

CITY OF LOWELL, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2016

CITY OF LOWELL, MASSACHUSETTS

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100 Quannapowitt Parkway
Suite 101
Wakefield, MA 01880
T. 781-914-1700
F. 781-914-1701
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, 2016 (except for the Lowell Contributory Retirement System which is as of and for the year ended December 31, 2015), 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, 2016 (except for the Lowell Contributory Retirement System which is as of and for the year ended December 31, 2015), and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017, 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

January 31, 2017

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, 2016. We encourage readers to consider the information presented in this report.

Financial Highlights

Government-wide

- The City's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at the close of 2016 by \$29.4 million. The decrease is primarily the result of the recognition of pension and other postemployment liabilities.
- Governmental net position decreased by \$28.4 million. The decrease is attributable to the \$53.8 million increase in the net pension liability, a \$13.2 million increase in the other postemployment benefits (OPEB) liability, offset by a net increase in deferred outflows/(inflows) related to pensions of \$43.9 million, and the recognition of \$2.1 million of capital grants.
- Business-type activities experienced a combined \$1.2 million decrease in net position.

Fund Financial Statements

- As of the close of the current year, the City's governmental funds reported combined ending fund balance of \$41.1 million, a decrease of \$1.5 million in comparison with the prior year. The decrease is primarily attributable to an increase in the accrual related to appellate tax board cases, a decrease in the accrual for the collection of 60 day receipts related to real and personal property, and the timing of previously received grant revenues and the subsequent expenditure of these funds.
- The City issued new debt of \$5.8 million for various governmental and \$6.4 for various enterprise capital projects during 2016. Overall governmental long-term debt decreased by \$4.4 million and business-type long-term debt decreased by \$1.3 million, not including premiums. Please see Note 7 for more information on the City's long-term bonds.
- In order to take advantage of favorable interest rates, the City issued \$4,411,751 of General Obligation Refunding Bonds on September 1, 2015. This refunding was undertaken to reduce total debt service payments over the next 8 years by \$529,980 and resulted in an economic gain of \$455,177.

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 sewer, water, parking, and auditorium 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 separately within the fiduciary fund statements.

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

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

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

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 sewer, water, parking and auditorium 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 four classifications: a pension trust fund, an other postemployment 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 a separate statement of fiduciary net position and a 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 \$29.4 million at the close of 2016, an overall decrease of \$29.6 million from the prior year.

Net position of \$280.7 million reflects its net investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$26.2 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 \$336.3 million, reflects the impact of the \$171.9 million liability associated with other postemployment benefit accrual and the \$261.4 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 City’s liabilities and deferred inflows of resources exceeded assets and deferred outflows by \$89.4 million at the close of 2016.

	<u>2016</u>	<u>2015</u>
Assets:		
Current assets.....	\$ 96,838,014	\$ 93,819,939
Noncurrent assets (excluding capital).....	15,040,496	19,650,683
Capital assets.....	<u>286,626,034</u>	<u>287,513,221</u>
Total assets.....	<u>398,504,544</u>	<u>400,983,843</u>
Deferred Outflows of Resources:		
Deferred outflows of resources related to pensions.....	45,333,878	1,335,612
Deferred charges on refunding.....	<u>119,128</u>	<u>200,589</u>
Total deferred charges.....	<u>45,453,006</u>	<u>1,536,201</u>
Liabilities:		
Current liabilities (excluding debt).....	34,930,163	32,046,214
Noncurrent liabilities (excluding debt).....	416,232,867	348,802,000
Current debt.....	11,038,475	11,727,100
Noncurrent debt.....	<u>71,054,604</u>	<u>70,925,823</u>
Total liabilities.....	<u>533,256,109</u>	<u>463,501,137</u>
Deferred Inflows of Resources:		
Deferred inflows of resources related to pensions.....	<u>104,619</u>	<u>-</u>
Net Position:		
Net investment in capital assets.....	227,071,832	227,119,740
Restricted.....	26,204,905	23,602,810
Unrestricted.....	<u>(342,679,915)</u>	<u>(311,703,643)</u>
Total net position.....	<u>\$ (89,403,178)</u>	<u>\$ (60,981,093)</u>

A significant portion of the City’s governmental activities net position, \$227.1 million, reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding.

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

An additional portion of the net position of \$26.2 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 \$342.7 million is due to the net pension liability of \$ 242.9 million and the OPEB liability of \$165.9 million.

Included within the governmental activities noncurrent assets, unrelated to capital assets, are \$12.4 million in future year school construction reimbursement grants.

Governmental activity liabilities include \$78.1 million in general obligation bonds; \$10.9 million in liabilities for unused vacation, special leave, and enhanced longevity benefits; and \$3.3 million in future workers' compensation benefits.

The key elements of governmental activities are as follows:

	<u>2016</u>	<u>2015</u>
Program Revenues:		
Charges for services.....	\$ 16,167,192	\$ 14,455,532
Operating grants and contributions.....	210,340,768	197,584,441
Capital grants and contributions.....	2,068,288	1,706,917
Total program revenues.....	<u>228,576,248</u>	<u>213,746,890</u>
General Revenues:		
Real estate and personal property taxes.....	115,902,937	117,029,497
Tax liens.....	785,172	484,965
Motor vehicle and other excise taxes.....	8,173,051	8,052,264
Penalties and interest on taxes.....	1,211,000	1,322,671
Payments in lieu of taxes.....	1,106,289	840,811
Grants and contributions not restricted to specific programs.....	25,195,854	24,065,919
Unrestricted investment income.....	464,263	552,944
Gain on sale of capital assets.....	155,503	205,416
Miscellaneous.....	280,774	245,505
Total general revenues.....	<u>153,274,843</u>	<u>152,799,992</u>
Expenses:		
General government.....	23,580,423	21,752,038
Public safety.....	78,846,900	70,903,750
Education.....	269,659,908	247,399,053
Public works.....	18,145,795	20,859,664
Human services.....	15,732,590	14,549,250
Culture and recreation.....	8,047,335	7,588,489
Interest.....	2,855,797	3,129,321
Total expenses.....	<u>416,868,748</u>	<u>386,181,565</u>
Excess (Deficiency) before transfers.....	(35,017,657)	(19,634,683)
Transfers, net.....	<u>6,595,572</u>	<u>5,916,874</u>
Change in net position.....	(28,422,085)	(13,717,809)
Net position - beginning.....	<u>(60,981,093)</u>	<u>(47,263,284)</u>
Net position - ending.....	<u>\$ (89,403,178)</u>	<u>\$ (60,981,093)</u>

The governmental activities net position decreased in the current year by \$28.4 million. The decrease in net position is due to several factors:

The net pension liability increased \$53.8 million, the OPEB liability increased \$13.2 million; depreciation on capital assets exceeded principal payments on long-term debt by \$3.7 million; there was an increase in the appellate tax board case accrual of \$950 thousand along with an increase in the long-term interest accrual of \$580 thousand; all of this offset by a net increase in the deferred outflows/(inflows) related to pensions of \$43.9 million and the recognition of \$2.1 million of capital grants.

Business-type Activities

The following summarizes the key financial components of the City’s Business-type Activities:

	<u>2016</u>	<u>(As Restated) 2015</u>
Assets:		
Current assets.....	\$ 39,874,748	\$ 40,929,467
Capital assets.....	214,588,469	201,901,906
Total assets.....	<u>254,463,217</u>	<u>242,831,373</u>
Deferred Outflows of Resources:		
Deferred outflows of resources related to pensions.....	<u>3,459,447</u>	<u>103,315</u>
Liabilities:		
Current liabilities (excluding debt).....	6,634,272	3,647,387
Noncurrent liabilities (excluding debt).....	24,604,954	20,097,383
Current debt.....	22,438,840	12,944,127
Noncurrent debt.....	144,186,925	144,997,186
Total liabilities.....	<u>197,864,991</u>	<u>181,686,083</u>
Deferred Inflows of Resources:		
Deferred inflows of resources related to pensions.....	<u>7,984</u>	<u>-</u>
Net Position:		
Net investment in capital assets.....	53,624,150	49,037,879
Unrestricted.....	6,425,539	12,210,726
Total net position.....	<u>\$ 60,049,689</u>	<u>\$ 61,248,605</u>
Program Revenues:		
Charges for services.....	\$ 36,834,545	\$ 37,176,755
Capital grants and contributions.....	589,131	681,958
Total program revenues.....	<u>37,423,676</u>	<u>37,858,713</u>
General Revenues:		
Unrestricted investment income.....	<u>2,995</u>	<u>2,950</u>
Expenses:		
Sewer.....	16,317,014	15,723,444
Water.....	8,082,146	8,286,963
Parking.....	4,884,656	5,747,227
Auditorium.....	2,746,199	2,388,300
Total expenses.....	<u>32,030,015</u>	<u>32,145,934</u>
Excess (Deficiency) before transfers.....	5,396,656	5,715,729
Transfers, net.....	<u>(6,595,572)</u>	<u>(5,916,874)</u>
Change in net position.....	(1,198,916)	(201,145)
Net position - beginning (As Restated).....	<u>61,248,605</u>	<u>61,449,750</u>
Net position - ending.....	<u>\$ 60,049,689</u>	<u>\$ 61,248,605</u>

Business type activities assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$60.0 million at the close of 2016.

