

***CITY OF LOWELL, MASSACHUSETTS***

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

***FOR THE YEAR ENDED JUNE 30, 2018***

CITY OF LOWELL, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

**TABLE OF CONTENTS**

Independent Auditor's Report.....	1
Management's Discussion and Analysis .....	3
Basic Financial Statements .....	15
Statement of Net Position .....	17
Statement of Activities .....	18
Governmental funds – balance sheet.....	20
Reconciliation of the governmental funds balance sheet total fund balances to the statement of net position .....	21
Governmental funds – statement of revenues, expenditures and changes in fund balances .....	22
Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities.....	23
Proprietary funds – statement of net position .....	24
Proprietary funds – statement of revenues, expenses and changes in net position .....	25
Proprietary funds – statement of cash flows.....	26
Fiduciary funds – statement of fiduciary net position.....	27
Fiduciary funds – statement of changes in fiduciary net position .....	28
Notes to basic financial statements .....	29
Required Supplementary Information.....	69
General fund – statement of revenues, expenditures and changes in fund balance – budget and actual.....	70
Pension Plan Schedules – Retirement System .....	72
Schedule of changes in the net pension liability and related ratios .....	73
Schedule of contributions .....	74
Schedule of investment returns.....	75
Pension Plan Schedules - City.....	76
Schedule of the City's proportionate share of the net pension liability .....	77
Schedule of the City's contributions .....	78
Schedule of the Special Funding Amounts .....	79
Other Postemployment Benefit Plan Schedules.....	80
Schedule of changes in the City's net other postemployment benefit liability and related ratios .....	81
Schedule of the City's contributions .....	82
Schedule of investment returns.....	83
Notes to Required Supplementary Information.....	84

This page intentionally left blank.



100 Quannapowitt Parkway  
Suite 101  
Wakefield, MA 01880  
T. 781-914-1700  
F. 781-914-1701  
[www.powersandsullivan.com](http://www.powersandsullivan.com)

## **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, 2018 (except for the Lowell Contributory Retirement System which is as of and for the year ended December 31, 2017), 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, 2018 (except for the Lowell Contributory Retirement System which is as of and for the year ended December 31, 2017), and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2019, on our consideration of the City of Lowell, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lowell's internal control over financial reporting and compliance.

*Powers + Sullivan, LLC*

April 22, 2019

# ***Management's Discussion and Analysis***

## ***Management's Discussion and Analysis***

As management of the City of Lowell (the "City"), we offer readers of these basic financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2018. We encourage readers to consider the information presented in this report.

### ***Financial Highlights***

#### **Government-wide**

- The City's overall liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources by \$496.2 million, at the close of 2018, an overall decrease of \$16.7 million from the prior year. The decrease is primarily the result of the recognition of the net other postemployment benefit (OPEB) liability which had current year change of \$11.8 million and an increase in the net pension liability and its associated deferred outflows/inflows of \$6.7 million.
- Governmental net position decreased by \$19.3 million. The decrease is attributable to the \$11.8 million increase in the net OPEB liability, a net decrease in deferred outflows/(inflows) related to pensions of \$37.3 million and an increase of \$30.7 million in the net pension liability.
- Business-type activities experienced a combined \$2.6 million increase in net position.
- Beginning net position of the governmental activities and the business-type activities have been revised to reflect the implementation of GASB Statement #75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The implementation of this standard required the calculation of the OPEB liability to be revised due to the use of different methods and assumptions as previously required by GASB Statement #45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*". Accordingly, the City's net position as of June 30, 2017, has been revised to reflect these changes. See Note 15 for further details regarding the revised balances.
- Overall governmental long-term debt increased by \$4.2 million and business-type long-term debt increased by \$4.3 million, not including premiums. Please see Note 7 for more information on the City's long-term bonds.

#### **Fund Financial Statements**

- As of the close of the current year, the City's governmental funds reported combined ending fund balance of \$31.7 million, a decrease of \$743,000 in comparison with the prior year.
- The City issued \$20.2 million of state qualified general obligation bonds on March 7, 2018. See Note 7 for more information.

### ***Overview of the Financial Statements***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The City established an OPEB trust fund to account for funds set aside to help offset future postemployment benefits for retirees. There were no contributions in the current year, only investment income. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

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

## ***Government-wide Financial Analysis***

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's overall liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$496.2 million at the close of 2018, an overall decrease of \$16.7 million from the prior year.

Net position of \$285.6 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, \$23.1 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 \$805 million, reflects the impact of the \$610 million net other postemployment benefit liability and the \$240.4 million net pension liability.

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

### Governmental Activities

At the end of the current year, the City is able to report positive balances in two out of three categories of net position. The governmental activities liabilities and deferred inflows of resources exceeded assets and deferred outflows by \$547.8 million at the close of 2018.

	2018	2017 (As revised)
<b>Assets:</b>		
Current assets.....	\$ 93,008,293	\$ 87,334,254
Noncurrent assets (excluding capital).....	5,693,835	7,949,989
Capital assets, non depreciable.....	34,506,080	32,848,281
Capital assets, net of accumulated depreciation.....	257,877,413	256,191,955
<b>Total assets.....</b>	<b>391,085,621</b>	<b>384,324,479</b>
<b>Deferred outflows of resources.....</b>	<b>17,359,503</b>	<b>37,736,848</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	35,102,804	33,874,927
Noncurrent liabilities (excluding debt).....	821,670,524	840,537,811
Current debt.....	16,625,496	14,836,110
Noncurrent debt.....	65,128,959	60,567,058
<b>Total liabilities.....</b>	<b>938,527,783</b>	<b>949,815,906</b>
<b>Deferred inflows of resources.....</b>	<b>17,671,422</b>	<b>709,383</b>
<b>Net position:</b>		
Net investment in capital assets.....	224,796,936	225,673,044
Restricted.....	23,131,250	20,813,297
Unrestricted.....	(795,682,267)	(774,950,303)
<b>Total net position.....</b>	<b>\$ (547,754,081)</b>	<b>\$ (528,463,962)</b>

Beginning net position of the governmental activities has been revised to reflect the implementation of GASB Statement #75. The implementation of this standard required the OPEB liability to be revised due to the use of different methods and assumptions as previously required by GASB Statement #45. Accordingly, previously reported net position of negative \$129.8 million has been revised and totals negative \$528.5 million (See Note 15 for details).

A significant portion of the City's governmental activities net position, \$224.8 million, reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net position of \$23.1 million represents resources that are subject to external restrictions on how they may be used. The deficit balance of unrestricted net position in the amount of \$795.7 million is due to the recognition of the net pension liability of \$223.6 million and the net OPEB liability of \$590.3 million.

Included within the governmental activities noncurrent assets, unrelated to capital assets, are \$4.7 million in future school construction reimbursement grants.

Governmental activity liabilities include \$71.8 million in general obligation bonds; \$10 million of notes payable; \$11.9 million in liabilities for unused vacation, special leave, and enhanced longevity benefits; and \$3.1 million in future workers' compensation benefits.

The key elements of governmental activities are as follows:

	2018	2017 (As revised)
<b>Program Revenues:</b>		
Charges for services.....	\$ 13,484,864	\$ 15,634,299
Operating grants and contributions.....	236,540,909	217,038,026
Capital grants and contributions.....	6,437,514	3,966,415
<b>General Revenues:</b>		
Real estate and personal property taxes, net of tax refunds payable.....	127,212,001	124,746,518
Tax and other liens.....	99,335	1,604,108
Motor vehicle and other excise taxes.....	10,115,419	8,883,886
Hotel/motel tax.....	331,215	308,650
Meals tax.....	1,238,909	1,227,302
Penalties and interest on taxes.....	1,348,397	1,324,504
Payments in lieu of taxes.....	433,476	560,602
Grants and contributions not restricted to specific programs.....	25,705,098	25,305,242
Unrestricted investment income.....	465,166	417,439
Gain on sale of capital assets.....	584,665	263,132
Miscellaneous.....	103,300	162,872
<b>Total revenues.....</b>	<b>424,100,268</b>	<b>401,442,995</b>
<b>Expenses:</b>		
General government.....	25,176,325	25,144,024
Public safety.....	80,009,712	85,865,379
Education.....	303,488,460	292,295,364
Public works.....	18,634,066	20,528,145
Health and human services.....	14,118,414	14,584,264
Culture and recreation.....	8,828,454	9,222,584
Interest.....	1,967,798	3,082,256
<b>Total expenses.....</b>	<b>452,223,229</b>	<b>450,722,016</b>
<b>Excess (Deficiency) before transfers.....</b>	<b>(28,122,961)</b>	<b>(49,279,021)</b>
<b>Transfers.....</b>	<b>8,832,842</b>	<b>8,838,225</b>
<b>Change in net position.....</b>	<b>(19,290,119)</b>	<b>(40,440,796)</b>
<b>Net position, beginning of year (as revised).....</b>	<b>(528,463,962)</b>	<b>(488,023,166)</b>
<b>Net position, end of year.....</b>	<b>\$ (547,754,081)</b>	<b>\$ (528,463,962)</b>

The governmental activities net position decreased in the current year by \$19.3 million. The decrease in net position is due to several factors: the net pension liability decreased \$30.6 million while the associated deferred outflows and inflows of resources increased \$37.3 million; the net OPEB liability increased \$11.8 million due to the implementation of GASB 75; and depreciation on capital assets exceeded principal payments on long-term debt by \$7.7 million. These decreases were offset by the recognition of \$6.4 million of capital grants.

### Business-type Activities

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

	2018	2017 (As revised)
<b>Assets:</b>		
Current assets.....	\$ 38,454,876	\$ 32,194,696
Capital assets, non depreciable.....	14,671,887	10,106,984
Capital assets, net of accumulated depreciation.....	<u>213,546,034</u>	<u>211,927,065</u>
<b>Total assets.....</b>	<b><u>266,672,797</u></b>	<b><u>254,228,745</u></b>
<b>Deferred outflows of resources.....</b>	<b><u>1,300,346</u></b>	<b><u>2,826,621</u></b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	4,351,761	5,170,796
Noncurrent liabilities (excluding debt).....	36,583,695	38,478,336
Current debt.....	33,947,146	27,640,332
Noncurrent debt.....	<u>140,204,435</u>	<u>136,717,551</u>
<b>Total liabilities.....</b>	<b><u>215,087,037</u></b>	<b><u>208,007,015</u></b>
<b>Deferred inflows of resources.....</b>	<b><u>1,326,022</u></b>	<b><u>53,231</u></b>
<b>Net position:</b>		
Net investment in capital assets.....	60,833,885	59,905,476
Unrestricted.....	<u>(9,273,801)</u>	<u>(10,910,356)</u>
<b>Total net position.....</b>	<b><u>\$ 51,560,084</u></b>	<b><u>\$ 48,995,120</u></b>

Business type activities assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$51.6 million at the close of 2018.

Net position of \$60.8 million reflects its net investment in capital assets less any debt used to acquire those assets that are still outstanding. The deficit balance of *unrestricted net position* of \$9.3 million is due to the net pension liability of \$16.8 million and the net OPEB liability of \$19.7 million.

Beginning net position of the business-type activities has been revised to reflect the implementation of GASB Statement #75. The implementation of this standard required the OPEB liability to be revised due to the use of different methods and assumptions as previously required by GASB Statement #45. Accordingly, previously reported net position of \$62.3 million has been revised and totals \$49 million (See Note 15 for details).

	2018	2017 (As revised)
<b>Program Revenues:</b>		
Charges for services.....	\$ 40,822,019	\$ 40,114,200
Capital grants and contributions.....	882,797	774,470
<b>General Revenues:</b>		
Unrestricted investment income.....	3,768	3,575
<b>Total revenues.....</b>	<b><u>41,708,584</u></b>	<b><u>40,892,245</u></b>
<b>Expenses:</b>		
Water.....	9,063,885	8,009,965
Sewer.....	16,593,464	17,025,575
Parking.....	4,653,429	4,768,972
<b>Total expenses.....</b>	<b><u>30,310,778</u></b>	<b><u>29,804,512</u></b>
<b>Excess (Deficiency) before transfers.....</b>	<b>11,397,806</b>	<b>11,087,733</b>
<b>Transfers.....</b>	<b><u>(8,832,842)</u></b>	<b><u>(8,838,225)</u></b>
<b>Change in net position.....</b>	<b>2,564,964</b>	<b>2,249,508</b>
<b>Net position, beginning of year (as revised).....</b>	<b><u>48,995,120</u></b>	<b><u>46,745,612</u></b>
<b>Net position, end of year.....</b>	<b><u>\$ 51,560,084</u></b>	<b><u>\$ 48,995,120</u></b>

The water enterprise fund net position decreased by \$269,000 during the current year. The decrease is primarily due to an increase in repairs and maintenance costs such as sludge removal in the current year.

The sewer enterprise fund net position increased by \$1.3 million during the current year. The increase is primarily attributable to the prior year's increase in sewer rates designed to assist in establishing reserves for future capital projects, along with a decrease in repairs, maintenance, and supply costs in the current year.

The parking enterprise fund net position increased by \$1.5 million in the current year. The increase is primarily due to the third year of the parking kiosk program which has resulted in increased revenues, along with a decrease in repairs, maintenance, and supply costs in the current year.

### ***Financial Analysis of the Government's Funds***

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

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

As of the end of the year, governmental funds reported combined ending fund balances of \$31.7 million, a decrease of \$743,000 in comparison with the prior year. The decrease is primarily attributable to the decrease in the general fund.

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund equaled \$16.3 million (which includes \$11.7 million set aside as stabilization), while total fund balance was \$19.4 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 4.3% and 5.1% of general fund expenditures, respectively.

The general fund decreased by \$4.4 million during 2018. This was primarily due to the budgeted used of \$4.9 million of free cash and \$2.1 million of overlay reserves; offset by positive budgetary results.

General fund revenues and other financing sources totaled \$375.3 million for 2018, an increase of \$3.7 million compared to the previous year. The increase primarily relates to real estate and personal property taxes and intergovernmental State aid.

Total general fund expenditures and other financing uses totaled \$379.7 million, an increase of \$9.6 million over the previous year. The increase in expenditures and other financing uses corresponds with the increase in revenues and other financing sources and is the result of an overall increased general fund budget for 2018.

