.

NOTE 13 - CONTINGENCIES

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2013, 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, 2013, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2013.

NOTE 14 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2013, the following GASB pronouncements were implemented:

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*. The implementation of this pronouncement did not impact the basic financial statements.
- The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus*. The implementation of this pronouncement did not impact the basic financial statements.
- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Financial statement changes include net assets changing to net position and invested in capital assets, net of related debt changing to net investment in capital assets. Notes to the basic financial statements were changed to provide additional disclosure on deferred outflows of resources and deferred inflows of resources.
- The GASB issued Statement #66, *Technical Corrections – 2013, an amendment of GASB Statements No. 10 and No. 62*. The implementation of this pronouncement did not impact the basic financial statements.

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

- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2014.

- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is required to be implemented in fiscal year 2014.

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

Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget
REVENUES:			
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 106,930,740	\$ 106,930,740
Tax liens.....	-	1,575,000	1,575,000
Motor vehicle and other excise taxes.....	-	6,588,000	6,588,000
Trash disposal.....	-	3,100,000	3,100,000
Penalties and interest on taxes.....	-	1,408,000	1,408,000
Payments in lieu of taxes.....	-	897,000	897,000
Intergovernmental.....	-	159,587,155	159,587,155
Departmental and other.....	-	8,896,299	8,896,299
Investment income.....	-	331,000	331,000
TOTAL REVENUES.....	-	289,313,194	289,313,194
EXPENDITURES:			
Current:			
General government.....	122,497	19,016,626	19,139,123
Public safety.....	43,417	38,391,247	38,434,664
Education.....	4,103,453	130,025,211	134,128,664
Public works.....	205,066	11,542,689	11,747,755
Human services.....	451	3,380,034	3,380,485
Culture and recreation.....	47,707	3,849,838	3,897,545
Pension benefits.....	-	16,160,771	16,160,771
Employee benefits.....	-	42,911,433	42,911,433
State and county charges.....	-	11,809,570	11,809,570
Debt service:			
Principal.....	-	12,537,029	12,537,029
Interest.....	-	3,846,945	3,846,945
TOTAL EXPENDITURES.....	4,522,591	293,471,393	297,993,984
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES...	(4,522,591)	(4,158,199)	(8,680,790)
OTHER FINANCING SOURCES (USES):			
Premium from issuance of bonds.....	-	486,000	486,000
Transfers in.....	-	4,246,249	4,246,249
Transfers out.....	-	(480,000)	(480,000)
TOTAL OTHER FINANCING SOURCES (USES).....	-	4,252,249	4,252,249
NET CHANGE IN FUND BALANCE.....	(4,522,591)	94,050	(4,428,541)
BUDGETARY FUND BALANCE, Beginning of year.....	-	17,683,145	17,683,145
BUDGETARY FUND BALANCE, End of year.....	\$ (4,522,591)	\$ 17,777,195	\$ 13,254,604

See notes to required supplementary information.

	Final Budget	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
\$	106,930,642	\$ 106,255,553	\$ -	\$ (675,089)
	1,575,000	1,710,462	-	135,462
	6,588,000	6,224,782	-	(363,218)
	3,100,000	3,121,164	-	21,164
	1,408,000	2,114,566	-	706,566
	897,000	823,163	-	(73,837)
	160,551,155	160,952,321	-	401,166
	7,900,860	9,106,864	-	1,206,004
	331,000	320,479	-	(10,521)
	<u>289,281,657</u>	<u>290,629,354</u>	<u>-</u>	<u>1,347,697</u>
	15,943,119	14,078,824	131,423	1,732,872
	39,864,094	39,494,359	5,645	364,090
	135,740,882	133,850,300	1,819,168	71,414
	14,582,919	14,192,649	240,240	150,030
	3,701,985	3,651,244	610	50,131
	3,897,546	3,593,644	16,271	287,631
	16,751,325	16,655,614	-	95,711
	39,600,772	36,775,145	-	2,825,627
	11,814,856	11,591,022	-	223,834
	12,537,029	12,537,029	-	-
	3,706,915	3,489,521	-	217,394
	<u>298,141,442</u>	<u>289,909,351</u>	<u>2,213,357</u>	<u>6,018,734</u>
	<u>(8,859,785)</u>	<u>720,003</u>	<u>(2,213,357)</u>	<u>7,366,431</u>
	486,000	891,382	-	405,382
	4,331,188	4,311,041	-	20,147
	<u>(9,307,230)</u>	<u>(9,307,230)</u>	<u>-</u>	<u>-</u>
	<u>(4,490,042)</u>	<u>(4,104,807)</u>	<u>-</u>	<u>385,235</u>
	(13,349,827)	(3,384,804)	(2,213,357)	7,751,666
	<u>17,683,145</u>	<u>17,683,145</u>	<u>-</u>	<u>-</u>
\$	<u>4,333,318</u>	\$ <u>14,298,341</u>	\$ <u>(2,213,357)</u>	\$ <u>7,751,666</u>