Net position of \$53.6 million reflect its net investment in capital assets less any debt used to acquire those assets that are still outstanding. The remaining balance of *unrestricted net position* of \$6.4 million may be used to meet ongoing obligations.

The sewer enterprise fund net position decreased by \$2.1 million during the current year. The decrease is primarily attributable to an increase of \$2.2 million in the accrual related to the net pension liability.

The water enterprise fund net position decreased by \$720 thousand during the current year. The decrease is primarily due to an increase of \$1.4 million in the accrual related to the net pension liability. This decrease was offset by the funds ability to control operational costs in the current year. The fund also saw a large decrease in revenue as a result of the prior year billing issues in which approximately \$2 million worth of abatements were granted in the current year.

The parking enterprise fund net position increased by \$1.6 million in the current year. The increase is primarily due to the parking kiosk program which has resulted in increased revenues, offset by less repairs and maintenance and interest costs in the current year.

The auditorium enterprise fund net position increased by \$2.7 thousand in the current year. The increase is the result of an operational loss of \$186 thousand offset by a subsidy from the general fund of \$189 thousand.

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 \$41.1 million a decrease of \$1.5 million in comparison with the prior year. The decrease is primarily attributable to an increase in the accrual related to appellate tax board cases, a decrease in the accrual for the collection of 60 day receipts related to real and personal property, and the timing of previously received grant revenues and the subsequent expenditure of these funds.

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund equaled \$15.4 million (which includes \$10.6 million set aside as stabilization), while total fund balance was \$22.2 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 4.4% and 6.4% of general fund expenditures, respectively.

The general fund decreased by \$986 thousand during 2016. This was primarily due to an increase in the tax refunds payable accrual related to appellate tax board cases.

General fund revenues and other financing sources totaled \$346.5 million for 2016, an increase of \$13.8 million compared to the previous year.

Total general fund expenditures and transfers to other funds totaled \$347.3 million, an increase of \$13.1 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 2016.

The internal service fund had an ending fund balance of \$2.2 million, a decrease of \$430 thousand over the prior year. The decrease is the result of a transfer of \$500 thousand to the mitigation stabilization fund offset by \$70 thousand of stop-loss reimbursements related to previous self-insured claims. 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 \$326.9 million and the final amended budget of \$326.5 million amounted to a net decrease of \$430 thousand. During 2016, the Council approved transfers totaling \$440 thousand from the benefits mitigation trust to offset health insurance costs, \$399 thousand to the salary reserve stabilization fund, as well as transfers between departments representing minor increases and decreases in various budget line items for a net decrease in appropriations totaling approximately \$430 thousand. Revenues came in lower than budgeted by \$547 thousand; while expenditures came in \$1.8 million lower than budgeted.

Capital Asset and Debt Administration

Capital Assets - The City's investment in capital assets for governmental activities as of June 30, 2016, amounts to \$286.6 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, 2016, amounts to \$214.6 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, 2016, the City had total governmental bonded debt of \$75.1 million. Of this amount \$73.6 million is a general obligation of the City and the remaining \$1.5 million is guaranteed debt under the Section 108 Loan Program. The City issued general obligation bonds totaling \$9.5 million related to a debt refunding as well as school and other projects in 2016.

The sewer enterprise fund has \$87.6 million in long-term debt that is supported by the sewer rates and future MCWT principal and interest subsidies. Currently, the City has \$40.0 million in authorized and unissued long-term debt relating to future sewer projects.

The water enterprise fund has \$34.6 million in long-term debt that is supported by the water rates and future MCWT principal and interest subsidies. Currently, the City has \$1.7 million in authorized and unissued long-term debt relating to future water projects.

The parking enterprise fund has \$28.4 million in long-term debt that is supported by parking fees. Currently, the City has \$380 thousand in authorized and unissued long-term debt relating to future parking projects.

Next Year's Budget

The Mayor and City Council unanimously approved the City Manager's proposed FY2017 general fund operating budget of \$308.14 million on May 31, 2016. The overall increase in general fund appropriations over fiscal year 2016 was \$6.2 million. Notable drivers of increased expenditures include a \$2.2 million increase in the appropriation for pensions over FY16 and a \$4 million increase in total spending on education. Of the \$158.4 million appropriated by the City Council to the Lowell Public Schools, the amount appropriated from the tax levy was increased by \$1 million, with the remaining increase representing the amounts appropriated by the Commonwealth in Chapter 70 aid. Costs for salaries and wages in all general fund supported functional areas other than education increased \$2.1 million. Cherry sheet charges to the Commonwealth, which are for assessments for charter school tuition, regional transit, and other expenses but not appropriated by the City Council, increased by \$2 million over fiscal year 2016. The City also had to raise \$500,000 in an amortized snow and ice deficit for costs related to clean-up costs for the state of emergency declared by the Governor for Winter Storm Nemo in FY2015. Special legislation allowed municipalities to amortize the debt over a three-year period and the Lowell City Council voted to raise \$1.5 million total over the period of fiscal years 2016 through 2018.

In addition to the FY2017 budget for the general fund, the City Council approved the City Manager's budgets for City's three enterprise funds for water, wastewater, and parking in the amounts of \$9.3 million, \$17.3 million, and \$6.1 million, respectively. Appropriations for business-type activities increased by \$1.2 million in the water enterprise, decreased by \$623 thousand in the wastewater enterprise, and increased by \$724 thousand in the parking enterprise. Major contributing factors to increases in the water fund were related to debt service for capital projects associated with a \$22.8 million loan order authorized in 2013 by the City Council. In the parking enterprise, debt service also accounted for a majority of the increase as the fund began supporting debt service for major repair projects to the Leo Roy and Lower Locks garages, two of the City's parking garage facilities. In the wastewater enterprise, the City Manager's Office is constraining operating expenses in anticipation of debt service which will come online in FY2018 related to a \$40 million loan order also approved in 2013 for sewer separation capital projects. 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 FY2017, the amount reimbursed to the general fund for administrative overhead was \$8.9 million. The Lowell Memorial Auditorium enterprise fund, which had operated as an enterprise fund for the prior three fiscal years, was abolished by the City Council in May of 2016 and is included in the FY2017 budget as an appropriation in the City Manager's Office.

Several targeted investments were incorporated by the City Manager into the FY2017 operating budget to support the priorities of the City Council, such as public safety. As part of the FY2017 budget, the City Council approved two additional police officers to the ranks, bringing the total number of budgeted sworn officers to 250. The FY2017 budget included, for the first time, a funding source specifically designated to purchase new turnout gear for firefighters. Concurrent with the FY2017 operating budget, the City Council unanimously approved the City Manager's proposed five-year capital improvement plan and a \$7.4 million loan order in support of the plan's strategic investments on May 31, 2016. The loan order included funding for paving, traffic signalization, building improvements, park improvements, and heavy equipment and vehicles, among other projects. Aside from the projects incorporated in the City Manager's capital improvement plan, two major capital ventures will play a critical role in the City's finances over the medium term: the Lowell High School project and the bridge repair project throughout the City's system of canal ways. Both projects will be funded using a combination of bond proceeds and state and federal grants. The financing plan for the bridge project includes a combination of bond proceeds from the City, reimbursements from the University of Massachusetts Lowell, and a federal TIGER grant in the amount of \$13.4 million. A match of \$3.3 million was required to secure the grant from the U.S. Department of Transportation. The City Council approved a \$2.6 million loan order on March 2, 2016, which represented the contribution of the City and the University of Massachusetts Lowell. The balance is to be paid by the bridges' current owner, a private entity. For the Lowell High School project, the City has progressed to Module III of the process, otherwise known as the Feasibility Study stage with the Massachusetts School Building Authority

(MSBA). A feasibility study agreement was executed with the MSBA and on August 25, 2015, the City Council approved a \$2 million loan order to fund the feasibility study. Further information and options, including costs estimates, will be presented to the City Council when the feasibility study is complete.