Nonmajor governmental funds increased \$3.6 million which can be attributed to the \$10.3 million issuance of bonds.

The internal service fund had an ending fund balance of \$2.4 million, an increase of \$402,000 over the prior year. The increase is the result of a \$400,000 payment from the general fund due to the City's agreement with the Lowell Public Employee Committee for the distribution of the employee share of the health benefits trust fund. In July of 2012, the City entered into the Group Insurance Commission (GIC) and its health insurance activities are now premium based. The City is now working to use the remaining balance in the internal service fund for health insurance related costs.

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

The difference between the original budget of \$342.4 million and the final amended budget of \$348.2 million amounted to a net increase of \$5.8 million. During 2018, the Council approved transfers from free cash totaling \$2.5 million to the general stabilization fund, \$312,000 to the school construction stabilization fund, and \$294,000 to the capital debt service stabilization fund. The Council further approved use of free cash within the general fund of \$1 million for court judgments and the school department. The Council also approved various supplemental appropriations of \$1.3 million to other available funds, as well as transfers between departments representing minor increases and decreases in various budget line items.

Revenues came in higher than budgeted by \$1.9 million while expenditures came in \$1.2 million lower than budgeted. The largest revenue surplus related to motor vehicle and other excise taxes of \$1.2 million. The education budget was overspent by \$214,000 and will be raised in fiscal year 2019.

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

**Capital Assets** - The City's investment in capital assets for governmental activities as of June 30, 2018, amounts to \$224.8 million, net of accumulated depreciation. The investment in capital assets includes land, buildings, improvements, infrastructure, vehicles, machinery and equipment, books, and software.

The City's investment in capital assets for business-type activities as of June 30, 2018, amounts to \$60.8 million, net of accumulated depreciation. The investment in capital assets for the business-type activities predominately relates to both sewer and water infrastructure and systems as well as the various parking garage facilities. Additional information on the City's capital assets may be found in Note 4 to the basic financial statements.

**Long-term debt** – At June 30, 2018, the City had total governmental bonded debt of \$68.6 million. Of this amount \$67.4 million is a general obligation of the City and the remaining \$1.2 million is guaranteed debt under the Section 108 Loan Program. The City issued State qualified general obligation bonds totaling \$10.3 million during fiscal year 2018.

The sewer enterprise fund has \$87.8 million in long-term debt that is supported by the sewer rates and future MCWT principal and interest subsidies. The fund issued State qualified general obligation bond totaling \$8.6 million during fiscal year 2018. Currently, the City has \$16.2 million in authorized and unissued long-term debt relating to future sewer projects.

The water enterprise fund has \$34 million in long-term debt that is supported by the water rates and future MCWT principal and interest subsidies. The fund finalized a loan with MCWT for \$3.1 million during fiscal year 2018. Currently, the City has \$1.7 million in authorized and unissued long-term debt relating to future water projects.

The parking enterprise fund has \$26.4 million in long-term debt that is supported by parking fees. The fund issued State qualified general obligation bond totaling \$1.4 million during fiscal year 2018. Currently, the City has \$36.4 million in authorized and unissued long-term debt relating to future parking projects.

Please see Note 7 for more information related to long-term debt.

### **Next Year's Budget**

Mayor William J. Samaras and the Lowell City Council unanimously approved the City Manager's proposed FY2019 general fund operating budget of \$325.9 million on June 12, 2018 after a public hearing in the City Council Chambers at Lowell City Hall. The total increase in general fund appropriations over fiscal year 2018 was \$8.88 million. Notable drivers of increased expenditures included fixed costs, such as a \$1.6 million increase in the PERAC pension assessment, a \$628,000 increase in the appropriation for health insurance costs, and a \$2.1 million increase in Cherry Sheet assessments from the Commonwealth. The most significant of the Cherry Sheet expenses was a \$1.9 million increase in the City's assessment for Charter Schools. Personnel costs also factored into the formulation of the 2019 budget as all of the municipal collective bargaining units' contracts expired on June 30, 2018. At the time the budget was approved, all contracts remained outstanding, but an amount was budgeted in the City Manager's contingency for salary reserve sufficient to fund the contracts once approved by the Lowell City Council.

The FY2019 budget included an overall \$5.1 million increase in education spending, including both the Lowell Public School District and the assessment from the Greater Lowell Regional Technical High School. Of the \$166.7 million appropriated by the City Council to the Lowell Public Schools, 90.6%, of the funding source is from the Commonwealth's Chapter 70 education aid and the balance of \$15.7 million is funded through the tax levy in direct cash support. Other major priority areas of the budget, such as public safety, were level funded, despite the loss of significant federal grant money which had previously supported staffing in the Fire Department (LFD). The City of Lowell had received a federal SAFER grant in FY2017 in the amount of \$658,206 to hire additional personnel in the LFD, but the grant expired after two years and communities were required to maintain staffing levels after the grant monies expired, absorbing their funding into the tax levy. In the Health and Human Services Department, the City Administration used the FY2019 budget to address the opioid crisis by adding personnel in the Health Department to conduct substance abuse outreach and clinical recovery services.

In addition to the FY2019 budget for the general fund, the City Council approved the City Manager's budgets for City's three enterprise funds for water, sewer, and parking in the amounts of \$10.7 million, \$18.1 million, and \$6.8 million, respectively. Appropriations for business-type activities increased year-over-year by \$1.2 million in the water enterprise, \$1.1 million in the sewer enterprise, and \$543,000 in the parking enterprise. Major contributing factors to increases in the water enterprise fund's 2019 operating budget were related to a \$1.08 million increase

in water-related debt service payments associated with the ongoing capital improvements to the water infrastructure system related to a \$22.8 million loan order. Debt service cost increases also played a significant role in the sewer and parking enterprise funds as well. In parking, debt service related to capital repairs on two downtown garages accounted for an increase of \$530,000 and in the sewer enterprise, the year-over-year increase in debt service was \$970,000 and was related to a \$40 million loan for sewer improvements, including sewer separation projects to mitigate combined sewer outflows (CSOs) in the City. In the parking enterprise, other components operations remained relatively constant in FY2019. The City Manager introduced rate increases for each of the enterprise funds to support ongoing operational and capital needs, which were approved by the Lowell City Council along with the FY2019 budget on June 12, 2018. All enterprise funds are supported by user charges and fees and not supported by the tax levy or local aid. They also reimburse the general fund for indirect costs associated with their operation. In FY2019, the budget to reimburse the general fund for administrative overhead was \$9.01 million.

Several targeted investments were incorporated by the City Manager into the FY2019 operating budget to support the priorities of the City Council, such as public safety and economic development. Concurrent with the FY2019 operating budget, the City Council unanimously approved the City Manager's proposed update to the City's comprehensive five-year capital improvement plan ("CIP") and a loan order in the amount of \$9,903,000 to support strategic investments in the general fund. The loan order included funding for paving, building improvements, environmental remediation, and park improvements, among other projects. Aside from the projects incorporated in the City Manager's CIP, the City Council approved a \$35.4 million loan order to fund the construction phase of a new public garage which will be sited in the City's Hamilton Canal Innovation District ("HCID"). The garage will support the parking needs of the nearly completed Judicial Center, which is scheduled to open in fiscal year 2019 and will serve as a catalyst for economic development in the area.

The fiscal year 2019 tax levy was approved by the Department of Revenue on December 14, 2018, at \$133,785,807, a budgeted increase of 2% plus the 2019 certified new growth. Total appropriations in all funds including the general fund and enterprise funds totaled \$391,858,651, including \$26,755,700 in "cherry sheet" charges and a \$1,110,412 allowance for abatements and exemptions. The total estimated receipts and other revenue sources raised to support those appropriated and other unappropriated expenses totaled \$258,072,844. Of that total, \$181,750,247 came from local aid from the Commonwealth (Chapter 70, UGGA, and other "cherry sheet" receipts), \$1,192,794 from MSBA reimbursements for completed projects, and \$24,067,781 in local receipts. \$44,638,023 of the total amount raised was from the City's enterprise funds and \$6,423,999 was appropriated by the Lowell City Council in other available funds to support the budget.

Management continued to make strides in improving internal controls and strengthening the overall financial management of the City in FY2018 and into the FY2019 operating year. The Finance Department and Office of the City Auditor have developed new practices, as well as strengthened existing systems throughout the financial operation. For example, in FY2018 the Office of the City Treasurer finalized the implementation and began the integration of the cash reconciliation process through MUNIS to strengthen the overall internal control. In a report issued by Standard & Poor's related to the issuance of \$17.6 million in bond anticipation notes in June of 2018, the ratings agency commented on Lowell's "very strong management", "strong budgetary performance", and "strong debt and contingent liability profile". In the report, S&P wrote, "we view the City's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable. Officials are conservative with revenue and expenditure assumptions, and they consider historical trends when developing the budget. They have the flexibility to amend the budget as needed, and management monitors performance regularly and makes monthly reports on budget-to-actual results to the City Council. Management performs formal financial forecasting and maintains a five-year CIP it updates annually."

## ***Requests for Information***

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

# ***Basic Financial Statements***

This page intentionally left blank.

## STATEMENT OF NET POSITION

JUNE 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 63,647,789	\$ 27,957,238	\$ 91,605,027
Investments.....	1,697,296	-	1,697,296
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	2,229,603	-	2,229,603
Tax liens.....	2,065,186	137,196	2,202,382
Motor vehicle and other excise taxes.....	1,036,642	-	1,036,642
User fees.....	658,921	9,365,097	10,024,018
Departmental and other.....	288,691	995,345	1,284,036
Intergovernmental.....	16,511,299	-	16,511,299
Loans.....	287,049	-	287,049
Tax foreclosures.....	4,374,317	-	4,374,317
Working capital deposit.....	211,500	-	211,500
Total current assets.....	<u>93,008,293</u>	<u>38,454,876</u>	<u>131,463,169</u>
<b>NONCURRENT:</b>			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	4,673,835	-	4,673,835
Loans.....	1,020,000	-	1,020,000
Capital assets, nondepreciable.....	34,506,080	14,671,887	49,177,967
Capital assets, net of accumulated depreciation.....	<u>257,877,413</u>	<u>213,546,034</u>	<u>471,423,447</u>
Total noncurrent assets.....	<u>298,077,328</u>	<u>228,217,921</u>	<u>526,295,249</u>
TOTAL ASSETS.....	<u>391,085,621</u>	<u>266,672,797</u>	<u>657,758,418</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows for refunding debt.....	30,248	-	30,248
Deferred outflows related to pensions.....	<u>17,329,255</u>	<u>1,300,346</u>	<u>18,629,601</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES.....	<u>17,359,503</u>	<u>1,300,346</u>	<u>18,659,849</u>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	8,135,329	2,071,697	10,207,026
Accrued payroll.....	12,774,127	112,307	12,886,434
Tax refunds payable.....	451,500	-	451,500
Accrued interest.....	958,689	1,731,440	2,690,129
Other liabilities.....	5,491,542	-	5,491,542
Compensated absences.....	6,707,117	436,317	7,143,434
Workers' compensation.....	584,500	-	584,500
Notes payable.....	9,960,544	23,726,129	33,686,673
Bonds payable.....	6,664,952	10,221,017	16,885,969
Total current liabilities.....	<u>51,728,300</u>	<u>38,298,907</u>	<u>90,027,207</u>
<b>NONCURRENT:</b>			
Compensated absences.....	5,239,563	102,669	5,342,232
Workers' compensation.....	2,491,000	-	2,491,000
Net pension liability.....	223,595,599	16,778,083	240,373,682
Net other postemployment benefits liability.....	590,344,362	19,702,943	610,047,305
Bonds payable.....	<u>65,128,959</u>	<u>140,204,435</u>	<u>205,333,394</u>
Total noncurrent liabilities.....	<u>886,799,483</u>	<u>176,788,130</u>	<u>1,063,587,613</u>
TOTAL LIABILITIES.....	<u>938,527,783</u>	<u>215,087,037</u>	<u>1,153,614,820</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions.....	<u>17,671,422</u>	<u>1,326,022</u>	<u>18,997,444</u>
<b>NET POSITION</b>			
Net investment in capital assets.....	224,796,936	60,833,885	285,630,821
Restricted for:			
Chapter 17 special reserve.....	1,150	-	1,150
Streets.....	3,748,803	-	3,748,803
Community development.....	6,056,069	-	6,056,069
Loans.....	1,307,049	-	1,307,049
Permanent funds:			
Expendable.....	236,231	-	236,231
Nonexpendable.....	1,834,030	-	1,834,030
Gifts and grants.....	9,947,918	-	9,947,918
Unrestricted.....	<u>(795,682,267)</u>	<u>(9,273,801)</u>	<u>(804,956,068)</u>
TOTAL NET POSITION.....	<u>\$ (547,754,081)</u>	<u>\$ 51,560,084</u>	<u>\$ (496,193,997)</u>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 25,176,325	\$ 4,463,574	\$ 3,568,152	\$ 151,541	\$ (16,993,058)
Public safety.....	80,009,712	4,042,083	6,550,557	-	(69,417,072)
Education.....	303,488,460	565,531	215,197,338	767,058	(86,958,533)
Public works.....	18,634,066	3,630,967	720,078	5,451,171	(8,831,850)
Human services.....	14,118,414	494,231	9,496,384	67,744	(4,060,055)
Culture and recreation.....	8,828,454	288,478	1,008,400	-	(7,531,576)
Interest.....	1,967,798	-	-	-	(1,967,798)
Total Governmental Activities.....	<u>452,223,229</u>	<u>13,484,864</u>	<u>236,540,909</u>	<u>6,437,514</u>	<b>(195,759,942)</b>
<i>Business-Type Activities:</i>					
Water.....	9,063,885	10,942,454	-	524,117	2,402,686
Sewer.....	16,593,464	22,640,037	-	192,586	6,239,159
Parking.....	4,653,429	7,239,528	-	166,094	2,752,193
Total Business-Type Activities.....	<u>30,310,778</u>	<u>40,822,019</u>	<u>-</u>	<u>882,797</u>	<b>11,394,038</b>
Total Primary Government.....	<u>\$ 482,534,007</u>	<u>\$ 54,306,883</u>	<u>\$ 236,540,909</u>	<u>\$ 7,320,311</u>	<b>\$ (184,365,904)</b>

(Continued)

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net position:</b>			
Net (expense) revenue from previous page..... \$	<b>(195,759,942)</b>	<b>11,394,038</b>	<b>(184,365,904)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	127,212,001	-	127,212,001
Tax and other liens.....	99,335	-	99,335
Motor vehicle and other excise taxes.....	10,115,419	-	10,115,419
Hotel/motel tax.....	331,215	-	331,215
Meals tax.....	1,238,909	-	1,238,909
Penalties and interest on taxes.....	1,348,397	-	1,348,397
Payments in lieu of taxes.....	433,476	-	433,476
Grants and contributions not restricted to specific programs.....	25,705,098	-	25,705,098
Unrestricted investment income.....	465,166	3,768	468,934
Gain (loss) on sale of assets.....	584,665	-	584,665
Miscellaneous.....	103,300	-	103,300
<i>Transfers, net</i> .....	8,832,842	(8,832,842)	-
Total general revenues and transfers.....	176,469,823	(8,829,074)	167,640,749
Change in net position.....	(19,290,119)	2,564,964	(16,725,155)
<i>Net position:</i>			
Beginning of year, as revised.....	(528,463,962)	48,995,120	(479,468,842)
End of year..... \$	<u>(547,754,081)</u>	<u>51,560,084</u>	<u>(496,193,997)</u>

(Concluded)

See notes to basic financial statements.