Retirement System Schedules of Funding Progress and Employer Contributions

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

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

LOWELL CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/2011	\$ 270,215,328	\$ 449,425,349	\$ 179,210,021	60.1%	\$ 76,217,796	235.1%
1/1/2010	248,611,238	438,406,738	189,795,500	56.7%	77,383,209	245.3%
1/1/2008	263,107,199	413,775,000	150,667,801	63.6%	72,950,000	206.5%

See notes to required supplementary information.

LOWELL CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

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

See notes to required supplementary information.

Other Postemployment Benefit Plan Schedules

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

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

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

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
07/01/12	\$ -	\$ 520,007,997	\$ 520,007,997	0.0%	\$ N/A	N/A
07/01/10	-	689,936,566	689,936,566	0.0%	177,396,732	388.9%
01/01/08	-	432,751,582	432,751,582	0.0%	170,183,191	254.3%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2013	\$ 35,697,196	\$ 14,182,656	39.7%
6/30/2012	42,754,538	16,334,309	38.2%
6/30/2011	41,163,431	14,605,754	35.5%
6/30/2010	33,445,970	9,685,461	29.0%
6/30/2009	31,916,608	8,738,305	27.3%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

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

Actuarial Assumptions:

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

Plan Membership:

Current retirees, beneficiaries, and dependents...	1,847
Current active members.....	<u>3,177</u>
Total.....	<u><u>5,024</u></u>

See 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 2013 approved budget authorizing approximately \$294.1 million in current year appropriations, other financing uses, and other amounts to be raised and approximately \$4.5 million in encumbrances and appropriations carried over from previous fiscal years. During fiscal year 2013, the Council approved transfers from free cash totaling \$8.8 million to the stabilization fund and the health costs mitigation fund, as well as transfers between departments representing minor increases and decreases in various budget line items for a net increase in appropriations totaling approximately \$8.9 million.

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

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2013, is as follows:

Net change in fund balance - budgetary basis.....	\$ (3,384,804)
<u>Perspective difference:</u>	
Stabilization Funds recorded in the General Fund for GAAP.....	6,411,683
Employee Benefit Trust recorded in the General Fund for GAAP.....	3,411,110
<u>Basis of accounting differences:</u>	
Net change in recording 60-day receipts accrual.....	(1,365,275)
Net change in recording tax refunds payable.....	273,000
Net change in short-term interest accrual.....	18,598
Net change in unrecorded liabilities.....	(683,481)
Increase in revenues due to on-behalf payments.....	31,218,000
Increase in expenditures due to on-behalf payments.....	<u>(31,218,000)</u>
Net change in fund balance - GAAP basis.....	<u>\$ 4,680,831</u>

NOTE B – PENSION PLAN

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

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

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

Valuation Date.....	January 1, 2011
Actuarial Cost Method.....	Individual Entry Age Normal Cost Method
Amortization Method.....	Level percentage of projected payroll
Remaining Amortization Period.....	21 years remaining as of January 1, 2011, open
Asset Valuation Method.....	Actuarial value of assets is determined using a 5-year smoothing of unrealized gains and losses. The result must be within 10% of market value.

Actuarial Assumptions:

Investment rate of return.....	8.25%
Projected salary increases.....	4.75% to 5.25%
Cost of living adjustments.....	3.00% of the lesser of the pension amount and \$13,000 per year.

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

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

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