The approved fiscal year 2017 tax levy was \$124.1 million. Local aid receipts totaled \$167.5 million and estimated local receipts in the general fund were \$24.6 million and other available funds used in support of general fund appropriations were \$5.2 million. In the enterprise funds total estimated revenues in FY2017 for the water, wastewater, and parking enterprise were \$12.4 million, \$22 million, and \$7.4 million, respectively. The water and parking fees remained constant, but the City ordinance which governs the fee structure for wastewater usage was amended in May of 2016.

Early in FY2017, the City of Lowell issued refunding bonds whose proceeds were used to refund 2005 and 2007 bonds for an estimated net present value savings of \$930,000. As part of the sale, Standard and Poor's (S&P) issued a rating which reflected their opinion of the several financial factors for the City. In the rating S&P commented specifically on the City's very strong management score, with "strong" financial policies and practices under S&P's financial management assessment methodology. Other items noted included the City's strong historical budgetary performance, with balanced operating results in the general fund and an operating surplus at the total governmental fund level in fiscal 2015; very strong liquidity, with total government available cash at 20.3% of total governmental fund expenditures and 5.6 times governmental debt service, and access to external liquidity considered strong by S&P; and a strong debt and contingent liability position, with debt service carrying charges at 3.6% of expenditures and net direct debt that is 25.9% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value, and a strong institutional framework score.

Requests for Information

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

Basic Financial Statements

STATEMENT OF NET POSITION

JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 44,530,610	\$ 30,407,120	\$ 74,937,730
Investments.....	1,894,461	-	1,894,461
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	2,227,738	-	2,227,738
Tax liens.....	285,032	-	285,032
Motor vehicle excise taxes.....	1,080,607	-	1,080,607
User fees.....	-	8,529,493	8,529,493
Trash fees.....	668,248	-	668,248
Departmental and other.....	5,975	938,135	944,110
Intergovernmental.....	17,485,774	-	17,485,774
Loans.....	172,894	-	172,894
Tax foreclosures.....	5,179,627	-	5,179,627
Working capital deposit.....	211,500	-	211,500
Prepaid expenses.....	23,095,548	-	23,095,548
Receivables, net of allowance for uncollectibles:			
Tax liens.....	1,140,128	-	1,140,128
Intergovernmental.....	12,370,368	-	12,370,368
Loans.....	1,530,000	-	1,530,000
Capital assets, nondepreciable.....	31,550,063	2,844,420	34,394,483
Capital assets, net of accumulated depreciation.....	<u>255,075,971</u>	<u>211,744,049</u>	<u>466,820,020</u>
TOTAL ASSETS.....	<u>398,504,544</u>	<u>254,463,217</u>	<u>652,967,761</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions.....	45,333,878	3,459,447	48,793,325
Deferred charges on refunding.....	<u>119,128</u>	<u>-</u>	<u>119,128</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES.....	<u>45,453,006</u>	<u>3,459,447</u>	<u>48,912,453</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	8,348,297	4,141,270	12,489,567
Accrued payroll.....	11,039,746	60,970	11,100,716
Tax refunds payable.....	2,751,736	-	2,751,736
Accrued interest.....	1,305,843	1,952,317	3,258,160
Other liabilities.....	4,658,547	92,193	4,750,740
Compensated absences.....	6,270,994	387,522	6,658,516
Workers' compensation.....	555,000	-	555,000
Notes payable.....	3,944,627	13,936,454	17,881,081
Bonds payable.....	7,093,848	8,502,386	15,596,234
NONCURRENT:			
Compensated absences.....	4,634,101	108,976	4,743,077
Workers' compensation.....	2,789,000	-	2,789,000
Other postemployment benefits.....	165,910,770	5,960,257	171,871,027
Net pension liability.....	242,898,996	18,535,721	261,434,717
Bonds payable.....	<u>71,054,604</u>	<u>144,186,925</u>	<u>215,241,529</u>
TOTAL LIABILITIES.....	<u>533,256,109</u>	<u>197,864,991</u>	<u>731,121,100</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflows of resources related to pensions.....	<u>104,619</u>	<u>7,984</u>	<u>112,603</u>
NET POSITION			
Net investment in capital assets.....	227,071,832	53,624,150	280,695,982
Restricted for:			
Chapter 17 special reserve.....	1,150	-	1,150
Streets.....	3,268,170	-	3,268,170
Community development.....	10,069,562	-	10,069,562
Loans.....	1,702,894	-	1,702,894
Permanent funds:			
Expendable.....	174,164	-	174,164
Nonexpendable.....	1,816,558	-	1,816,558
Gifts and grants.....	9,172,407	-	9,172,407
Unrestricted.....	<u>(342,679,915)</u>	<u>6,425,539</u>	<u>(336,254,376)</u>
TOTAL NET POSITION.....	<u>\$ (89,403,178)</u>	<u>\$ 60,049,689</u>	<u>\$ (29,353,489)</u>

See accompanying notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 23,580,423	\$ 6,025,108	\$ 746,031	\$ -	\$ (16,809,284)
Public safety.....	78,846,900	4,117,275	2,170,268	-	(72,559,357)
Education.....	269,659,908	662,814	192,184,277	-	(76,812,817)
Public works.....	18,145,795	3,595,215	773,482	2,005,335	(11,771,763)
Human services.....	15,732,590	1,213,863	12,967,944	62,953	(1,487,830)
Culture and recreation.....	8,047,335	552,917	1,089,189	-	(6,405,229)
Interest.....	2,855,797	-	409,577	-	(2,446,220)
Total Governmental Activities.....	416,868,748	16,167,192	210,340,768	2,068,288	(188,292,500)
<i>Business-Type Activities:</i>					
Sewer.....	16,317,014	17,765,401	-	210,456	1,658,843
Water.....	8,082,146	9,325,308	-	378,675	1,621,837
Parking.....	4,884,656	7,184,083	-	-	2,299,427
Auditorium.....	2,746,199	2,559,753	-	-	(186,446)
Total Business-Type Activities.....	32,030,015	36,834,545	-	589,131	5,393,661
Total Primary Government.....	\$ 448,898,763	\$ 53,001,737	\$ 210,340,768	\$ 2,657,419	\$ (182,898,839)

See accompanying notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FOR THE YEAR ENDED JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ (188,292,500)	\$ 5,393,661	\$ (182,898,839)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	115,902,937	-	115,902,937
Tax liens.....	785,172	-	785,172
Motor vehicle and other excise taxes.....	8,173,051	-	8,173,051
Penalties and interest on taxes.....	1,211,000	-	1,211,000
Payments in lieu of taxes.....	1,106,289	-	1,106,289
Grants and contributions not restricted to specific programs.....	25,195,854	-	25,195,854
Unrestricted investment income.....	464,263	2,995	467,258
Gain on disposal of assets.....	155,503	-	155,503
Miscellaneous.....	280,774	-	280,774
<i>Transfers, net</i>	6,595,572	(6,595,572)	-
Total general revenues and transfers.....	159,870,415	(6,592,577)	153,277,838
Change in net position.....	(28,422,085)	(1,198,916)	(29,621,001)
<i>Net Position:</i>			
Beginning of year (as restated).....	(60,981,093)	61,248,605	267,512
End of year.....	\$ (89,403,178)	\$ 60,049,689	\$ (29,353,489)

See accompanying notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2016

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents.....	\$ 22,511,362	\$ 19,817,058	\$ 42,328,420
Investments.....	-	1,894,461	1,894,461
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	2,227,738	-	2,227,738
Tax liens.....	1,425,160	-	1,425,160
Motor vehicle & other excise taxes.....	1,080,607	-	1,080,607
Trash fees.....	668,248	-	668,248
Departmental and other.....	5,975	-	5,975
Intergovernmental.....	15,253,566	14,602,576	29,856,142
Loans.....	-	1,702,894	1,702,894
Tax foreclosures.....	5,179,627	-	5,179,627
Working capital deposit.....	211,500	-	211,500
Prepaid expenses.....	23,095,548	-	23,095,548
TOTAL ASSETS.....	\$ 71,659,331	\$ 38,016,989	\$ 109,676,320
LIABILITIES			
Warrants payable.....	\$ 5,885,256	\$ 2,463,041	\$ 8,348,297
Accrued payroll.....	11,039,294	452	11,039,746
Tax refunds payable.....	2,751,736	-	2,751,736
Other liabilities.....	4,658,547	-	4,658,547
Notes payable.....	-	3,944,627	3,944,627
TOTAL LIABILITIES.....	24,334,833	6,408,120	30,742,953
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue.....	25,160,785	12,708,597	37,869,382
FUND BALANCES			
Nonspendable.....	-	1,816,558	1,816,558
Restricted.....	1,150	17,083,714	17,084,864
Committed.....	4,499,733	-	4,499,733
Assigned.....	2,252,663	-	2,252,663
Unassigned.....	15,410,167	-	15,410,167
TOTAL FUND BALANCES.....	22,163,713	18,900,272	41,063,985
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....	\$ 71,659,331	\$ 38,016,989	\$ 109,676,320

See accompanying notes to basic financial statements.