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2018

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents.....	\$ 39,727,621	\$ 21,561,343	\$ 61,288,964
Investments.....	-	1,697,296	1,697,296
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	2,229,603	-	2,229,603
Tax liens.....	2,065,186	-	2,065,186
Motor vehicle and other excise taxes.....	1,036,642	-	1,036,642
User fees.....	658,921	-	658,921
Departmental and other.....	288,391	300	288,691
Intergovernmental.....	5,842,295	15,342,839	21,185,134
Loans.....	-	1,307,049	1,307,049
Tax foreclosures.....	4,374,317	-	4,374,317
Working capital deposit.....	211,500	-	211,500
<b>TOTAL ASSETS.....</b>	<b><u>\$ 56,434,476</u></b>	<b><u>\$ 39,908,827</u></b>	<b><u>\$ 96,343,303</u></b>
<b>LIABILITIES</b>			
Warrants payable.....	\$ 3,565,923	\$ 4,569,406	\$ 8,135,329
Accrued payroll.....	11,709,164	1,064,963	12,774,127
Tax refunds payable.....	451,500	-	451,500
Other liabilities.....	5,491,542	-	5,491,542
Notes payable.....	-	9,960,544	9,960,544
<b>TOTAL LIABILITIES.....</b>	<b><u>21,218,129</u></b>	<b><u>15,594,913</u></b>	<b><u>36,813,042</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue.....	15,862,509	11,970,114	27,832,623
<b>FUND BALANCES</b>			
Nonspendable.....	-	1,834,030	1,834,030
Restricted.....	1,150	15,341,999	15,343,149
Committed.....	2,687,900	-	2,687,900
Assigned.....	377,812	-	377,812
Unassigned.....	16,286,976	(4,832,229)	11,454,747
<b>TOTAL FUND BALANCES.....</b>	<b><u>19,353,838</u></b>	<b><u>12,343,800</u></b>	<b><u>31,697,638</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....</b>	<b><u>\$ 56,434,476</u></b>	<b><u>\$ 39,908,827</u></b>	<b><u>\$ 96,343,303</u></b>

See notes to basic financial statements.

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

JUNE 30, 2018

Total governmental fund balances.....	\$	31,697,638
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		292,383,493
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		27,832,623
The statement of net position includes certain deferred inflows of resources and deferred outflows of resources that will be amortized over future periods. In governmental funds, these amounts are not deferred.....		(311,919)
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.....		2,358,825
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(958,689)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds payable.....	(71,793,911)	
Net pension liability.....	(223,595,599)	
Net other postemployment benefits liability.....	(590,344,362)	
Workers' compensation.....	(3,075,500)	
Compensated absences.....	<u>(11,946,680)</u>	
Net effect of reporting long-term liabilities.....		<u>(900,756,052)</u>
Net position of governmental activities.....	\$	<u><u>(547,754,081)</u></u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2018

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>			
Real estate and personal property taxes, net of tax refunds.....	\$ 127,434,916	\$ -	\$ 127,434,916
Tax liens.....	754,170	-	754,170
Motor vehicle and other excise taxes.....	9,920,727	-	9,920,727
Hotel/motel tax.....	331,215	-	331,215
Meals tax.....	1,238,909	-	1,238,909
Charges for services.....	3,135,830	-	3,135,830
Penalties and interest on taxes.....	1,348,397	-	1,348,397
Payments in lieu of taxes.....	433,476	-	433,476
Fines and forfeitures.....	-	76,718	76,718
Intergovernmental - state aid.....	173,461,315	-	173,461,315
Intergovernmental - School Building Authority.....	1,192,791	-	1,192,791
Intergovernmental - Teachers Retirement.....	36,030,056	-	36,030,056
Intergovernmental - other.....	166,330	50,259,259	50,425,589
Departmental and other.....	8,489,107	4,248,289	12,737,396
Contributions and donations.....	-	3,484,642	3,484,642
Investment income.....	406,100	59,066	465,166
<b>TOTAL REVENUES.....</b>	<b>364,343,339</b>	<b>58,127,974</b>	<b>422,471,313</b>
<b>EXPENDITURES:</b>			
<b>Current:</b>			
General government.....	16,727,497	1,602,559	18,330,056
Public safety.....	46,883,810	5,113,501	51,997,311
Education.....	155,796,694	37,288,212	193,084,906
Public works.....	14,363,568	10,988,933	25,352,501
Human services.....	3,483,799	8,806,381	12,290,180
Culture and recreation.....	4,203,854	2,122,072	6,325,926
Pension benefits.....	24,344,417	-	24,344,417
Pension benefits - Teachers Retirement.....	36,030,056	-	36,030,056
Employee benefits.....	43,366,999	-	43,366,999
State and county charges.....	24,350,905	-	24,350,905
<b>Debt service:</b>			
Principal.....	5,883,500	170,000	6,053,500
Interest.....	2,660,768	27,838	2,688,606
<b>TOTAL EXPENDITURES.....</b>	<b>378,095,867</b>	<b>66,119,496</b>	<b>444,215,363</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(13,752,528)</b>	<b>(7,991,522)</b>	<b>(21,744,050)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Issuance of bonds.....	-	10,251,448	10,251,448
Premium from issuance of bonds.....	-	1,332,225	1,332,225
Proceeds from the sale of assets.....	-	584,665	584,665
Transfers in.....	10,982,216	2,606,894	13,589,110
Transfers out.....	(1,587,609)	(3,168,659)	(4,756,268)
<b>TOTAL OTHER FINANCING SOURCES (USES)....</b>	<b>9,394,607</b>	<b>11,606,573</b>	<b>21,001,180</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(4,357,921)</b>	<b>3,615,051</b>	<b>(742,870)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>23,711,759</b>	<b>8,728,749</b>	<b>32,440,508</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 19,353,838</b>	<b>\$ 12,343,800</b>	<b>\$ 31,697,638</b>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2018

Net change in fund balances - total governmental funds.....		\$ (742,870)
<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.....	17,115,176	
Depreciation expense.....	<u>(13,771,919)</u>	
Net effect of reporting capital assets.....		3,343,257
<p>Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. This amount represents the net change in unavailable revenue.....</p>		
		1,044,290
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are unavailable and amortized in the Statement of Activities.</p>		
Issuance of bonds.....	(10,251,448)	
Premium from issuance of bonds.....	(1,332,225)	
Net amortization of premium from issuance of bonds.....	811,739	
Net change in deferred charge on refunding.....	(37,228)	
Debt service principal payments.....	<u>6,053,500</u>	
Net effect of reporting long-term debt.....		(4,755,662)
<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.....	59,216	
Net change in accrued interest on long-term debt.....	(53,703)	
Net change in deferred outflow/(inflow) of resources related to pensions.....	(37,302,156)	
Net change in net pension liability.....	30,569,378	
Net change in net other postemployment benefits liability.....	(11,766,375)	
Net change in workers' compensation liability.....	<u>(87,200)</u>	
Net effect of recording long-term liabilities.....		(18,580,840)
The net activity of internal service funds is reported with Governmental Activities.....		<u>401,706</u>
Change in net position of governmental activities.....		<u>\$ (19,290,119)</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF NET POSITION

JUNE 30, 2018

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Parking	Total	
<b>ASSETS</b>					
<b>CURRENT:</b>					
Cash and cash equivalents.....	\$ 11,152,416	\$ 10,634,021	\$ 6,170,801	\$ 27,957,238	\$ 2,358,825
Receivables, net of allowance for uncollectibles:					
Liens - user fees.....	46,446	90,750	-	137,196	-
User fees.....	3,482,506	5,882,591	-	9,365,097	-
Departmental and other.....	-	-	995,345	995,345	-
Total current assets.....	<u>14,681,368</u>	<u>16,607,362</u>	<u>7,166,146</u>	<u>38,454,876</u>	<u>2,358,825</u>
<b>NONCURRENT:</b>					
Capital assets, non depreciable.....	1,181,927	7,677,339	5,812,621	14,671,887	-
Capital assets, net of accumulated depreciation.....	<u>47,366,432</u>	<u>131,792,626</u>	<u>34,386,976</u>	<u>213,546,034</u>	<u>-</u>
Total noncurrent assets.....	<u>48,548,359</u>	<u>139,469,965</u>	<u>40,199,597</u>	<u>228,217,921</u>	<u>-</u>
<b>TOTAL ASSETS.....</b>	<u><b>63,229,727</b></u>	<u><b>156,077,327</b></u>	<u><b>47,365,743</b></u>	<u><b>266,672,797</b></u>	<u><b>2,358,825</b></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred outflows related to pensions.....	<u>460,151</u>	<u>763,814</u>	<u>76,381</u>	<u>1,300,346</u>	<u>-</u>
<b>LIABILITIES</b>					
<b>CURRENT:</b>					
Warrants payable.....	241,926	1,635,209	194,562	2,071,697	-
Accrued payroll.....	40,808	63,399	8,100	112,307	-
Accrued interest.....	400,607	1,030,037	300,796	1,731,440	-
Compensated absences.....	128,119	297,219	10,979	436,317	-
Notes payable.....	11,201,913	12,014,406	509,810	23,726,129	-
Bonds payable.....	<u>3,112,195</u>	<u>4,759,207</u>	<u>2,349,615</u>	<u>10,221,017</u>	<u>-</u>
Total current liabilities.....	<u>15,125,568</u>	<u>19,799,477</u>	<u>3,373,862</u>	<u>38,298,907</u>	<u>-</u>
<b>NONCURRENT:</b>					
Compensated absences.....	36,682	62,115	3,872	102,669	-
Net pension liability.....	5,937,230	9,855,321	985,532	16,778,083	-
Net other postemployment benefits liability.....	5,976,201	10,914,433	2,812,309	19,702,943	-
Bonds payable.....	<u>31,448,867</u>	<u>83,600,439</u>	<u>25,155,129</u>	<u>140,204,435</u>	<u>-</u>
Total noncurrent liabilities.....	<u>43,398,980</u>	<u>104,432,308</u>	<u>28,956,842</u>	<u>176,788,130</u>	<u>-</u>
<b>TOTAL LIABILITIES.....</b>	<u><b>58,524,548</b></u>	<u><b>124,231,785</b></u>	<u><b>32,330,704</b></u>	<u><b>215,087,037</b></u>	<u><b>-</b></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows related to pensions.....	<u>469,237</u>	<u>778,895</u>	<u>77,890</u>	<u>1,326,022</u>	<u>-</u>
<b>NET POSITION</b>					
Net investment in capital assets.....	3,209,532	44,665,095	12,959,258	60,833,885	-
Unrestricted.....	<u>1,486,561</u>	<u>(12,834,634)</u>	<u>2,074,272</u>	<u>(9,273,801)</u>	<u>2,358,825</u>
<b>TOTAL NET POSITION.....</b>	<u><b>\$ 4,696,093</b></u>	<u><b>\$ 31,830,461</b></u>	<u><b>\$ 15,033,530</b></u>	<u><b>\$ 51,560,084</b></u>	<u><b>\$ 2,358,825</b></u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2018

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Parking	Total	
<b>OPERATING REVENUES:</b>					
Employer contributions.....	\$ -	\$ -	\$ -	\$ -	\$ 400,000
Charges for services.....	10,937,844	22,372,396	7,239,528	40,549,768	-
Other operating revenues.....	4,610	267,641	-	272,251	1,706
<b>TOTAL OPERATING REVENUES .....</b>	<b>10,942,454</b>	<b>22,640,037</b>	<b>7,239,528</b>	<b>40,822,019</b>	<b>401,706</b>
<b>OPERATING EXPENSES:</b>					
Cost of services and administration.....	4,983,714	9,646,539	2,042,169	16,672,422	-
Depreciation.....	2,747,388	4,474,124	1,632,897	8,854,409	-
<b>TOTAL OPERATING EXPENSES.....</b>	<b>7,731,102</b>	<b>14,120,663</b>	<b>3,675,066</b>	<b>25,526,831</b>	<b>-</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>3,211,352</b>	<b>8,519,374</b>	<b>3,564,462</b>	<b>15,295,188</b>	<b>401,706</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>					
Investment income.....	-	-	3,768	3,768	-
Interest expense.....	(1,332,783)	(2,472,801)	(978,363)	(4,783,947)	-
Intergovernmental - subsidy.....	326,405	192,586	-	518,991	-
Intergovernmental.....	197,712	-	166,094	363,806	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>(808,666)</b>	<b>(2,280,215)</b>	<b>(808,501)</b>	<b>(3,897,382)</b>	<b>-</b>
<b>INCOME (LOSS) BEFORE TRANSFERS.....</b>	<b>2,402,686</b>	<b>6,239,159</b>	<b>2,755,961</b>	<b>11,397,806</b>	<b>401,706</b>
<b>TRANSFERS:</b>					
Transfers out.....	(2,672,026)	(4,919,831)	(1,240,985)	(8,832,842)	-
<b>CHANGE IN NET POSITION.....</b>	<b>(269,340)</b>	<b>1,319,328</b>	<b>1,514,976</b>	<b>2,564,964</b>	<b>401,706</b>
<b>NET POSITION AT BEGINNING OF YEAR, AS REVISED.....</b>	<b>4,965,433</b>	<b>30,511,133</b>	<b>13,518,554</b>	<b>48,995,120</b>	<b>1,957,119</b>
<b>NET POSITION AT END OF YEAR.....</b>	<b>\$ 4,696,093</b>	<b>\$ 31,830,461</b>	<b>\$ 15,033,530</b>	<b>\$ 51,560,084</b>	<b>\$ 2,358,825</b>

See notes to basic financial statements.

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS**

YEAR ENDED JUNE 30, 2018

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Parking	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Receipts from customers and users.....	\$ 11,012,378	\$ 22,485,362	\$ 7,257,478	\$ 40,755,218	\$ -
Receipts from interfund services provided.....	-	-	-	-	401,706
Payments to vendors.....	(2,947,839)	(5,570,731)	(1,677,161)	(10,195,731)	-
Payments to employees.....	(1,932,177)	(3,170,142)	(320,136)	(5,422,455)	-
Payments for interfund services used.....	-	-	-	-	(9,232)
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>6,132,362</b>	<b>13,744,489</b>	<b>5,260,181</b>	<b>25,137,032</b>	<b>392,474</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Transfers out.....	(2,672,026)	(4,919,831)	(1,240,985)	(8,832,842)	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Proceeds from the issuance of bonds and notes.....	5,648,099	19,272,674	1,926,110	26,846,883	-
Premium from the issuance of bonds.....	-	566,300	83,700	650,000	-
Acquisition and construction of capital assets.....	(3,441,071)	(9,803,483)	(2,828,975)	(16,073,529)	-
Principal payments on bonds and notes.....	(6,682,313)	(8,777,154)	(1,825,000)	(17,284,467)	-
Intergovernmental revenue.....	-	-	166,094	166,094	-
Interest expense.....	(1,086,205)	(2,221,724)	(1,111,631)	(4,419,560)	-
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(5,561,490)</b>	<b>(963,387)</b>	<b>(3,589,702)</b>	<b>(10,114,579)</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Investment income.....	-	-	3,768	3,768	-
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>(2,101,154)</b>	<b>7,861,271</b>	<b>433,262</b>	<b>6,193,379</b>	<b>392,474</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....</b>	<b>13,253,570</b>	<b>2,772,750</b>	<b>5,737,539</b>	<b>21,763,859</b>	<b>1,966,351</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>	<b>\$ 11,152,416</b>	<b>\$ 10,634,021</b>	<b>\$ 6,170,801</b>	<b>\$ 27,957,238</b>	<b>\$ 2,358,825</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</b>					
Operating income (loss).....	\$ 3,211,352	\$ 8,519,374	\$ 3,564,462	\$ 15,295,188	\$ 401,706
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation.....	2,747,388	4,474,124	1,632,897	8,854,409	-
Deferred (outflows)/inflows related to pensions.....	990,500	1,644,150	164,416	2,799,066	-
Liens - user charges.....	71,409	64,974	-	136,383	-
User charges.....	(1,485)	(219,649)	-	(221,134)	-
Departmental and other.....	-	-	17,950	17,950	-
Warrants payable.....	(246,540)	288,993	(48,374)	(5,921)	(9,232)
Accrued payroll.....	40,808	63,399	8,100	112,307	-
Compensated absences.....	11,538	38,976	(584)	49,930	-
Net pension liability.....	(811,722)	(1,347,392)	(134,739)	(2,293,853)	-
Net other postemployment benefits liability.....	119,114	217,540	56,053	392,707	-
<b>Total adjustments.....</b>	<b>2,921,010</b>	<b>5,225,115</b>	<b>1,695,719</b>	<b>9,841,844</b>	<b>(9,232)</b>
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>\$ 6,132,362</b>	<b>\$ 13,744,489</b>	<b>\$ 5,260,181</b>	<b>\$ 25,137,032</b>	<b>\$ 392,474</b>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>					
MCWT principle forgiveness.....	\$ 197,712	\$ -	\$ -	\$ -	\$ -
Intergovernmental subsidy of debt service.....	326,405	192,586	-	-	-
<b>Total non-cash activity.....</b>	<b>\$ 524,117</b>	<b>\$ 192,586</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2018

	Pension and Other Employee Benefit Trust Funds (1)	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>			
Cash and cash equivalents.....	\$ 10,065,674	\$ 53,031	\$ 669,129
Investments:			
Investments in Pension Reserve Investment Trust.....	369,054,657	-	-
Equity securities.....	488,912	-	-
Equity mutual funds.....	3,906,365	119,024	-
Bond mutual funds.....	3,235,968	-	-
Alternative investments.....	1,545,404	-	-
Other investments.....	594	-	-
Receivables, net of allowance for uncollectibles:			
Interest and dividends.....	9,523	-	-
<b>TOTAL ASSETS.....</b>	<b>388,307,097</b>	<b>172,055</b>	<b>669,129</b>
<b>LIABILITIES</b>			
Warrants payable.....	-	-	30,415
Accrued payroll.....	-	-	128,794
Liabilities due depositors.....	-	-	509,920
<b>TOTAL LIABILITIES.....</b>	<b>-</b>	<b>-</b>	<b>669,129</b>
<b>NET POSITION</b>			
Restricted for pensions.....	379,590,375	-	-
Restricted for other postemployment benefits.....	8,716,722	-	-
Held in trust for other purposes.....	-	172,055	-
<b>TOTAL NET POSITION.....</b>	<b>\$ 388,307,097</b>	<b>\$ 172,055</b>	<b>\$ -</b>

(1) The Pension Trust Fund is as of December 31, 2017.

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2018

	Pension and Other Employee Benefit Trust Funds (1)	Private Purpose Trust Funds
<b>ADDITIONS:</b>		
Contributions:		
Employer contributions.....	\$ 26,141,731	\$ -
Employer contributions for other postemployment benefit payments.....	18,831,118	-
Member contributions.....	8,962,891	-
Transfers from other systems.....	394,729	-
3(8)c contributions from other systems.....	663,925	-
Workers compensation settlements.....	9,700	-
State COLA reimbursements.....	182,878	-
	<u>55,186,972</u>	<u>-</u>
Net investment income:		
Investment income.....	56,512,858	4,041
Less: investment expense.....	<u>(1,827,972)</u>	<u>-</u>
Net investment income.....	<u>54,684,886</u>	<u>4,041</u>
	<u>109,871,858</u>	<u>4,041</u>
<b>DEDUCTIONS:</b>		
Administration.....	381,369	-
Transfers to other systems.....	905,967	-
3(8)c transfer to other systems.....	1,560,857	-
Retirement benefits and refunds.....	37,631,300	-
Other postemployment benefit payments.....	18,831,118	-
	<u>59,310,611</u>	<u>-</u>
NET INCREASE IN NET POSITION.....	50,561,247	4,041
NET POSITION AT BEGINNING OF YEAR.....	<u>337,745,850</u>	<u>168,014</u>
NET POSITION AT END OF YEAR.....	<u>\$ 388,307,097</u>	<u>\$ 172,055</u>

(1) The Pension Trust Fund is as of December 31, 2017.

See notes to basic financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

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

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

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

**Availability of Financial Information for Component Units**

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

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

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

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

*Fund Financial Statements*

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

*Major Fund Criteria*

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

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

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

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

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

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

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

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

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

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

*Fund Financial Statements*

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

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

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

The following major governmental fund is reported:

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

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

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

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

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

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

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

The following major proprietary funds are reported:

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

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

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

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to employees' health insurance. As of July 1, 2012, the City entered the Group Insurance Commission and its health insurance activities are now premium based. The City is working to utilize the remaining balance in this fund for health insurance related appropriations.

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

The following fiduciary fund types are reported:

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

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

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

#### D. Cash and Investments

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

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

#### E. Fair Value Measurements

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

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

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

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

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

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

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

#### F. Accounts Receivable

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

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

##### ***Real Estate, Personal Property Taxes and Tax Liens***

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

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

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

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

##### ***Motor Vehicle Excise***

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

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

**Water & Sewer**

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

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

**Trash**

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

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

**Departmental and Other**

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

**Intergovernmental**

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

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

**Loans**

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

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

**G. Inventories***Government-Wide and Fund Financial Statements*

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

H. Capital Assets

*Government-Wide and Proprietary Fund Financial Statements*

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

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

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

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

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

*Governmental Fund Financial Statements*

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

I. Deferred Outflows/Inflows of Resources

*Government-Wide Financial Statements (Net Position)*

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition

of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City reported deferred inflows of resources related to pensions in this category.

#### *Governmental Fund Financial Statements*

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

#### J. Interfund Receivables and Payables

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

#### *Government-Wide Financial Statements*

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

#### *Fund Financial Statements*

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

#### K. Interfund Transfers

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

#### *Fund Financial Statements*

Unavailable revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the

modified accrual basis of accounting. Unavailable revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

#### M. Net Position and Fund Equity

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

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

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

Net position has been “restricted for” the following:

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

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

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

“Loans” represents community development outstanding loans receivable balances.

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

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

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

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 year’s appropriation.

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

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

#### N. Long-term debt

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

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

##### *Governmental Fund Financial Statements*

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

#### O. Investment Income

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

P. Compensated Absences

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

*Government-Wide and Proprietary Fund Financial Statements*

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

*Governmental Fund Financial Statements*

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

Q. Pensions

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

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

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

S. Individual Fund Deficits

At June 30, 2018, there are several individual fund deficits within the special revenue and capital projects funds. These deficits will be funded through tax levy, available funds, grant and bond proceeds in future fiscal years.

T. Total Column*Government-Wide Financial Statements*

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

*Fund Financial Statements*

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

**NOTE 2 - CASH AND INVESTMENTS**

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

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy states that financial institutions shall be selected first and foremost with regard to safety as recognized by a top rating with the Veribanc or similar rating service. At year-end, the carrying amount of the City's deposits totaled \$92,270,166 and the bank balance totaled \$97,502,006. Of the bank balance, \$1,750,000 was covered by Federal Depository Insurance, \$17,659,763 was covered by the Depositors Insurance Fund, \$28,562,322 was collateralized, and \$49,529,921 was uninsured and uncollateralized.

At December 31, 2017, carrying amount of deposits for the System totaled \$10,036,689 and the bank balance totaled \$10,105,830. 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, 2018, the City had the following investments:

<u>Investment Type</u>	<u>Fair value</u>	<u>Maturities</u>		
		<u>Under 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>
<u>Debt securities:</u>				
U.S. treasury bonds.....	\$ 327,708	\$ 221,615	\$ 106,093	\$ -
Government sponsored enterprises.....	487,705	-	487,705	-
Corporate bonds.....	545,797	-	545,797	-
Municipal bonds.....	10,250	5,172	5,078	-
Bond mutual funds.....	3,235,968	398,030	1,227,160	1,610,778
Total debt securities.....	4,607,428	\$ 624,817	\$ 2,371,833	\$ 1,610,778
<u>Other investments:</u>				
Equity securities.....	444,860			
International equity mutual funds.....	1,510,930			
Domestic equity mutual funds.....	2,395,435			
Pooled alternative investments.....	1,545,404			
Money market mutual funds.....	86,006			
Total investments.....	\$ 10,590,063			

As of December 31, 2017, the System had the following investments:

<u>Investment Type</u>	<u>Fair value</u>
<u>Other investments:</u>	
Equity securities.....	\$ 488,912
Real estate investment trust.....	594
Pension Reserve Investment Trust (PRIT).....	<u>369,054,657</u>
 Total investments.....	 <u>\$ 369,544,163</u>

Custodial Credit Risk – Investments

For the City’s investments, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the investments, \$487,705 in government sponsored enterprises, \$327,708 in U.S. Treasury bonds, \$545,797 in corporate bonds, \$10,250 in municipal bonds, and \$444,860 in equity securities, the City has a custodial credit risk exposure of \$1,816,320, because the related securities are uninsured, unregistered and held by the counterparty. The City’s investment policy states that with the exception of U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or Agencies, and State Investment Pools, no more than 50% of the City’s investments shall be invested in a single institution.

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

Interest Rate Risk

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

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

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from 0.15 to 16.31 years.

Credit Risk

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

At June 30, 2018, the City's investments were rated as follows:

Quality Rating	U.S. Treasury Bonds	Government Sponsored Enterprises	Corporate Bonds	Municipal Bonds	Bond Mutual Funds
AA+.....	\$ 327,708	\$ 487,705	\$ -	\$ -	\$ -
A.....	-	-	-	-	994,785
AA.....	-	-	-	5,078	-
A-.....	-	-	-	5,172	-
Baa1.....	-	-	447,389	-	-
BBB.....	-	-	98,408	-	500,778
BB.....	-	-	-	-	876,915
B.....	-	-	-	-	346,433
Not Rated.....	-	-	-	-	517,057
Total.....	\$ <u>327,708</u>	\$ <u>487,705</u>	\$ <u>545,797</u>	\$ <u>10,250</u>	\$ <u>3,235,968</u>

The System has not adopted a formal policy related to credit risk. At December 31, 2017, the System did not have any rated investments.

#### Concentration of Credit Risk

The City's investment policy states that with the exception of U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or Agencies, and State Investment Pools, no more than 5% of the City's investments shall be invested in a single institution. At June 30, 2018, 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, 2017, the System's investment in any one issuer did not exceed 5% of the total amount invested.

#### Fair Market Value of Investments

The City holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the City's mission, the City determines that the disclosures related to these investments only need to be disaggregated by major type. The City chooses a tabular format for disclosing the levels within the fair value hierarchy.