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

JUNE 30, 2016

Total governmental fund balances.....	\$	41,063,985
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		286,626,034
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		37,869,382
Certain changes in the net pension liability are required to be included in pension expense over future periods. These changes are reported as deferred outflows of resources or (deferred inflows of resources) related to pensions.....		45,229,259
Internal service funds are used by management to account for retirees' health insurance and workers' compensation activities.		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.....		2,202,190
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(1,305,843)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds payable.....	(78,148,452)	
Workers compensation.....	(3,344,000)	
Other postemployment benefits.....	(165,910,770)	
Net pension liability.....	(242,898,996)	
Compensated absences.....	<u>(10,905,095)</u>	
Net effect of reporting long-term liabilities.....		(501,207,313)
In the statement of activities, deferred charges are reported for refundings of debt, which are amortized over the shorter of the remaining life of the refunding bonds or refunded bonds. In governmental funds, defeasances of debt are expensed when the refunding bonds are issued.....		<u>119,128</u>
Net position of governmental activities.....	\$	<u><u>(89,403,178)</u></u>

See accompanying notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Real estate and personal property taxes, net of tax refunds.....	\$ 116,542,798	\$ -	\$ 116,542,798
Tax liens.....	857,661	-	857,661
Motor vehicle and other excise taxes.....	8,364,664	-	8,364,664
Trash disposal.....	3,101,426	-	3,101,426
Penalties and interest on taxes.....	1,211,000	-	1,211,000
Payments in lieu of taxes.....	1,106,289	-	1,106,289
Fines and forfeitures.....	-	38,703	38,703
Intergovernmental.....	194,511,650	45,556,364	240,068,014
Departmental and other.....	9,599,316	4,066,966	13,666,282
Contributions.....	-	47,201	47,201
Investment income.....	415,024	49,239	464,263
TOTAL REVENUES.....	335,709,828	49,758,473	385,468,301
EXPENDITURES:			
Current:			
General government.....	15,562,918	601,493	16,164,411
Public safety.....	43,749,124	4,841,728	48,590,852
Education.....	148,149,496	29,539,564	177,689,060
Public works.....	12,475,724	7,165,972	19,641,696
Human services.....	3,399,315	11,196,436	14,595,751
Culture and recreation.....	4,190,593	1,123,374	5,313,967
Pension benefits.....	45,003,684	-	45,003,684
Employee benefits.....	41,528,938	-	41,528,938
State and county charges.....	20,722,575	-	20,722,575
Debt service:			
Principal.....	9,502,743	170,000	9,672,743
Interest.....	2,315,778	35,063	2,350,841
TOTAL EXPENDITURES.....	346,600,888	54,673,630	401,274,518
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(10,891,060)	(4,915,157)	(15,806,217)
OTHER FINANCING SOURCES (USES):			
Proceeds from bonds.....	-	5,768,480	5,768,480
Proceeds from refunding bonds.....	3,775,000	-	3,775,000
Premium from issuance of bonds.....	1,993,431	-	1,993,431
Premium from issuance of refunding bonds.....	413,130	-	413,130
Payments to refunded bond escrow agent.....	(4,405,626)	-	(4,405,626)
Sale of assets.....	37,603	117,900	155,503
Transfers in.....	8,778,205	518,000	9,296,205
Transfers out.....	(687,142)	(2,013,491)	(2,700,633)
TOTAL OTHER FINANCING SOURCES (USES).....	9,904,601	4,390,889	14,295,490
NET CHANGE IN FUND BALANCES.....	(986,459)	(524,268)	(1,510,727)
FUND BALANCES AT BEGINNING OF YEAR.....	23,150,172	19,424,540	42,574,712
FUND BALANCES AT END OF YEAR.....	\$ 22,163,713	\$ 18,900,272	\$ 41,063,985

See accompanying 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**

FOR THE YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds.....	\$	(1,510,727)
<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.....	12,455,239	
Depreciation expense.....	<u>(13,342,426)</u>	
Net effect of reporting capital assets.....		(887,187)
<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 (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue.....</p>		
		(4,182,291)
<p>The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Proceeds from bonds.....	(5,768,480)	
Proceeds from refunding bonds.....	(3,775,000)	
Payments to refunded bond escrow agent.....	4,405,626	
Premium from issuance of refunding bonds.....	(413,130)	
Deferred charges on refunding.....	321,787	
Debt service principal payments.....	<u>9,672,743</u>	
Net effect of reporting long term debt.....		4,443,546
<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.....	(522,831)	
Net change in accrued interest on long-term debt.....	(584,351)	
Net change in workers compensation accrual.....	159,000	
Net change in postemployment benefits accrual.....	(13,199,362)	
Net change in pension liability.....	(53,774,921)	
Net change in un-amortized bond premiums.....	(1,744,784)	
Net change in deferred outflow/(inflow) of resources related to pensions.....	43,893,647	
Amortization of deferred charge on refunding.....	<u>(81,461)</u>	
Net effect of recording long-term liabilities and amortizing deferred charges.....		(25,855,063)
<p>Internal service funds are used by management to account for health insurance and workers' compensation activities.</p>		
The net activity of internal service funds is reported with Governmental Activities.....		<u>(430,363)</u>
Change in net position of governmental activities.....	\$	<u>(28,422,085)</u>

See accompanying notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2016

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Water	Parking	Auditorium	Total	
ASSETS						
CURRENT:						
Cash and cash equivalents.....	\$ 4,884,810	\$ 15,859,394	\$ 9,645,927	\$ 16,989	\$ 30,407,120	\$ 2,202,190
Receivables, net of allowance for uncollectibles:						
User fees.....	4,803,857	3,725,636	-	-	8,529,493	-
Departmental and other.....	-	-	938,135	-	938,135	-
Total current assets.....	9,688,667	19,585,030	10,584,062	16,989	39,874,748	2,202,190
NONCURRENT:						
Capital assets, nondepreciable.....	1,235,798	746,856	861,766	-	2,844,420	-
Capital assets, net of accumulated depreciation.....	129,213,373	46,958,825	35,571,851	-	211,744,049	-
Total noncurrent assets.....	130,449,171	47,705,681	36,433,617	-	214,588,469	-
TOTAL ASSETS.....	140,137,838	67,290,711	47,017,679	16,989	254,463,217	2,202,190
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows of resources related to pensions.....	1,985,888	1,273,506	200,053	-	3,459,447	-
LIABILITIES						
CURRENT:						
Warrants payable.....	873,343	2,373,668	875,371	18,888	4,141,270	-
Accrued payroll.....	24,308	32,439	4,223	-	60,970	-
Accrued interest.....	1,018,727	533,021	400,569	-	1,952,317	-
Other liabilities.....	-	-	-	92,193	92,193	-
Compensated absences.....	246,176	129,118	12,228	-	387,522	-
Notes payable.....	1,350,000	12,586,454	-	-	13,936,454	-
Bonds payable.....	4,112,464	2,619,229	1,770,693	-	8,502,386	-
Total current liabilities.....	7,625,018	18,273,929	3,063,084	111,081	29,073,112	-
NONCURRENT:						
Compensated absences.....	69,755	36,727	2,494	-	108,976	-
Net pension liability.....	10,640,393	6,823,446	1,071,882	-	18,535,721	-
Other postemployment benefits.....	3,087,822	2,033,300	839,135	-	5,960,257	-
Bonds payable.....	83,493,598	32,719,188	27,974,139	-	144,186,925	-
Total noncurrent liabilities.....	97,291,568	41,612,661	29,887,650	-	168,791,879	-
TOTAL LIABILITIES.....	104,916,586	59,886,590	32,950,734	111,081	197,864,991	-
DEFERRED INFLOWS OF RESOURCES:						
Deferred inflows of resources related to pensions.....	4,583	2,939	462	-	7,984	-
NET POSITION						
Net investment in capital assets.....	41,688,342	1,483,023	10,452,785	-	53,624,150	-
Unrestricted.....	(4,485,785)	7,191,665	3,813,751	(94,092)	6,425,539	2,202,190
TOTAL NET POSITION.....	\$ 37,202,557	\$ 8,674,688	\$ 14,266,536	\$ (94,092)	\$ 60,049,689	\$ 2,202,190