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

The City has the following recurring fair value measurements as of June 30, 2018:

Investment Type	June 30, 2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments measured at fair value:</b>				
<u>Debt securities:</u>				
U.S. treasury bonds.....	\$ 327,708	\$ 327,708	\$ -	\$ -
Government sponsored enterprises.....	487,705	487,705	-	-
Corporate bonds.....	545,797	-	545,797	-
Municipal bonds.....	10,250	-	10,250	-
Bond mutual funds.....	3,235,968	3,235,968	-	-
Total debt securities.....	4,607,428	4,051,381	556,047	-
<u>Other investments:</u>				
Equity securities.....	444,860	444,860	-	-
International equity mutual funds.....	1,510,930	1,510,930	-	-
Domestic equity mutual funds.....	2,395,435	2,395,435	-	-
Pooled alternative investments.....	1,545,404	-	-	1,545,404
Money market mutual funds.....	86,006	86,006	-	-
Total other investments.....	5,982,635	4,437,231	-	1,545,404
Total investments measured at fair value.....	\$ 10,590,063	\$ 8,488,612	\$ 556,047	\$ 1,545,404

U.S. treasury bonds, government sponsored enterprises, bond mutual funds, equity securities, money market mutual funds, and international and domestic equity mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Corporate bonds and municipal bonds classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Pooled alternative investments classified in level 3 are valued using either a discounted cash flow or market comparable companies technique.

**Retirement System**

The Retirement System holds significant amounts of investments that are measured at fair value on a recurring basis. Because investing is a key part of the plan's activities, the plan shows greater disaggregation in its disclosures. The plan chooses a tabular format for disclosing the levels within the fair value hierarchy.

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The System has the following recurring fair value measurements as of December 31, 2017:

Investment Type	December 31, 2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments measured at fair value:</b>				
<u>Other investments:</u>				
Equity securities.....	\$ 488,912	\$ 488,912	\$ -	\$ -
Real estate investment trust.....	594	-	-	594
Total investments measured at fair value.....	\$ 489,506	\$ 488,912	\$ -	\$ 594
<b>Investments measured at net asset value:</b>				
Pension Reserve Investment Trust (PRIT).....	369,054,657			
Total investments.....	\$ 369,544,163			

Equity securities classified in level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Real estate investments classified in level 3 are valued using either a discounted cash flow or market comparable companies technique.

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

**NOTE 3 - RECEIVABLES**

At June 30, 2018, receivables for the individual major governmental funds and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, were as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 3,044,603	\$ (815,000)	\$ 2,229,603
Tax liens.....	2,779,186	(714,000)	2,065,186
Motor vehicle and other excise taxes.....	2,274,642	(1,238,000)	1,036,642
Trash user fees.....	658,921	-	658,921
Departmental and other.....	288,691	-	288,691
Intergovernmental.....	21,185,134	-	21,185,134
Loans.....	1,307,049	-	1,307,049
Total.....	\$ 31,538,226	\$ (2,767,000)	\$ 28,771,226

At December 31, 2017 the fiduciary funds had \$9,523 of interest and dividends receivable.

At June 30, 2018, receivables for the enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water liens - user fees.....	\$ 46,446	\$ -	\$ 46,446
Water user fees.....	3,482,506	-	3,482,506
Sewer liens - user fees.....	90,750	-	90,750
Sewer user fees.....	5,882,591	-	5,882,591
Parking departmental and other.....	995,345	-	995,345
Total.....	\$ 10,497,638	\$ -	\$ 10,497,638

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

	General Fund	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 1,596,757	\$ -	\$ 1,596,757
Tax liens.....	2,065,186	-	2,065,186
Motor vehicle and other excise taxes.....	1,036,642	-	1,036,642
User charges.....	658,921	-	658,921
Departmental and other.....	288,391	300	288,691
Intergovernmental - highway improvements.....	-	3,748,803	3,748,803
Intergovernmental - School Building Authority.....	5,842,295	-	5,842,295
Intergovernmental - other.....	-	8,103,962	8,103,962
Loans.....	-	117,049	117,049
<u>Other asset type:</u>			
Tax foreclosures.....	4,374,317	-	4,374,317
Total.....	\$ 15,862,509	\$ 11,970,114	\$ 27,832,623

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 30,833,623	\$ 568,770	\$ -	\$ 31,402,393
Construction in progress.....	<u>2,014,658</u>	<u>1,184,964</u>	<u>(95,935)</u>	<u>3,103,687</u>
Total capital assets not being depreciated.....	<u>32,848,281</u>	<u>1,753,734</u>	<u>(95,935)</u>	<u>34,506,080</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	352,116,176	860,373	-	352,976,549
Capital improvements (other than buildings).....	29,299,664	1,524,707	-	30,824,371
Infrastructure.....	187,048,839	7,875,889	-	194,924,728
Vehicles.....	19,095,912	1,758,194	(1,084,390)	19,769,716
Equipment.....	8,449,672	3,151,724	(55,423)	11,545,973
Books.....	7,524,209	286,490	-	7,810,699
Software.....	<u>495,990</u>	<u>-</u>	<u>-</u>	<u>495,990</u>
Total capital assets being depreciated.....	<u>604,030,462</u>	<u>15,457,377</u>	<u>(1,139,813)</u>	<u>618,348,026</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(219,208,643)	(7,373,126)	-	(226,581,769)
Capital improvements (other than buildings).....	(14,235,489)	(1,106,447)	-	(15,341,936)
Infrastructure.....	(87,767,442)	(2,746,183)	-	(90,513,625)
Vehicles.....	(14,275,575)	(1,607,479)	1,084,390	(14,798,664)
Equipment.....	(5,293,841)	(612,522)	55,423	(5,850,940)
Books.....	(6,561,527)	(326,162)	-	(6,887,689)
Software.....	<u>(495,990)</u>	<u>-</u>	<u>-</u>	<u>(495,990)</u>
Total accumulated depreciation.....	<u>(347,838,507)</u>	<u>(13,771,919)</u>	<u>1,139,813</u>	<u>(360,470,613)</u>
Total capital assets being depreciated, net.....	<u>256,191,955</u>	<u>1,685,458</u>	<u>-</u>	<u>257,877,413</u>
Total governmental activities capital assets, net.....	<u>\$ 289,040,236</u>	<u>\$ 3,439,192</u>	<u>\$ (95,935)</u>	<u>\$ 292,383,493</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,844,420	\$ -	\$ -	\$ 2,844,420
Construction in progress.....	7,262,564	5,886,607	(1,321,704)	11,827,467
Total capital assets not being depreciated.....	<u>10,106,984</u>	<u>5,886,607</u>	<u>(1,321,704)</u>	<u>14,671,887</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	3,111,313	-	-	3,111,313
Capital improvements (other than buildings).....	27,536,840	2,449,284	-	29,986,124
Infrastructure.....	329,284,954	7,776,269	-	337,061,223
Equipment.....	3,113,962	-	(764,144)	2,349,818
Vehicles.....	3,229,485	247,825	(49,747)	3,427,563
Total capital assets being depreciated.....	<u>366,276,554</u>	<u>10,473,378</u>	<u>(813,891)</u>	<u>375,936,041</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(126,056)	(77,105)	-	(203,161)
Capital improvements (other than buildings).....	(9,285,063)	(1,324,685)	-	(10,609,748)
Infrastructure.....	(141,402,347)	(6,870,228)	-	(148,272,575)
Equipment.....	(2,173,232)	(342,755)	764,144	(1,751,843)
Vehicles.....	(1,362,791)	(239,636)	49,747	(1,552,680)
Total accumulated depreciation.....	<u>(154,349,489)</u>	<u>(8,854,409)</u>	<u>813,891</u>	<u>(162,390,007)</u>
Total capital assets being depreciated, net.....	<u>211,927,065</u>	<u>1,618,969</u>	<u>-</u>	<u>213,546,034</u>
Total business-type activities capital assets, net.....	<u>\$ 222,034,049</u>	<u>\$ 7,505,576</u>	<u>\$ (1,321,704)</u>	<u>\$ 228,217,921</u>

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

<b>Governmental Activities:</b>	
General government.....	\$ 701,813
Public safety.....	1,795,662
Education.....	6,784,104
Public works.....	2,508,810
Human services.....	266,612
Culture and recreation.....	<u>1,714,918</u>
Total depreciation expense - governmental activities.....	<u>\$ 13,771,919</u>
<b>Business-Type Activities:</b>	
Water.....	\$ 2,747,388
Sewer.....	4,474,124
Parking.....	<u>1,632,897</u>
Total depreciation expense - business-type activities.....	<u>\$ 8,854,409</u>

**NOTE 5 - INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2018, are summarized as follows:

Transfers Out:	Transfers In:		
	General fund	Nonmajor governmental funds	Total
General fund.....	\$ -	\$ 1,587,609	\$ 1,587,609 (1)
Nonmajor governmental funds.....	2,149,374	1,019,285	3,168,659 (2)
Water enterprise fund.....	2,672,026	-	2,672,026 (3)
Sewer enterprise fund.....	4,919,831	-	4,919,831 (3)
Parking enterprise fund.....	1,240,985	-	1,240,985 (3)
Total.....	\$ <u>10,982,216</u>	\$ <u>2,606,894</u>	\$ <u>13,589,110</u>

- (1) Transfers into nonmajor governmental funds from the general fund represent amounts voted for capital and special revenue funds.
- (2) Transfers into the general fund represent amounts voted to fund 2018 operations from nonmajor funds. Transfers between nonmajor funds represent a reallocation of resources.
- (3) Transfers into the general fund from the enterprise funds represent indirect costs as voted to fund operations.

**NOTE 6 - SHORT-TERM FINANCING**

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

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

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

Details related to the short-term debt activity for the year ended June 30, 2018, is as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2017	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2018
<b>Governmental Funds:</b>							
SAAN	Municipal Purpose.....	1.75%	08/11/17	\$ 723,000	\$ -	\$ (723,000)	\$ -
BAN	Municipal Purpose.....	2.00%	03/23/18	7,604,691	-	(7,604,691)	-
SAAN	State Aid Anticipation.....	2.20%	8/10/18	-	214,000	-	214,000
SAAN	State Aid Anticipation.....	4.00%	8/10/18	-	221,559	-	221,559
BAN	Municipal Purpose.....	4.00%	6/21/19	-	9,524,985	-	9,524,985
Total Governmental Funds.....				<u>\$ 8,327,691</u>	<u>\$ 9,960,544</u>	<u>\$ (8,327,691)</u>	<u>\$ 9,960,544</u>
<b>Water Enterprise Fund:</b>							
BAN	MCWT Interim Note.....	2.00%	3/15/18	\$ 3,534,257	\$ -	\$ (3,534,257)	\$ -
BAN	MCWT Interim Note.....	2.00%	4/13/19	5,758,578	1,659,594	(391,706)	7,026,466
BAN	MCWT Interim Note.....	2.00%	4/13/19	3,477,374	-	(141,588)	3,335,786
BAN	Municipal Purpose.....	4.00%	6/21/19	-	839,661	-	839,661
Total Water Enterprise Fund.....				<u>12,770,209</u>	<u>2,499,255</u>	<u>(4,067,551)</u>	<u>11,201,913</u>
<b>Sewer Enterprise Fund:</b>							
BAN	Municipal Purpose.....	2.00%	3/23/18	4,600,000	-	(4,600,000)	-
BAN	MCWT Interim Note.....	2.00%	5/1/19	1,308,984	4,005,422	-	5,314,406
BAN	Municipal Purpose.....	4.00%	6/21/19	-	6,700,000	-	6,700,000
Total Sewer Enterprise Fund.....				<u>5,908,984</u>	<u>10,705,422</u>	<u>(4,600,000)</u>	<u>12,014,406</u>
<b>Parking Enterprise Fund:</b>							
BAN	Municipal Purpose.....	4.00%	6/21/19	-	509,810	-	509,810
Total Enterprise Fund.....				<u>\$ 18,679,193</u>	<u>\$ 13,714,487</u>	<u>\$ (8,667,551)</u>	<u>\$ 23,726,129</u>

On August 10, 2018, the City redeemed the \$214,000 and \$221,559 SAANs.

**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 March 22, 2018, the City issued \$20,235,000 of State qualified general obligation bonds of which \$10.2 million was recognized in the governmental funds and \$10 million was recognized in the enterprise funds.

Details related to the outstanding indebtedness as of June 30, 2018, and the debt service requirements are as follows.

**Bonds Payable Schedule – Governmental Funds**

Project	Maturities Through	Interest Rate (%)	Outstanding at June 30, 2018
Schools.....	2038	2.00-6.00	\$ 15,550,323
General.....	2038	2.00-6.00	49,982,563
Cawley Stadium.....	2028	2.00-5.00	44,069
Section 180.....	2025	variable	1,190,000
Lowell Memorial Auditorium.....	2036	2.00-5.75	<u>1,841,493</u>
Total Bonds Payable.....			68,608,448
Add: Unamortized premium on bonds.....			<u>3,185,463</u>
Total Bonds Payable, net.....			<u>\$ 71,793,911</u>

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

Year	Principal	Interest	Total
2019.....	\$ 6,227,000	\$ 2,893,826	\$ 9,120,826
2020.....	7,377,448	2,585,833	9,963,281
2021.....	7,151,000	2,225,526	9,376,526
2022.....	7,016,000	1,918,151	8,934,151
2023.....	5,410,000	1,630,741	7,040,741
2024.....	4,387,000	1,408,714	5,795,714
2025.....	4,367,000	1,214,102	5,581,102
2026.....	3,827,000	1,028,917	4,855,917
2027.....	3,796,000	849,507	4,645,507
2028.....	3,625,000	674,114	4,299,114
2029.....	3,520,000	516,192	4,036,192
2030.....	3,365,000	376,064	3,741,064
2031.....	2,280,000	248,179	2,528,179
2032.....	1,845,000	182,788	2,027,788
2033.....	1,250,000	131,104	1,381,104
2034.....	1,015,000	91,531	1,106,531
2035.....	910,000	59,373	969,373
2036.....	800,000	31,427	831,427
2037.....	220,000	14,850	234,850
2038.....	<u>220,000</u>	<u>14,597</u>	<u>234,597</u>
Total.....	<u>\$ 68,608,448</u>	<u>\$ 18,095,536</u>	<u>\$ 86,703,984</u>

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority (MSBA), provides resources for future debt service of general obligation school bonds outstanding. During 2018, \$1,593,000 of such assistance was received. Approximately \$5,964,000 will be received in future years. Of this amount, approximately \$122,000 represents reimbursement of long-term interest costs, and approximately \$5,842,000 represents reimbursement of approved construction costs. Accordingly, a \$5,842,000 intergovernmental receivable and corresponding unavailable

revenue have been reported in governmental fund financial statements. The unavailable revenue has been recognized as revenue in the conversion to the government-wide financial statements.