See accompanying notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Water	Parking	Auditorium	Total	
OPERATING REVENUES:						
Charges for services	\$ 17,554,274	\$ 9,315,840	\$ 7,184,083	\$ 2,559,753	\$ 36,613,950	\$ -
Other.....	211,127	9,468	-	-	220,595	69,637
TOTAL OPERATING REVENUES	17,765,401	9,325,308	7,184,083	2,559,753	36,834,545	69,637
OPERATING EXPENSES:						
Cost of services and administration	9,488,563	4,506,162	2,382,802	2,746,199	19,123,726	-
Depreciation.....	4,256,407	2,518,329	1,566,537	-	8,341,273	-
Payment to mitigation fund.....	-	-	-	-	-	500,000
TOTAL OPERATING EXPENSES	13,744,970	7,024,491	3,949,339	2,746,199	27,464,999	500,000
OPERATING INCOME (LOSS).....	4,020,431	2,300,817	3,234,744	(186,446)	9,369,546	(430,363)
NONOPERATING REVENUES (EXPENSES):						
Investment income.....	-	-	2,995	-	2,995	-
Interest expense.....	(2,572,044)	(1,057,655)	(935,317)	-	(4,565,016)	-
Intergovernmental.....	210,456	378,675	-	-	589,131	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(2,361,588)	(678,980)	(932,322)	-	(3,972,890)	-
INCOME (LOSS) BEFORE TRANSFERS.....	1,658,843	1,621,837	2,302,422	(186,446)	5,396,656	(430,363)
TRANSFERS:						
Transfers in.....	-	-	-	189,142	189,142	-
Transfers out.....	(3,740,080)	(2,342,203)	(702,431)	-	(6,784,714)	-
TOTAL OPERATING TRANSFERS.....	(3,740,080)	(2,342,203)	(702,431)	189,142	(6,595,572)	-
CHANGE IN NET POSITION.....	(2,081,237)	(720,366)	1,599,991	2,696	(1,198,916)	(430,363)
NET POSITION AT BEGINNING OF YEAR (AS RESTATED)....	39,283,794	9,395,054	12,666,545	(96,788)	61,248,605	2,632,553
NET POSITION AT END OF YEAR.....	\$ 37,202,557	\$ 8,674,688	\$ 14,266,536	\$ (94,092)	\$ 60,049,689	\$ 2,202,190

See accompanying notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED JUNE 30, 2016

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Water	Parking	Auditorium	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users.....	\$ 19,007,437	\$ 11,459,394	\$ 7,146,493	\$ 2,559,753	\$ 40,173,077	\$ -
Receipts from insurance reimbursements.....	-	-	-	-	-	69,637
Payments to vendors.....	(5,890,915)	(2,082,767)	(1,502,613)	(2,744,217)	(12,220,512)	-
Payments to employees.....	(3,084,090)	(2,096,395)	(489,366)	-	(5,669,850)	-
Payment to mitigation fund.....	-	-	-	-	-	(500,000)
NET CASH FROM OPERATING ACTIVITIES.....	10,032,433	7,280,232	5,154,514	(184,464)	22,282,715	(430,363)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Transfers in.....	-	-	-	189,142	189,142	-
Transfers out.....	(3,740,080)	(2,342,203)	(702,431)	-	(6,784,714)	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(3,740,080)	(2,342,203)	(702,431)	189,142	(6,595,572)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Proceeds from the issuance of bonds and notes.....	1,350,000	8,102,548	7,779,939	-	17,232,487	-
Proceeds from the issuance of refunding bonds.....	374,751	262,000	-	-	636,751	-
Payments to refunded bond escrow agent.....	(437,354)	(305,768)	-	-	(743,122)	-
Premium from the issuance of refunding bonds.....	62,603	43,768	-	-	106,371	-
Premium from the issuance of bonds.....	-	752,168	598,923	-	1,351,091	-
Acquisition and construction of capital assets.....	(6,689,885)	(8,255,416)	(3,422,997)	-	(18,368,298)	-
Principal payments on bonds and notes.....	(3,985,352)	(10,271,166)	(2,699,939)	-	(16,956,457)	-
Interest expense.....	(2,534,098)	(720,520)	(928,097)	-	(4,182,715)	-
Intergovernmental revenue.....	-	7,517,567	-	-	7,517,567	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(11,859,335)	(2,874,819)	1,327,829	-	(13,406,325)	-
CASH FLOWS FROM INVESTING ACTIVITIES:						
Investment income.....	-	-	2,995	-	2,995	-
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(5,566,982)	2,063,210	5,782,907	4,678	2,283,813	(430,363)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	10,451,792	13,796,184	3,863,020	12,311	28,123,307	2,632,553
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 4,884,810	\$ 15,859,394	\$ 9,645,927	\$ 16,989	\$ 30,407,120	\$ 2,202,190
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:						
Operating income (loss).....	\$ 4,020,431	\$ 2,300,817	\$ 3,234,744	\$ (186,446)	\$ 9,369,546	\$ (430,363)
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation.....	4,256,407	2,518,329	1,566,537	-	8,341,273	-
Deferred inflows (outflows) related to pensions.....	(1,922,021)	(1,232,579)	(193,548)	-	(3,348,148)	-
Changes in assets and liabilities:						
Accounts receivable.....	1,242,036	2,134,086	-	-	3,376,122	-
Departmental and other.....	-	-	(37,590)	-	(37,590)	-
Warrants payable.....	(104,146)	(13,425)	187,473	4,678	74,580	-
Accrued payroll.....	800	13,449	1,857	-	16,106	-
Other liabilities.....	-	-	-	(2,696)	(2,696)	-
Net pension liability.....	2,245,745	1,444,351	216,117	-	3,906,213	-
Other postemployment benefits.....	311,177	127,655	181,684	-	620,516	-
Accrued compensated absences.....	(17,996)	(12,451)	(2,760)	-	(33,207)	-
Total adjustments.....	6,012,002	4,979,415	1,919,770	1,982	12,913,169	-
NET CASH FROM OPERATING ACTIVITIES.....	\$ 10,032,433	\$ 7,280,232	\$ 5,154,514	\$ (184,464)	\$ 22,282,715	\$ (430,363)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:						
Principal and interest long-term debt subsidy.....	\$ 210,456	\$ 356,556	\$ -	\$ -	\$ 567,012	\$ -

See accompanying notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	Pension Trust Fund (as of December 31, 2015)	Other Postemployment Benefits Trust	Private Purpose Trust Funds	Agency Funds
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 7,648,513	\$ 26,673	\$ 33,455	\$ 889,300
Investments:				
PRIT general allocation funds.....	300,885,060	-	-	-
Equity securities.....	921,761	-	-	-
Pooled alternative investments.....	848,621	1,568,603	-	-
Pooled real estate funds.....	625,086	-	-	-
Equity mutual funds.....	-	2,825,781	132,009	-
Bond mutual funds.....	-	3,611,328	-	-
TOTAL ASSETS.....	310,929,041	8,032,385	165,464	889,300
LIABILITIES				
Warrants payable.....	-	-	-	16,080
Liabilities due depositors.....	-	-	-	873,220
TOTAL LIABILITIES.....	-	-	-	889,300
NET POSITION				
Held in trust for:				
Pension benefits.....	310,929,041	-	-	-
Other postemployment benefits.....	-	8,032,385	-	-
Other purposes.....	-	-	165,464	-
TOTAL NET POSITION.....	\$ 310,929,041	\$ 8,032,385	\$ 165,464	\$ -

See accompanying notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Pension Trust Fund (as of December 31, 2015)	Other Postemployment Benefits Trust	Private Purpose Trust Funds
ADDITIONS:			
Contributions:			
Employer.....	\$ 21,837,654	\$ -	\$ -
Employee.....	8,712,896	-	-
Retirement benefits - 3(8)c contributions from other systems....	551,603		
Workers compensation settlements.....	18,600		
Total contributions.....	31,120,753	-	-
Net investment income (loss):			
Net change in fair value of investments.....	2,803,005	-	-
Interest.....	40,699	232,385	3,238
Total investment income (loss).....	2,843,704	232,385	3,238
Less: investment expense.....	(1,630,277)	-	-
Net investment income (loss).....	1,213,427	232,385	3,238
Intergovernmental.....	215,733	-	-
Transfers from other systems.....	446,094	-	-
TOTAL ADDITIONS.....	32,996,007	232,385	3,238
DEDUCTIONS:			
Administration.....	355,999	-	-
Transfers to other systems.....	255,947	-	-
Retirement benefits - 3(8)c payments to other systems.....	1,128,487	-	-
Retirement benefits and refunds.....	34,794,238	-	-
TOTAL DEDUCTIONS.....	36,534,671	-	-
CHANGE IN NET POSITION.....	(3,538,664)	232,385	3,238
NET POSITION AT BEGINNING OF YEAR.....	314,467,705	7,800,000	162,226
NET POSITION AT END OF YEAR.....	\$ 310,929,041	\$ 8,032,385	\$ 165,464

See accompanying 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.

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

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

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

Fund Financial Statements

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

Major Fund Criteria

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

- If the total assets 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 *sewer enterprise fund* is used to account for the sewer activities.

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

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

The *auditorium fund* is used to account for the activities of the Lowell Memorial Auditorium.

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 trust fund* is 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.

The *other postemployment benefit trust fund* is used 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.

Government-wide and Fund Financial Statements

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

E. 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 – Fair Value Measurements.

F. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes and Tax Liens

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

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

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

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

Motor Vehicle Excise

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

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

Water & Sewer

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

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

Trash

Trash 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 are recorded at the estimated fair market value at the date of donation.

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

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

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

All purchases and construction costs in excess of \$25,000, 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 financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City reported deferred charges on refunding and deferred outflows of resources related to pensions in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City 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 not 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 that are not available for appropriation or are legally restricted by outside parties for a specific future use.

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

Net position has been “restricted for” the following:

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

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

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

“Loans” represents community development outstanding loans receivable balances.

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

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

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

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

Fund Financial Statements (Fund Balances)

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

The governmental fund balance classifications are as follows:

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

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

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

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

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

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

N. Long-term debt*Government-Wide and Proprietary Fund Financial Statements*

Long-term debt is reported as 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

Several individual fund deficits exist within the Special Revenue and Capital Projects Funds at June 30, 2016. These deficits will be funded through grants, issuance of long-term debt and available fund balances.

The Auditorium ended with a \$94 thousand deficit which will be funded through tax levy and available funds.

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.

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

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The 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 \$75,887,158 and the bank balance totaled \$81,635,375. Of the bank balance, \$2,000,000 was covered by Federal Depository Insurance, \$23,642,455 was covered by the Depositors Insurance Fund, \$30,888,905 was collateralized, and \$25,104,015 was uninsured and uncollateralized.

At December 31, 2015, carrying amount of deposits for the System totaled \$7,648,513 and the bank balance totaled \$7,777,406. 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, 2016, the City had the following investments:

Investment Type	Fair Value	Fair Value By Maturity		
		Under 1 Year	1-5 Years	6-10 Years
<u>Debt Securities</u>				
Federal Home Loans Mtg Corp.....	\$ 430,000	\$ -	\$ 430,000	\$ -
Governmental National Mortgage Association.....	391	-	391	-
U.S. Treasury Notes.....	208,667	-	208,667	-
Corporate Bonds.....	329,293	-	329,293	-
Municipal Bonds.....	46,143	35,055	11,088	-
Bond Mutual Funds (Domestic).....	3,008,485	-	1,105,272	1,903,213
Bond Mutual Funds (International).....	716,735	-	716,735	-
Total Debt Securities.....	4,739,714	\$ 35,055	\$ 2,801,446	\$ 1,903,213
<u>Other Investments</u>				
Equity Securities.....	371,984			
Equity Mutual Funds (Domestic).....	1,865,557			
Equity Mutual Funds (International).....	960,224			
Negotiable Certificates of Deposit.....	526,100			
Pooled Alternative Investments.....	1,568,603			
Total Investments.....	\$ 10,032,182			

The City’s investment in the Federal Home Loan Mortgage Corp, Federal, Governmental National Mortgage Association, and the U.S. Treasury Notes totaled \$639,058. These investments are all rated AA+ by Standard & Poor’s. Of the \$329,293 invested in corporate bonds, \$164,658 was rated A, \$99,700 was rated BBB+, and the remaining \$64,935 was rated BBB-. Of the \$46,143 invested in Municipal Bonds, \$5,452 was rated AA, and \$40,691 was rated AA-. Of the \$3,008,485 invested in Bond Mutual Funds (Domestic), \$113,892 was rated AAA, \$991,380 was rated BBB, \$1,544,877 was rated BB, and \$358,336 was rated B. Of the \$716,735 invested in Bond Mutual Funds (International), \$504,332 was rated BBB, and \$212,403 was rated BB.

As of December 31, 2015, the System had the following investments:

<u>Other Investments</u>	
Equity securities.....	\$ 921,761
Pooled alternative investments.....	848,621
Pooled real estate funds.....	625,086
PRIT general allocation funds.....	300,885,060
Total Investments.....	\$ 303,280,528

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, \$430,000 in Federal Home Loan Mortgages, \$391 in Government National Mortgage Association, \$208,667 in U.S. Treasury Notes, \$329,293 in Corporate Bonds, \$46,143 in municipal bonds, and \$371,984 in Equity Securities, the City has a custodial credit risk exposure of \$1,386,478 because the related securities are uninsured, unregistered and held by the counterparty. The City’s investment policy states that with the exception of U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or Agencies, and

State Investment Pools, that no more than 50% of the City's investments shall be invested in a single institution.

For 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. Of the System's investments \$921,761 in Equity Securities, the System has custodial credit risk exposure of \$921,761 because the related securities are uninsured, unregistered and held by the counterparty. The System does not have an investment policy related to custodial credit risk.

Interest Rate Risk

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

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

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .14 to 24.23 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.

The System has not adopted a formal policy related to credit risk. At December 31, 2015, 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, that no more than 5% of the City's investments shall be invested in a single institution. At June 30, 2016 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, 2015, 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, 2016:

Investment Type	6/30/16	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured at fair value level:				
<u>Debt Securities</u>				
Federal Home Loan Mortgage Corp.....	\$ 430,000	\$ 430,000	\$ -	\$ -
Governmental National Mortgage Association.....	391	391	-	-
United States Treasury.....	208,667	208,667	-	-
Corporate Bonds.....	329,293	-	329,293	-
Municipal Bonds.....	46,143	-	46,143	-
Bond Mutual Funds (Domestic).....	3,008,485	3,008,485	-	-
Bond Mutual Funds (International).....	716,735	716,735	-	-
Total debt securities.....	4,739,714	4,364,278	375,436	-
<u>Other investments</u>				
Equity Securities.....	371,984	371,984	-	-
Equity Mutual Funds (Domestic).....	1,865,557	1,865,557	-	-
Equity Mutual Funds (International).....	960,224	960,224	-	-
Negotiable Certificates of Deposit.....	526,100	526,100	-	-
Pooled Alternative Investments.....	1,568,603	-	-	1,568,603
Total other investments.....	5,292,468	3,723,865	-	1,568,603
Total investments measured at fair value level.....	\$ 10,032,182	\$ 8,088,143	\$ 375,436	\$ 1,568,603

U.S. government treasuries and government sponsored enterprises, bond mutual funds, equity securities, equity mutual funds, negotiable certificates of deposit 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 retiree pension defined benefit plan 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, 2015:

Investment Type	12/31/15	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured at fair value level:				
<u>Other investments</u>				
Equity securities.....	\$ 921,761	\$ 921,761	\$ -	\$ -
Pooled alternative investments.....	848,621	-	-	848,621
Pooled real estate funds.....	625,086	-	-	625,086
Total other investments.....	2,395,468	921,761	-	1,473,707
Total investments measured at fair value level:	2,395,468	\$ 921,761	\$ -	\$ 1,473,707
Investments measured at the net asset value:				
PRIT Investments.....	300,885,060			
Total investments.....	\$ 303,280,528			

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Pooled Alternative 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, 2016, receivables for the individual major governmental funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Real estate and personal property taxes.....	\$ 3,488,897	\$ (1,261,159)	\$ 2,227,738
Tax liens.....	2,154,516	(729,356)	1,425,160
Motor vehicle and other excise taxes.....	3,659,999	(2,579,392)	1,080,607
Trash fees.....	668,248	-	668,248
Departmental and other.....	5,975	-	5,975
Intergovernmental.....	29,856,142	-	29,856,142
Loans.....	1,702,894	-	1,702,894
Total	\$ 41,536,671	\$ (4,569,907)	\$ 36,966,764

At June 30, 2016, receivables for the enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
User fees.....	\$ 8,529,493	\$ -	\$ 8,529,493
Departmental and other.....	938,135	-	938,135
Total	<u>\$ 9,467,628</u>	<u>\$ -</u>	<u>\$ 9,467,628</u>

Governmental funds report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

At the end of the current year, the various components of *unavailable revenue* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 1,547,602	\$ -	\$ 1,547,602
Tax liens.....	1,425,160	-	1,425,160
Motor vehicle and other excise taxes.....	1,080,607	-	1,080,607
Trash fees.....	668,248	-	668,248
Departmental and other.....	5,975	-	5,975
Intergovernmental.....	15,253,566	12,708,597	27,962,163
<u>Other asset type:</u>			
Tax foreclosures.....	<u>5,179,627</u>	<u>-</u>	<u>5,179,627</u>
Total.....	<u>\$ 25,160,785</u>	<u>\$ 12,708,597</u>	<u>\$ 37,869,382</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