Beginning in 2005, the Commonwealth changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the City. Through the end of 2018, the City has recorded capital grant proceeds totaling \$374,000 related to the Lowell High School feasibility study, from the MSBA, which is equal to 78.95% of approved construction costs submitted for reimbursement. The City anticipates receiving an additional \$197,000 related to the Lowell High School feasibility project. Accordingly, a \$197,000 intergovernmental receivable and corresponding deferred inflow of resources - unavailable revenue has been reported in the governmental fund financial statements. The unavailable revenue has been recognized as revenue in the conversion to the government-wide financial statements.

At June 30, 2018, the City carried \$1,190,000 of debt, issued in prior years, under the United States Department of Housing and Urban Development’s (HUD) Section 108 Loan Guarantee Program. The purpose of the program is to enable local governments to provide financing to urban renewal projects operated by either the government or third party developers. Debt issued under this program is secured by future entitlement allocations to the City under HUD’s Community Development Block Grant (CDBG) Program. The City expects to receive \$1,190,000 in future years as debt repayments from developers who were the recipients of the loan funds. Accordingly a receivable of \$1,190,000 has been recorded in the nonmajor governmental funds. The balance of the debt represents an amount attributable to a City owned renewal project for which principal payments have been programmed to be made from CDBG funds over the next five years. After such time, the City expects to sell the property and repay any remaining debt associated with the City owned project. At June 30, 2018, the interest rate on this debt remains variable and is determined quarterly based on three month London Interbank Offered Rate plus 20 basis points.

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 \$418,000 related to the issuance of Qualified Energy Conservation Bonds. Thus net loan repayments, including interest, are scheduled to be \$1,967,000. Since the City is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The 2018 interest subsidy totaled approximately \$67,000.

**Bonds Payable Schedule – Enterprise Funds**

Project	Maturities Through	Interest Rate (%)	Outstanding at June 30, 2018
Sewer.....	2043	2.00-6.00	\$ 87,793,346
Water.....	2036	2.00-6.00	34,005,776
Parking.....	2036	4.00-5.00	<u>26,391,300</u>
Total Bonds Payable.....			148,190,422
Add: Unamortized premium on bonds.....			<u>2,235,030</u>
Total Bonds Payable, net.....			<u><u>\$ 150,425,452</u></u>

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

Year	Principal	Interest	Total
2019.....	\$ 9,822,250	\$ 4,387,580	\$ 14,209,830
2020.....	10,057,903	4,107,129	14,165,032
2021.....	10,252,202	3,790,179	14,042,381
2022.....	9,806,854	3,468,139	13,274,993
2023.....	9,774,338	3,114,706	12,889,044
2024.....	9,105,700	2,779,247	11,884,947
2025.....	9,310,987	2,469,326	11,780,313
2026.....	8,643,238	2,183,288	10,826,526
2027.....	8,543,145	1,900,078	10,443,223
2028.....	8,557,006	1,613,345	10,170,351
2029.....	6,060,675	1,380,846	7,441,521
2030.....	5,869,028	1,206,946	7,075,974
2031.....	5,715,645	1,039,645	6,755,290
2032.....	4,866,763	896,016	5,762,779
2033.....	4,757,438	766,354	5,523,792
2034.....	4,486,867	638,968	5,125,835
2035.....	4,289,326	521,045	4,810,371
2036.....	4,268,851	408,067	4,676,918
2037.....	3,304,253	308,662	3,612,915
2038.....	3,077,875	220,905	3,298,780
2039.....	2,718,508	149,272	2,867,780
2040.....	1,585,070	97,746	1,682,816
2041.....	1,624,551	59,472	1,684,023
2042.....	835,315	30,201	865,516
2043.....	856,634	10,151	866,785
Total.....	\$ <u>148,190,422</u>	\$ <u>37,547,314</u>	\$ <u>185,737,736</u>

The City is scheduled to be subsidized by the Massachusetts Clean Water Trust (MCWT) on a periodic basis for principal in the amount of \$1,239,000 and interest costs for \$636,000. The principal subsidies are guaranteed. The interest subsidies are supported through future investment income and are expected to be made, although not guaranteed. Since the City is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The 2018 principal and interest subsidies totaled approximately \$283,000 and \$236,000, respectively.

Authorized and Unissued Debt

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2018, the City had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Parking garage.....	\$ 36,400,000
Wastewater system improvements.....	16,151,262
Capital improvements.....	14,918,668
Bridge repairs.....	5,619,649
Building improvements and roof repairs.....	4,641,677
LED streetlight conversion.....	2,524,027
Water mains.....	1,689,415
Energy conservation.....	1,634,536
Park improvements.....	1,707,624
High school feasibility study.....	1,316,447
Public safety equipment and upgrades.....	1,231,599
Parking kiosks.....	380,061
CAD system upgrade.....	233,340
Landfill compliance.....	129,720
<b>Total.....</b>	<b>\$ 88,578,025</b>

Changes in Long-term Liabilities

During the year ended June 30, 2018, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Bonds and Notes Issued</u>	<u>Bonds and Notes Redeemed</u>	<u>Other Increases</u>	<u>Other Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>							
Long-term bonds payable.....	\$ 64,410,500	\$ 10,251,448	\$ (6,053,500)	\$ -	\$ -	\$ 68,608,448	\$ 6,227,000
Add: Unamortized premium on bonds.....	2,664,977	1,332,225	(811,739)	-	-	3,185,463	437,952
Total bonds payable.....	67,075,477	11,583,673	(6,865,239)	-	-	71,793,911	6,664,952
Compensated absences.....	12,005,896	-	-	6,756,633	(6,815,849)	11,946,680	6,707,117
Workers' compensation.....	2,988,300	-	-	470,700	(383,500)	3,075,500	584,500
Net pension liability.....	254,164,977	-	-	6,732,778	(37,302,156)	223,595,599	-
Net other postemployment benefits liability....	578,577,987	-	-	29,989,297	(18,222,922)	590,344,362	-
Total governmental activity long-term liabilities.....	<u>\$ 914,812,637</u>	<u>\$ 11,583,673</u>	<u>\$ (6,865,239)</u>	<u>\$ 43,949,408</u>	<u>\$ (62,724,427)</u>	<u>\$ 900,756,052</u>	<u>\$ 13,956,569</u>
<b>Business-Type Activities:</b>							
Long-term bonds payable.....	\$ 143,872,654	\$ 13,132,396	\$ (8,814,628)	\$ -	\$ -	\$ 148,190,422	\$ 9,822,250
Add: Unamortized premium on bonds.....	1,806,036	650,000	(221,006)	-	-	2,235,030	398,767
Total bonds payable.....	145,678,690	13,782,396	(9,035,634)	-	-	150,425,452	10,221,017
Compensated absences.....	489,056	-	-	442,822	(392,892)	538,986	436,317
Net pension liability.....	19,071,936	-	-	505,213	(2,799,066)	16,778,083	-
Net other postemployment benefits liability....	19,310,236	-	-	1,000,903	(608,196)	19,702,943	-
Total business-type activity long-term liabilities.....	<u>\$ 184,549,918</u>	<u>\$ 13,782,396</u>	<u>\$ (9,035,634)</u>	<u>\$ 1,948,938</u>	<u>\$ (3,800,154)</u>	<u>\$ 187,445,464</u>	<u>\$ 10,657,334</u>

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

**NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

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 \$11,714,000 and is reported as unassigned fund balance within the General Fund. The Pension Assessment Stabilization, School Construction Stabilization, Capital Debt Service Stabilization, Employee Benefits and Mitigation, and Salary Reserve Stabilization funds, reported as committed fund balance within the General Fund, have year end balances of \$9,000, \$315,000, \$1,054,000, \$1,308,000 and \$2,000, respectively.

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

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

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

As of June 30, 2018, fund balances consisted of the following:

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances:			
Nonspendable:			
Permanent fund principal.....	\$ -	\$ 1,834,030	\$ 1,834,030
Restricted for:			
Chapter 17 special reserve.....	1,150	-	1,150
Gifts and grants.....	-	9,707,471	9,707,471
Federal grants.....	-	283,172	283,172
Section 108.....	-	1,395,337	1,395,337
Sale of City property.....	-	829,255	829,255
Revolving.....	-	927,955	927,955
Capital projects.....	-	1,962,578	1,962,578
Spendable permanent funds.....	-	236,231	236,231
Committed to:			
Pension assessment stabilization.....	8,938	-	8,938
School construction stabilization.....	314,900	-	314,900
Capital debt service stabilization.....	1,053,881	-	1,053,881
Employee benefits and mitigation.....	1,308,483	-	1,308,483
Salary reserve stabilization.....	1,698	-	1,698
Assigned to:			
Encumbrances:			
General government.....	87,878	-	87,878
Public safety.....	72,486	-	72,486
Education.....	131,477	-	131,477
Public works.....	76,765	-	76,765
Human services.....	2,482	-	2,482
Culture and recreation.....	6,724	-	6,724
Unassigned.....	<u>16,286,976</u>	<u>(4,832,229)</u>	<u>11,454,747</u>
Total Fund Balances.....	<u>\$ 19,353,838</u>	<u>\$ 12,343,800</u>	<u>\$ 31,697,638</u>

**NOTE 9 - RISK FINANCING**

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

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

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

The City has recorded a liability of \$3.1 million at June 30, 2018, which represents an estimate of all outstanding claims as of that date. Changes in the reported liability since July 1, 2016, are as follows:

	Balance at Beginning of Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Year-End	Current Portion
2017.....	\$ 3,344,000	\$ 331,866	\$ (687,566)	\$ 2,988,300	\$ 383,500
2018.....	2,988,300	941,988	(854,788)	3,075,500	584,500

**NOTE 10 - PENSION PLAN**

*Plan Descriptions*

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

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

*Special Funding Situation*

The Commonwealth is a nonemployer contributor and is required by statute to make 100% of all actuarially determined employer contributions on behalf of the City to the MTRS. Therefore, the City is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in MTRS. Since the City does not contribute directly to MTRS, there is no net pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based on each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2017. The City's portion of the collective pension expense, contributed by the Commonwealth, of \$36,030,056 is reported in the general fund as intergovernmental revenue and pension benefits in the current fiscal year. The portion of the Commonwealth's collective net pension liability associated with the City is \$345,205,049 as of the measurement date.

*Benefits Provided*

Both Systems provide retirement, disability, survivor and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. The Systems provide retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of

compensation, and group classification. Members become vested after ten years of creditable service. There were no reported changes in pension benefit terms that effect measurement of the total pension liability as of December 31, 2017.

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

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

At December 31, 2017, the LCRS membership consists of the following:

Active members.....	1,797
Inactive members.....	244
Disabled members.....	197
Retirees and beneficiaries currently receiving benefits.....	<u>1,025</u>
 Total.....	 <u><u>3,263</u></u>

*Contributions*

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the LCRS a legislatively mandated actuarially determined contribution that is apportioned among the employers based on active current payroll. The total member units' contribution for the year ended December 31, 2017, was \$26,141,731, 28% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City's proportionate share of the required contribution was \$24,386,745, which equaled its actual contribution.

*Pension Liabilities*

The components of the net pension liability of the participating member units at June 30, 2018, were as follows:

Total pension liability.....	\$ 637,262,487
Total pension plan's fiduciary net position.....	<u>(379,590,375)</u>
Total net pension liability.....	<u><u>\$ 257,672,112</u></u>
 The pension plan's fiduciary net position as a percentage of the total pension liability.....	  59.57%

At June 30, 2018, the City reported a liability of \$240,373,682 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017. Accordingly, update procedures were used to roll forward the total pension liability to the measurement date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members. At December 31, 2017, the City's proportion was 93.29%, which decreased from its proportion of 93.50% in the prior year.

*Pension Expense*

For the year ended June 30, 2018, the City recognized a pension expense of \$31,624,735. At June 30, 2018, the City reported deferred outflows of resources related to pensions of \$18,629,601 and deferred inflows of resources related to pensions of \$18,997,444.

The balances of deferred outflows and inflows at June 30, 2018, consist of the following:

Deferred Category	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Differences between expected and actual experience.....	\$ 2,708,935	\$ (6,874,085)	\$ (4,165,150)
Difference between projected and actual earnings, net.....	-	(11,102,934)	(11,102,934)
Changes in assumptions.....	14,802,247	-	14,802,247
Changes in proportion and proportionate share of contributions.....	<u>1,118,419</u>	<u>(1,020,425)</u>	<u>97,994</u>
Total deferred outflows/(inflows) of resources.....	<u>\$ 18,629,601</u>	<u>\$ (18,997,444)</u>	<u>\$ (367,843)</u>

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

Year ended June 30:

2019.....	\$ 4,283,145
2020.....	3,922,355
2021.....	(509,491)
2022.....	(6,473,852)
2023.....	(1,432,433)
Thereafter.....	<u>(157,567)</u>
	<u>\$ (367,843)</u>

*Actuarial Assumptions*

The total pension liability in the January 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2017:

Valuation date.....	January 1, 2017
Actuarial cost method.....	Individual Entry Age Normal Cost Method
Amortization method - UAAL.....	Increasing dollar amount at 4% to reduce the unfunded actuarial accrued liability to zero on or before June 30, 2036, with annual increases in appropriations limited to 5%
Amortization method - 2003 ERI Actuarial Liability.....	Level dollar amount to reduce the 2003 ERI actuarial accrued liability to zero on or before June 30, 2020
Remaining amortization period.....	Difference between projected and actual earnings: 5 year straight-line amortization. All other amounts: Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (actives, inactive and retirees) as of the beginning of the measurement period
Asset valuation method.....	The actuarial value of assets is the market value of assets as of the valuation date reduced by the sum of: a) 80% of gains and losses of the prior year, b) 60% of gains and losses of the second prior year, c) 40% of gains and losses of the third prior year and c) 20% of gains and losses of the fourth prior year Investment gains and losses are determined by the excess or deficiency of the expected return over the actual return on the market value. The actuarial valuation of assets is further constrained to be not less than 90% or more than 110% of market value
Investment rate of return.....	7.75%, net of pension plan investment expense, including inflation
Discount rate.....	7.75%
Inflation rate.....	3% per year
Projected salary increases.....	6%-4.24% for Group 1 (based on service) 7%-4.75% for Group 4 (based on service)
Payroll growth.....	3.50% per year
Cost of living adjustments.....	3% of the pension amount, capped at \$510 per year.
Mortality rates.....	RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB. For disabled members, RP-2000 Mortality Table (base year 2015) with full generational mortality improvement using Scale BB. Previously, RP-2000 Mortality Table projected to 2012 Scale AA

*Investment policy*

The System’s policy in regard to the allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the System’s target asset allocation as of December 31, 2017, are summarized in the following table:

Asset Class	Long-Term Expected Asset Allocation	Long-Term Expected Real Rate of Return
Global equity.....	40.00%	4.91%
Fixed income.....	22.00%	2.04%
Private equity.....	11.00%	6.50%
Real estate.....	10.00%	3.70%
Timber/natural resources.....	4.00%	3.25%
Hedge fund and portfolio completion.....	13.00%	3.40%
Total.....	100.00%	

*Rate of return*

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 16.63%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Discount rate*

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability, calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
	December 31, 2017 Measurement Date		
The City's proportionate share of the net pension liability.....	\$ 307,123,661	\$ 240,373,682	\$ 183,869,899
LCRS total net pension liability.....	\$ 329,225,737	\$ 257,672,112	\$ 197,102,049

*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 2018 was \$34,000.

#### *Changes in Assumptions*

- The investment return rate was decreased from 8.00% to 7.75%.
- The administrative expenses assumption was increased from \$350,000 to \$400,000.

#### *Changes in Plan Provisions*

- None.

### **NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

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

*Funding Policy* - The contribution requirements of Plan members and the City are established and may be amended through collective bargaining. The required contribution is based on projected pay-as-you-go financing requirements. The City contributes 75% of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 25 percent of their premium costs. For 2018, the City contributed \$18,831,118 to the plan. For the year ended June 30, 2018, the City’s average contribution rate was 10.16% of covered employee payroll.

The Commonwealth of Massachusetts passed special legislation that has allowed the City to establish the other postemployment benefit trust fund to begin pre-funding its OPEB liabilities. As of June 30, 2018, the net position of the OPEB trust fund totaled \$8.7 million.

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

*Measurement Date* – GASB Statement #75 requires the net OPEB liability to be measured as of a date no earlier than the end of the employer’s prior fiscal year and no later than the end of the employer’s current fiscal year, consistently applied from period to period. Accordingly, the net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2016.

*Plan Membership* – The following table represents the Plan’s membership at July 1, 2016:

Active members.....	2,868
Inactive members currently receiving benefits.....	<u>2,326</u>
Total.....	<u><u>5,194</u></u>

*Components of OPEB Liability* – The following table represents the components of the Plan’s OPEB liability as of June 30, 2018:

Total OPEB liability.....	\$ 618,764,027
Less: OPEB plan's fiduciary net position.....	<u>(8,716,722)</u>
Net OPEB liability.....	<u><u>\$ 610,047,305</u></u>

The OPEB plan's fiduciary net position as a percentage of the total OPEB liability.....	1.41%
--	-------

*Significant Actuarial Methods and Assumptions* – The total OPEB liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified, that was updated to June 30, 2018, to be in accordance with GASB Statement #74 and #75:

Valuation date.....	July 1, 2016
Actuarial cost method.....	Entry age normal as a percentage of payroll
Asset valuation method.....	Market value of assets as of the reporting date, June 30, 2018
Amortization method.....	Level dollar, open basis
Remaining amortization period.....	30 years, as of July 1, 2016
Investment rate of return.....	3.5%
Discount rate.....	3.5%
Inflation rate.....	Assumed 2.0%
Projected salary increases.....	3.0% per year
Healthcare cost trend rate.....	8.0%, decreasing by 0.5% per year to an ultimate rate of 5.0% for 2024 and later years
Mortality rates.....	RP 2014 Healthy Male and Female Tables are based on the Combined Healthy table for both pre & post retirement projected with mortality improvements using Projection Scale AA for 2.5 years, (i.e. from date of table to the valuation date), plus seven years generational improvement

*Rate of return* – For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 4.76%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The Plan’s expected future real rate of return of 3.91% is added to the expected inflation of 2.00% to produce the long-term expected nominal rate of return of 5.91%.

Best estimates of geometric real rates of return for each major asset class included in the OPEB plan’s target asset allocation as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic fixed income.....	35.00%	2.47%
Domestic equity.....	25.00%	5.05%
Alternatives.....	20.00%	4.80%
International equity.....	10.00%	5.80%
International fixed income.....	10.00%	2.40%
Total.....	<u>100.00%</u>	

*Discount rate* – The discount rate used to measure the total OPEB liability was 3.50% as of June 30, 2018. The City’s net other postemployment benefits liability was determined based on an average of three 20-year bond indices (e.g. Bond Buyer-20 Bond GO, S&P Municipal Bond 20 Year High Grade Rate Index, Fidelity GA AA 20 Years). Due to the low value of the OPEB trust compared to the City’s liability, the Plan fiduciary net position is not projected to satisfy future benefit payments and, accordingly, the Municipal Bond Rate was applied rather than the projected investment return.

*Changes in the Net OPEB Liability*

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2017.....	\$ 606,209,254	\$ 8,321,031	\$ 597,888,223
Changes for the year:			
Service cost.....	10,498,112	-	10,498,112
Interest.....	20,887,779	-	20,887,779
Benefit payments.....	(18,831,118)	(18,831,118)	-
Contributions from Employer.....	-	18,831,118	(18,831,118)
Net Investment Income.....	-	395,691	(395,691)
Net change.....	<u>12,554,773</u>	<u>395,691</u>	<u>12,159,082</u>
Balances at June 30, 2018.....	<u>\$ 618,764,027</u>	<u>\$ 8,716,722</u>	<u>\$ 610,047,305</u>

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate* – The following table presents the net other postemployment benefit liability and service cost, calculated using the discount rate of 3.50%, as well as what the net other postemployment benefit liability and service cost would be if it were calculated using a discount rate that is 1-percentage-point lower (2.50%) or 1-percentage-point higher (4.50%) than the current rate.

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
Net OPEB liability.....	<u>\$ 758,552,057</u>	<u>\$ 610,047,305</u>	<u>\$ 484,490,065</u>

*Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend* – The following table presents the net other postemployment benefit liability and service cost, calculated using the current healthcare trend rate as well as what the net other postemployment benefit liability and service cost would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher.

	1% Decrease	Current Trend	1% Increase
Net OPEB liability.....	<u>\$ 483,375,800</u>	<u>\$ 610,047,305</u>	<u>\$ 774,583,277</u>

*OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB* – For the year ended June 30, 2018, the GASB Statement #75 measurement date, the City recognized OPEB expense of \$30,990,200. At June 30, 2018, the City did not report deferred outflows of resources and deferred inflows of resources related to OPEB.

*Changes of Assumptions* – None.

*Changes in Plan Provisions* – None.

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

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

	Pension Trust Fund (as of December 31, 2017)	Other Postemployment Benefit Trust Fund	Total Pension and Other Employee Benefit Trust Funds
<b>ASSETS</b>			
Cash and cash equivalents.....	\$ 10,036,689	\$ 28,985	\$ 10,065,674
Investments:			
Investments in Pension Reserve Investment Trust.....	369,054,657	-	369,054,657
Equity securities.....	488,912	-	488,912
Equity mutual funds.....	-	3,906,365	3,906,365
Bond mutual funds.....	-	3,235,968	3,235,968
Alternative investments.....	-	1,545,404	1,545,404
Other investments.....	594	-	594
Receivables, net of allowance for uncollectibles:			
Interest and dividends.....	9,523	-	9,523
<b>TOTAL ASSETS.....</b>	<b>379,590,375</b>	<b>8,716,722</b>	<b>388,307,097</b>
<b>NET POSITION</b>			
Restricted for pensions.....	379,590,375	-	379,590,375
Restricted for other postemployment benefits.....	-	8,716,722	8,716,722
<b>TOTAL NET POSITION.....</b>	<b>\$ 379,590,375</b>	<b>\$ 8,716,722</b>	<b>\$ 388,307,097</b>

	Pension Trust Fund (as of December 31, 2017)	Other Postemployment Benefit Trust Fund	Total Pension and Other Employee Benefit Trust Funds
<b>ADDITIONS:</b>			
Contributions:			
Employer contributions.....	\$ 26,141,731	\$ -	\$ 26,141,731
Employer contributions for other postemployment benefit payments.....	-	18,831,118	18,831,118
Member contributions.....	8,962,891	-	8,962,891
Transfers from other systems.....	394,729	-	394,729
3(8)c contributions from other systems.....	663,925	-	663,925
Workers compensation settlements.....	9,700	-	9,700
State COLA reimbursements.....	182,878	-	182,878
<b>Total contributions.....</b>	<b>36,355,854</b>	<b>18,831,118</b>	<b>55,186,972</b>
Net investment income:			
Investment income.....	56,117,167	395,691	56,512,858
Less: investment expense.....	(1,827,972)	-	(1,827,972)
<b>Net investment income.....</b>	<b>54,289,195</b>	<b>395,691</b>	<b>54,684,886</b>
<b>TOTAL ADDITIONS.....</b>	<b>90,645,049</b>	<b>19,226,809</b>	<b>109,871,858</b>
<b>DEDUCTIONS:</b>			
Administration.....	381,369	-	381,369
Transfers to other systems.....	905,967	-	905,967
3(8)c transfer to other systems.....	1,560,857	-	1,560,857
Retirement benefits and refunds.....	37,631,300	-	37,631,300
Other postemployment benefit payments.....	-	18,831,118	18,831,118
<b>TOTAL DEDUCTIONS.....</b>	<b>40,479,493</b>	<b>18,831,118</b>	<b>59,310,611</b>
<b>NET INCREASE (DECREASE) IN NET POSITION.....</b>	<b>50,165,556</b>	<b>395,691</b>	<b>50,561,247</b>
<b>NET POSITION AT BEGINNING OF YEAR.....</b>	<b>329,424,819</b>	<b>8,321,031</b>	<b>337,745,850</b>
<b>NET POSITION AT END OF YEAR.....</b>	<b>\$ 379,590,375</b>	<b>\$ 8,716,722</b>	<b>\$ 388,307,097</b>

**NOTE 13 - COMMITMENTS**

The City has entered into, or is planning to enter into, contracts totaling approximately \$88.6 million for sewer projects, water projects, energy improvement projects, parking garage design, parking kiosks, and various other capital projects. These projects will be funded through the issuance of long-term debt, state grants, and federal grants.

**NOTE 14 - CONTINGENCIES**

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

Various other legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2018, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2018.

**NOTE 15 – REVISION OF NET POSITION PREVIOUSLY REPORTED**

Beginning net position of the governmental activities, business-type activities and the enterprise funds have been revised to reflect the implementation of GASB Statement #75. The revised balances are summarized in the following table:

	06/30/2017 Previously Reported Balances	Implementation of GASB #75	07/01/17 Revised Balances
<b>Government-Wide Financial Statements</b>			
Governmental activities.....	\$ (129,843,974)	\$ (398,619,988)	\$ (528,463,962)
Business-type activities.....	62,299,197	(13,304,077)	48,995,120
Total.....	<u>\$ (67,544,777)</u>	<u>\$ (411,924,065)</u>	<u>\$ (479,468,842)</u>
<b>Business-type Activities - Enterprise Funds</b>			
Water fund.....	\$ 9,000,761	\$ (4,035,328)	\$ 4,965,433
Sewer fund.....	37,880,918	(7,369,785)	30,511,133
Parking fund.....	15,417,518	(1,898,964)	13,518,554
Total.....	<u>\$ 62,299,197</u>	<u>\$ (13,304,077)</u>	<u>\$ 48,995,120</u>

**NOTE 16 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through April 22, 2019, which is the date the financial statements were available to be issued.

**NOTE 17 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During 2018, the following GASB pronouncements were implemented:

- GASB Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The basic financial statements, related notes and required supplementary information were updated to be in compliance with this pronouncement.

- GASB Statement #81, *Irrevocable Split-Interest Agreements*. This pronouncement did not impact the basic financial statements.
- GASB Statement #85, *Omnibus 2017*. This pronouncement did not impact the basic financial statements.
- GASB Statement #86, *Certain Debt Extinguishment Issues*. This pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #83, *Certain Asset Retirement Obligations*, which is required to be implemented in 2019.
- The GASB issued Statement #84, *Fiduciary Activities*, which is required to be implemented in 2019.
- The GASB issued Statement #87, *Leases*, which is required to be implemented in 2021.
- The GASB issued Statement #88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which is required to be implemented in 2019.
- The GASB issued Statement #89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is required to be implemented in 2021.

The GASB issued Statement #90, *Majority Equity Interests – an amendment of GASB Statements #14 and #61*, which is required to be implemented in 2020.