Governmental Activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 30,833,623	\$ -	\$ -	\$ 30,833,623
Construction in progress.....	<u>324,975</u>	<u>716,440</u>	<u>(324,975)</u>	<u>716,440</u>
Total capital assets not being depreciated.....	<u>31,158,598</u>	<u>716,440</u>	<u>(324,975)</u>	<u>31,550,063</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	348,331,554	2,887,902	-	351,219,456
Capital improvements (other than buildings).....	26,506,599	1,265,040	-	27,771,639
Infrastructure.....	173,526,150	5,050,779	-	178,576,929
Vehicles.....	15,796,151	2,453,419	-	18,249,570
Equipment.....	6,321,834	109,733	-	6,431,567
Books.....	6,930,682	296,901	-	7,227,583
Software.....	<u>495,990</u>	<u>-</u>	<u>-</u>	<u>495,990</u>
Total capital assets being depreciated.....	<u>577,908,960</u>	<u>12,063,774</u>	<u>-</u>	<u>589,972,734</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(204,557,933)	(7,742,673)	-	(212,300,606)
Capital improvements (other than buildings).....	(12,122,118)	(1,043,330)	-	(13,165,448)
Infrastructure.....	(82,483,100)	(2,532,198)	-	(85,015,298)
Vehicles.....	(11,602,137)	(1,259,043)	-	(12,861,180)
Equipment.....	(4,355,503)	(412,395)	-	(4,767,898)
Books.....	(5,937,556)	(352,787)	-	(6,290,343)
Software.....	<u>(495,990)</u>	<u>-</u>	<u>-</u>	<u>(495,990)</u>
Total accumulated depreciation.....	<u>(321,554,337)</u>	<u>(13,342,426)</u>	<u>-</u>	<u>(334,896,763)</u>
Total capital assets being depreciated, net.....	<u>256,354,623</u>	<u>(1,278,652)</u>	<u>-</u>	<u>255,075,971</u>
Total governmental activities capital assets, net.....	<u>\$ 287,513,221</u>	<u>\$ (562,212)</u>	<u>\$ (324,975)</u>	<u>\$ 286,626,034</u>

Business-Type Activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,844,420	\$ -	\$ -	\$ 2,844,420
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	38,648	3,037,310	-	3,075,958
Capital improvements (other than buildings).....	25,996,832	-	-	25,996,832
Infrastructure.....	304,777,143	17,582,883	-	322,360,026
Vehicles.....	2,829,586	127,425	-	2,957,011
Equipment.....	2,580,919	280,218	-	2,861,137
Total capital assets being depreciated.....	<u>336,223,128</u>	<u>21,027,836</u>	<u>-</u>	<u>357,250,964</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(9,814)	(38,696)	-	(48,510)
Capital improvements (other than buildings).....	(6,745,428)	(1,244,151)	-	(7,989,579)
Infrastructure.....	(127,987,622)	(6,555,070)	-	(134,542,692)
Vehicles.....	(1,500,466)	(302,764)	-	(1,803,230)
Equipment.....	(922,312)	(200,592)	-	(1,122,904)
Total accumulated depreciation.....	<u>(137,165,642)</u>	<u>(8,341,273)</u>	<u>-</u>	<u>(145,506,915)</u>
Total capital assets being depreciated, net.....	<u>199,057,486</u>	<u>12,686,563</u>	<u>-</u>	<u>211,744,049</u>
Total business-type activities capital assets, net.....	<u>\$ 201,901,906</u>	<u>\$ 12,686,563</u>	<u>\$ -</u>	<u>\$ 214,588,469</u>

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

Governmental Activities:	
General government.....	\$ 713,773
Public safety.....	1,351,045
Education.....	7,277,770
Public works.....	2,051,900
Human services.....	240,459
Culture and recreation.....	<u>1,707,479</u>
Total depreciation expense - governmental activities.....	<u>\$ 13,342,426</u>
Business-Type Activities:	
Sewer.....	\$ 4,256,407
Water.....	2,518,329
Parking.....	<u>1,566,537</u>
Total depreciation expense - business-type activities.....	<u>\$ 8,341,273</u>

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2016, are summarized as follows:

Operating Transfers Out:	Operating Transfers In:			Total
	General Fund	Nonmajor Governmental Funds	Auditorium Enterprise Fund	
General Fund.....	\$ -	\$ 498,000	\$ 189,142	\$ 687,142
Nonmajor Governmental Funds.....	2,013,491	-	-	2,013,491
Sewer Enterprise Fund.....	3,740,080	-	-	3,740,080
Water Enterprise Fund.....	2,342,203	-	-	2,342,203
Parking Enterprise Fund.....	682,431	20,000	-	702,431
Total.....	\$ 8,778,205	\$ 518,000	\$ 189,142	\$ 9,485,347

Transfers out of the General Fund represent a transfer to a Capital Projects Fund for a current year principal pay down of a BAN and a subsidy to the Auditorium Enterprise Fund. Transfers into the general fund represent amounts voted to fund 2016 operations, including indirect cost transfers from the enterprise funds as well as various budgeted transfers from nonmajor funds and the close out of un-spent circuit breaker funds.

NOTE 6 - SHORT-TERM FINANCING

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

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

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

Details related to the short-term debt activity for the year ended June 30, 2016, is as follows:

Type	Description	Maturity Date	Rate %	Balance at June 30 2015	Renewed/ Issued	Retired/ Redeemed	Balance at June 30 2016
BAN	Municipal Purpose.....	6/21/17	1.20 - 2.00%	\$ -	2,712,627	\$ -	2,712,627
SAAN	State Aid Anticipation.....	8/12/16	0.55%	-	1,232,000	-	1,232,000
SAAN	State Aid Anticipation.....	8/14/15	0.60%	1,730,000	-	(1,730,000)	-
BAN	Municipal Purpose.....	9/11/15	1.00%	7,433,803	-	(7,433,803)	-
BAN	Municipal Purpose.....	9/11/15	0.70%	275,000	-	(275,000)	-
BAN	Municipal Purpose.....	9/11/15	1.00%	6,229,188	-	(6,229,188)	-
Subtotal Governmental Short Term Debt.....				15,667,991	3,944,627	(15,667,991)	3,944,627
BAN	Water Improvements.....	9/11/15	1.00%	2,167,372	-	(2,167,372)	-
BAN	MCWT Interim Note.....	1/17/17	2.00%	2,013,996	-	(87,883)	1,926,113
BAN	MCWT Interim Note.....	3/15/17	2.00%	3,164,893	553,073	-	3,717,966
BAN	MCWT Interim Note.....	5/13/17	2.00%	-	4,766,360	-	4,766,360
BAN	MCWT Interim Note.....	4/28/17	2.00%	-	2,176,015	-	2,176,015
BAN	Water Improvements.....	9/11/15	1.00%	5,935,176	-	(5,935,176)	-
Subtotal Water Enterprise Fund.....				13,281,437	7,495,448	(8,190,431)	12,586,454
BAN	Parking Kiosks.....	9/11/15	1.00%	1,139,939	-	(1,139,939)	-
BAN	Garage Repairs.....	9/11/15	1.00%	210,000	-	(210,000)	-
Subtotal Parking Enterprise Fund.....				1,349,939	-	(1,349,939)	-
BAN	Municipal Purpose.....	6/21/17	1.20%	-	1,350,000	-	1,350,000
Subtotal Business-Type Short-Term Debt.....				14,631,376	8,845,448	(9,540,370)	13,936,454
Total Short-Term Debt.....				\$ 30,299,367	\$ 12,790,075	\$ (25,208,361)	\$ 17,881,081

On August 12, 2016, the City redeemed the \$1,232,000 SAAN.

NOTE 7 - LONG-TERM DEBT

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

In order to take advantage of favorable interest rates, the Town issued \$4,411,751 of General Obligation Refunding Bonds on September 1, 2015. \$5,040,000 of general obligation bonds were refunded by placing the proceeds of the refunding bonds, along with bond premiums received from the issuance, in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This refunding was undertaken to reduce total debt service payments over the next 8 years by \$529,980 and resulted in an economic gain of \$455,177. At June 30, 2016, \$4,314,283 of governmental bonds and \$725,717 of enterprise bonds outstanding from the refunding are considered defeased.

In previous years, certain general obligation bonds and enterprise fund bonds were defeased by placing the proceeds of the bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2016, \$910,000 of Governmental and \$13,915,000 of Enterprise Fund bonds outstanding from the advance refunding are considered defeased.