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

# ***Required Supplementary Information***

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

YEAR ENDED JUNE 30, 2018

	Budgeted Amounts			
	Amounts	Current Year		
	Carried Forward From Prior Year	Initial Budget	Original Budget	Final Budget
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 127,262,082	\$ 127,262,082	\$ 127,407,952
Tax liens.....	-	-	-	-
Motor vehicle and other excise taxes.....	-	8,754,592	8,754,592	8,754,592
Hotel/motel tax.....	-	340,000	340,000	340,000
Meals tax.....	-	1,350,000	1,350,000	1,350,000
Trash disposal.....	-	3,184,930	3,184,930	3,184,930
Penalties and interest on taxes.....	-	1,324,218	1,324,218	1,324,221
Payments in lieu of taxes.....	-	560,602	560,602	560,602
Intergovernmental - state aid.....	-	174,776,036	174,776,036	173,737,131
Intergovernmental - School Building Authority.....	-	1,192,791	1,192,791	1,192,791
Departmental and other.....	-	7,265,445	7,265,445	8,041,445
Investment income.....	-	303,388	303,388	303,388
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>326,314,084</b>	<b>326,314,084</b>	<b>326,197,052</b>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
General government.....	35,336	16,799,160	16,834,496	17,848,383
Public safety.....	-	47,726,590	47,726,590	47,268,528
Education.....	906,350	154,060,235	154,966,585	155,714,457
Public works.....	4,125	13,320,574	13,324,699	14,529,817
Health and human services.....	-	3,685,120	3,685,120	3,535,490
Culture and recreation.....	17,548	4,435,892	4,453,440	4,427,133
Pension benefits.....	-	24,446,745	24,446,745	24,344,417
Employee benefits.....	-	43,397,144	43,397,144	42,603,629
State and county charges.....	-	24,703,156	24,703,156	24,703,156
<b>Debt service:</b>				
Principal.....	-	2,661,614	2,661,614	5,793,500
Interest.....	-	6,220,253	6,220,253	3,088,367
<b>TOTAL EXPENDITURES.....</b>	<b>963,359</b>	<b>341,456,483</b>	<b>342,419,842</b>	<b>343,856,877</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(963,359)</b>	<b>(15,142,399)</b>	<b>(16,105,758)</b>	<b>(17,659,825)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from the sale of assets.....	-	7,500	7,500	-
Transfers in.....	-	13,345,636	13,345,636	13,593,571
Transfers out.....	-	-	-	(4,317,419)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>13,353,136</b>	<b>13,353,136</b>	<b>9,276,152</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(963,359)</b>	<b>(1,789,263)</b>	<b>(2,752,622)</b>	<b>(8,383,673)</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>-</b>	<b>9,719,735</b>	<b>9,719,735</b>	<b>9,719,735</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ (963,359)</b>	<b>\$ 7,930,472</b>	<b>\$ 6,967,113</b>	<b>\$ 1,336,062</b>

See notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$	127,277,934	\$ -	\$ (130,018)
	754,170	-	754,170
	9,920,727	-	1,166,135
	331,215	-	(8,785)
	1,238,909	-	(111,091)
	3,135,830	-	(49,100)
	1,348,397	-	24,176
	433,476	-	(127,126)
	173,627,645	-	(109,486)
	1,192,791	-	-
	8,489,109	-	447,664
	313,382	-	9,994
	<u>328,063,585</u>	<u>-</u>	<u>1,866,533</u>
	17,428,689	87,878	331,816
	46,883,810	72,486	312,232
	155,796,694	131,477	(213,714)
	14,363,568	76,765	89,484
	3,483,799	2,482	49,209
	4,203,854	6,724	216,555
	24,344,417	-	-
	42,554,871	-	48,758
	24,350,905	-	352,251
	5,793,500	-	-
	<u>3,084,667</u>	<u>-</u>	<u>3,700</u>
	<u>342,288,774</u>	<u>377,812</u>	<u>1,190,291</u>
	<u>(14,225,189)</u>	<u>(377,812)</u>	<u>3,056,824</u>
	-	-	-
	13,593,571	-	-
	<u>(4,317,419)</u>	<u>-</u>	<u>-</u>
	<u>9,276,152</u>	<u>-</u>	<u>-</u>
	(4,949,037)	(377,812)	3,056,824
	<u>9,719,735</u>	<u>-</u>	<u>-</u>
\$	<u>4,770,698</u>	<u>(377,812)</u>	<u>3,056,824</u>

# ***Pension Plan Schedules - Retirement System***

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

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

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

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

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

	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017
<b>Total pension liability:</b>				
Service cost.....	\$ 12,776,431	\$ 12,776,431	\$ 15,389,829	\$ 14,902,167
Interest.....	39,817,736	42,298,799	45,581,124	47,847,969
Changes in benefit terms.....	-	-	5,820,520	-
Differences between expected and actual experience.....	-	5,750,829	-	(8,810,808)
Changes in assumptions.....	-	31,423,849	-	-
Benefit payments.....	(33,577,831)	(35,136,789)	(35,772,737)	(38,335,654)
Interest on benefit payments.....	-	-	-	-
Net change in total pension liability.....	19,016,336	57,113,119	31,018,736	15,603,674
Total pension liability - beginning.....	<u>514,510,622</u>	<u>533,526,958</u>	<u>590,640,077</u>	<u>621,658,813</u>
Total pension liability - ending (a).....	<u>\$ 533,526,958</u>	<u>\$ 590,640,077</u>	<u>\$ 621,658,813</u>	<u>\$ 637,262,487</u>
<b>Plan fiduciary net position:</b>				
Employer contributions.....	\$ 21,880,170	\$ 21,837,654	\$ 24,701,289	\$ 26,141,731
Member contributions.....	8,983,678	8,903,043	8,204,174	8,451,653
Net investment income (loss).....	21,617,178	1,213,427	21,730,686	54,289,195
Administrative expenses.....	(358,770)	(355,999)	(367,634)	(381,369)
Retirement benefits and refunds.....	<u>(33,577,831)</u>	<u>(35,136,789)</u>	<u>(35,772,737)</u>	<u>(38,335,654)</u>
Net increase (decrease) in fiduciary net position.....	18,544,425	(3,538,664)	18,495,778	50,165,556
Fiduciary net position - beginning of year.....	<u>295,923,280</u>	<u>314,467,705</u>	<u>310,929,041</u>	<u>329,424,819</u>
Fiduciary net position - end of year (b).....	<u>\$ 314,467,705</u>	<u>\$ 310,929,041</u>	<u>\$ 329,424,819</u>	<u>\$ 379,590,375</u>
<b>Net pension liability - ending (a)-(b).....</b>	<u>\$ 219,059,253</u>	<u>\$ 279,711,036</u>	<u>\$ 292,233,994</u>	<u>\$ 257,672,112</u>
Plan fiduciary net position as a percentage of the total pension liability.....	58.94%	52.64%	52.99%	59.57%
Covered payroll.....	\$ 80,555,739	\$ 89,520,851	\$ 92,654,081	\$ 93,366,659
Net pension liability as a percentage of covered payroll.....	271.94%	312.45%	315.40%	275.98%

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

See notes to required supplementary information.

**SCHEDULE OF CONTRIBUTIONS**  
**LOWELL CONTRIBUTORY RETIREMENT SYSTEM**

---

<u>Year</u>	<u>Actuarially determined contribution</u>	<u>Contributions in relation to the actuarially determined contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
December 31, 2017.....	\$ 26,141,731	\$ (26,141,731)	\$ -	\$ 93,366,659	28.00%
December 31, 2016.....	24,701,289	(24,701,289)	-	92,654,081	26.66%
December 31, 2015.....	21,837,654	(21,837,654)	-	89,520,851	24.39%
December 31, 2014.....	21,880,170	(21,880,170)	-	80,555,739	27.16%

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

See notes to required supplementary information.

**SCHEDULE OF INVESTMENT RETURNS**  
**LOWELL CONTRIBUTORY RETIREMENT SYSTEM**

---

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

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

See notes to required supplementary information.

# ***Pension Plan Schedules – City***

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

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

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

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

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

<u>Year</u>	<u>Proportion of the net pension liability (asset)</u>	<u>Proportionate share of the net pension liability (asset)</u>	<u>Covered payroll</u>	<u>Net pension liability as a percentage of covered payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
June 30, 2018.....	93.29%	\$ 240,373,682	\$ 88,302,128	272.22%	59.57%
June 30, 2017.....	93.50%	273,236,913	87,048,509	313.89%	52.99%
June 30, 2016.....	93.47%	261,434,717	84,104,839	310.84%	52.64%
June 30, 2015.....	93.01%	203,753,583	74,927,309	271.94%	58.94%

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

See notes to required supplementary information.

**SCHEDULE OF THE CITY'S CONTRIBUTIONS**  
**LOWELL CONTRIBUTORY RETIREMENT SYSTEM**

Year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
June 30, 2018.....	\$ 24,386,745	\$ (24,386,745)	\$ -	\$ 88,302,128	27.62%
June 30, 2017.....	23,095,548	(23,095,548)	-	87,048,509	26.53%
June 30, 2016.....	20,410,761	(20,410,761)	-	84,104,839	24.27%
June 30, 2015.....	20,351,365	(20,351,365)	-	74,927,309	27.16%

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

See notes to required supplementary information.

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

---

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

Year	Commonwealth's 100% Share of the Associated Net Pension Liability	Expense and Revenue Recognized for the Commonwealth's Support	Plan Fiduciary Net Position as a Percentage of the Total Liability
2018.....	\$ 345,205,049	\$ 36,030,056	54.25%
2017.....	322,999,676	32,948,084	52.73%
2016.....	303,469,832	24,614,104	55.38%
2015.....	240,400,372	16,701,768	61.64%

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

See notes to required supplementary information.

# ***Other Postemployment Benefit Plan Schedules***

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

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

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

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

	June 30, 2017	June 30, 2018
<b>Total OPEB Liability</b>		
Service Cost.....	\$ 10,192,342	\$ 10,498,112
Interest.....	17,960,577	20,887,779
Changes of benefit terms.....	-	-
Differences between expected and actual experience.....	-	-
Changes of assumptions.....	73,907,164	-
Benefit payments.....	<u>(18,020,360)</u>	<u>(18,831,118)</u>
Net change in total OPEB liability.....	84,039,723	12,554,773
Total OPEB liability - beginning.....	<u>522,169,531</u>	<u>606,209,254</u>
Total OPEB liability - ending (a).....	<u>\$ 606,209,254</u>	<u>\$ 618,764,027</u>
<b>Plan fiduciary net position</b>		
Employer contributions for OPEB payments.....	\$ 18,020,360	\$ 18,831,118
Net investment income.....	288,646	395,691
Benefit payments.....	<u>(18,020,360)</u>	<u>(18,831,118)</u>
Net change in plan fiduciary net position.....	288,646	395,691
Plan fiduciary net position - beginning of year.....	<u>8,032,385</u>	<u>8,321,031</u>
Plan fiduciary net position - end of year (b).....	<u>\$ 8,321,031</u>	<u>\$ 8,716,722</u>
<b>Net OPEB liability - ending (a)-(b).....</b>	<u>\$ 597,888,223</u>	<u>\$ 610,047,305</u>
Plan fiduciary net position as a percentage of the total OPEB liability.....	1.37%	1.41%
Covered-employee payroll.....	\$ 185,336,940	\$ 185,336,940
Net OPEB liability as a percentage of covered-employee payroll.....	322.60%	329.16%

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

See notes to required supplementary information.

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

<u>Year</u>	<u>Actuarially determined contribution</u>	<u>Contributions in relation to the actuarially determined contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Covered- employee payroll</u>	<u>Contributions as a percentage of covered- employee payroll</u>
June 30, 2018.....	\$ 43,006,034	\$ (18,831,118)	\$ 24,174,916	\$ 185,336,940	10.16%
June 30, 2017.....	42,029,149	(18,020,360)	24,008,789	185,336,940	9.72%

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

See notes to required supplementary information.

**SCHEDULE OF INVESTMENT RETURNS**  
**OTHER POSTEMPLOYMENT BENEFIT PLAN**

---

Year	Annual money-weighted rate of return, net of investment expense
June 30, 2018.....	4.76%
June 30, 2017.....	3.59%

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

See notes to required supplementary information.

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

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

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

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original 2018 approved budget authorizing approximately \$341.5 million in current year appropriations, other financing uses, and other amounts to be raised and approximately \$963,000 in encumbrances and appropriations carried over from previous years. During 2018, the Council also approved a net increase in appropriations of \$1.4 million.

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

**B. Budgetary - GAAP Reconciliation**

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

A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2018, is as follows:

Net change in fund balance - budgetary basis.....	\$ (4,949,037)
<u>Perspective differences:</u>	
Activity of the stabilization funds recorded in the general fund for GAAP.....	545,072
Activity of the employee benefit trust fund recorded in the general fund for GAAP.....	(812,128)
<u>Basis of accounting differences:</u>	
Net change in recording tax refunds payable.....	114,419
Net change in recording 60 day receipts.....	42,563
Net change in recording accrued expenditures.....	701,190
Recognition of revenue for on-behalf payments.....	36,030,056
Recognition of expenditures for on-behalf payments.....	<u>(36,030,056)</u>
Net change in fund balance - GAAP basis.....	<u>\$ (4,357,921)</u>

C. Appropriation Deficits

During 2018 expenditures exceeded the budget for education, the City will raise the deficit in the next fiscal year.

**NOTE B – PENSION PLAN**

***Pension Plan Schedules – Retirement System***

A. Schedule of Changes in the Net Pension Liability and Related Ratios

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

B. Schedule of Contributions

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

### C. Schedule of Investment Returns

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

### ***Pension Plan Schedules - City***

#### A. Schedule of the City's Proportionate Share of the Net Pension Liability

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

#### B. Schedule of City's Contributions

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

#### C. Schedule of the Special Funding Amounts of the Net Pension Liabilities

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

#### D. Changes in Assumptions

- The investment return rate was decreased from 8.00% to 7.75%.
- The administrative expenses assumption was increased from \$350,000 to \$400,000.

#### E. Changes in Plan Provisions

- None.

### **NOTE C – OTHER POSTEMPLOYMENT BENEFITS**

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

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

**The Other Postemployment Benefit Plan**

A. Schedule of Changes in the City’s Net Other Postemployment Benefit Liability and Related Ratios

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

B. Schedule of the City’s Contributions

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

Valuation date.....	July 1, 2016
Actuarial cost method.....	Entry age normal as a percentage of payroll
Asset valuation method.....	Market value of assets as of the reporting date, June 30, 2018
Amortization method.....	Level dollar, open basis
Remaining amortization period.....	30 years, as of July 1, 2016
Investment rate of return.....	3.5%
Discount rate.....	3.5%
Inflation rate.....	Assumed 2.0%
Projected salary increases.....	3.0% per year
Healthcare cost trend rate.....	8.0%, decreasing by 0.5% per year to an ultimate rate of 5.0% for 2024 and later years
Mortality rates.....	RP 2014 Healthy Male and Female Tables are based on the Combined Healthy table for both pre & post retirement projected with mortality improvements using Projection Scale AA for 2.5 years, (i.e. from date of table to the valuation date), plus seven years generational improvement

C. Schedule of Investment Returns

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

D. Changes of Assumptions – None.

E. Changes in Provisions – None.