On September 1, 2015, the City issued \$39,925,000 of which \$35,513,249 was general obligation debt and \$4,411,751 was refunding debt as noted above. \$23,314,769 of the issuance was recognized in 2015 due to the

fact it related to and was used to paydown BAN's outstanding at June 30, 2015. The remaining \$12,198,480 of general obligation bonds issued was recognized in 2016 along with the \$4,411,751 of refunding bonds.

Details related to the outstanding indebtedness as of June 30, 2016, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Maturities Through	Interest Rate (%)	Outstanding at June 30, 2015	Issued	Refunded	Redeemed	Outstanding at June 30, 2016
Schools.....	2033	2.00-6.00	\$ 31,875,053	\$ 3,614,000	\$ 4,132,105	\$ 6,589,355	\$ 24,767,593
General.....	2033	2.00-6.00	43,936,780	5,629,480	182,178	2,753,188	46,630,894
Cawley Stadium.....	2018	3.00-5.41	73,325	-	-	25,200	48,125
Section 108.....	2025	variable	1,700,000	-	-	170,000	1,530,000
Lowell Memorial Auditorium...	2030	2.00-5.75	1,960,000	300,000	-	135,000	2,125,000
Total General Obligation Bonds.....			79,545,158	9,543,480	4,314,283	9,672,743	75,101,612
Unamortized Premium on Bonds.....			1,302,056	1,993,431	-	248,647	3,046,840
Total Long-Term Debt.....			<u>\$ 80,847,214</u>	<u>\$ 11,536,911</u>	<u>\$ 4,314,283</u>	<u>\$ 9,921,390</u>	<u>\$ 78,148,452</u>

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

Year	Principal	Interest	Total
2017.....	\$ 6,584,162	\$ 3,566,434	\$ 10,150,596
2018.....	7,341,450	2,785,610	10,127,060
2019.....	7,585,000	2,478,370	10,063,370
2020.....	7,907,000	2,144,338	10,051,338
2021.....	6,342,000	1,828,863	8,170,863
2022.....	6,243,000	1,537,529	7,780,529
2023.....	4,649,000	1,288,898	5,937,898
2024.....	3,640,000	1,104,981	4,744,981
2025.....	3,640,000	947,693	4,587,693
2026.....	3,110,000	798,748	3,908,748
2027.....	3,095,000	655,006	3,750,006
2028.....	3,000,000	514,676	3,514,676
2029.....	3,000,000	388,004	3,388,004
2030.....	2,855,000	273,876	3,128,876
2031.....	1,785,000	171,491	1,956,491
2032.....	1,380,000	120,950	1,500,950
2033.....	900,000	83,216	983,216
2034.....	785,000	54,581	839,581
2035.....	680,000	29,898	709,898
2036.....	580,000	9,428	589,428
Total.....	<u>\$ 75,101,612</u>	<u>\$ 20,782,590</u>	<u>\$ 95,884,202</u>

The Commonwealth has approved school construction assistance to the City. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During 2016, approximately \$4,825,000 of such assistance was received. Approximately \$15,254,000 will be received in future years. Of this amount, \$15,254,000 represents reimbursement of approved construction costs, and the long-term interest costs are considered immaterial. Accordingly, an intergovernmental receivable of \$15,254,000 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.

At June 30, 2016, the City carried \$1,530,000 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 \$1,530,000 in future years as debt repayments from developers who were the recipients of the loan funds. Accordingly a receivable of \$1,530,000 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, 2016, the interest rate on this debt remains variable and is determined quarterly based on three month London Interbank Offered Rate plus 20 basis points.

Bonds and Notes Payable Schedule – Enterprise Funds

Project	Maturities Through	Interest Rate (%)	Outstanding at June 30, 2015	Issued	Refunded	Redeemed	Outstanding at June 30, 2016
Sewer.....	2043	2.00-7.70	\$ 91,720,485	\$ 374,751	\$ 427,609	\$ 4,061,565	\$ 87,606,062
Water.....	2033	2.00-6.00	36,892,000	262,000	298,108	2,269,643	34,586,249
Parking.....	2028	4.00-5.00	23,314,939	6,430,000	-	1,350,000	28,394,939
Total General Obligation Bonds.....			151,927,424	7,066,751	725,717	7,681,208	150,587,250
Unamortized Premium on Bonds.....			835,000	1,351,091	-	84,030	2,102,061
Total Long-Term Debt.....			\$ 152,762,424	\$ 8,417,842	\$ 725,717	\$ 7,765,238	\$ 152,689,311

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

Year	Principal	Interest	Total
2017.....	\$ 8,206,361	\$ 4,746,042	\$ 12,952,403
2018.....	8,742,183	4,163,238	12,905,421
2019.....	8,903,323	3,915,840	12,819,163
2020.....	9,132,623	3,644,479	12,777,102
2021.....	9,320,568	3,366,585	12,687,153
2022.....	8,864,206	3,063,017	11,927,223
2023.....	8,839,569	2,749,668	11,589,237
2024.....	8,441,699	2,453,815	10,895,514
2025.....	8,641,638	2,169,623	10,811,261
2026.....	7,968,427	1,909,083	9,877,510
2027.....	7,866,753	1,651,185	9,517,938
2028.....	7,878,911	1,389,648	9,268,559
2029.....	5,356,753	1,183,205	6,539,958
2030.....	5,159,154	1,036,283	6,195,437
2031.....	4,999,688	896,079	5,895,767
2032.....	4,144,590	771,069	4,915,659
2033.....	4,028,916	660,151	4,689,067
2034.....	3,751,857	552,175	4,304,032
2035.....	3,552,687	454,324	4,007,011
2036.....	3,635,138	361,391	3,996,529
2037.....	2,879,253	279,974	3,159,227
2038.....	2,652,875	213,733	2,866,608
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>150,587,250</u>	\$ <u>41,977,449</u>	\$ <u>192,564,699</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 \$1,798,000 and interest costs for \$1,137,000. Thus, net MCWT loan repayments, including interest, are scheduled to be \$21,787,000. 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 2016 principal and interest subsidies totaled approximately \$265,000 and \$302,000, respectively.

The City is scheduled to be subsidized directly by the Department of the Treasury on a periodic basis for interest costs in the amount of \$556,000 related to the issuance of Qualified Energy Conservation Bonds. Thus net loan repayments, including interest, are scheduled to be \$2,286,000. 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 2016 interest subsidy totaled approximately \$75,000.

Authorized and Unissued Debt

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2016, the City had the following authorized and unissued debt:

Purpose	Amount
School Construction.....	\$ 20,100,000
Water.....	1,707,174
Sewer.....	40,017,616
Streetlights.....	30,826
Energy Improvements.....	1,717,883
Land.....	1,455,000
E911.....	1,117
LeLacheur Park.....	91,864
Parking Kiosks.....	380,061
Rogers Roof.....	110,000
Capital Plan.....	16,511,585
Bridge Repair.....	2,600,000
Total.....	\$ 84,723,126

Changes in Long-term Liabilities

During the year ended June 30, 2016, the following changes occurred in long-term liabilities:

Governmental Activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
General obligation bonds.....	\$ 79,545,158	\$ 9,543,480	\$ (13,987,026)	\$ 75,101,612	\$ 6,584,162
Add: unamortized premium.....	1,302,056	1,993,431	(248,647)	3,046,840	509,686
Total long-term debt.....	80,847,214	11,536,911	(14,235,673)	78,148,452	7,093,848
Workers' compensation.....	3,503,000	536,000	(695,000)	3,344,000	555,000
Compensated absences.....	10,382,264	6,746,578	(6,223,747)	10,905,095	6,270,994
Net pension liability.....	189,124,075	53,774,921	-	242,898,996	-
Other postemployment benefits.....	152,711,408	27,683,831	(14,484,469)	165,910,770	-
Total governmental activity long-term liabilities.....	\$ 436,567,961	\$ 100,278,241	\$ (35,638,889)	\$ 501,207,313	\$ 13,919,842

Business-Type Activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
General obligation bonds.....	\$ 151,927,424	\$ 7,066,751	\$ (8,406,925)	\$ 150,587,250	\$ 8,206,361
Add: unamortized premium.....	835,000	1,351,091	(84,030)	2,102,061	296,025
Total long-term debt.....	152,762,424	8,417,842	(8,490,955)	152,689,311	8,502,386
Compensated absences.....	529,705	368,364	(401,571)	496,498	387,522
Net pension liability.....	14,629,508	3,906,213	-	18,535,721	-
Other postemployment benefits.....	5,339,741	850,209	(229,693)	5,960,257	-
Total business-type activity long-term liabilities.....	\$ 173,261,378	\$ 13,542,628	\$ (9,122,219)	\$ 177,681,787	\$ 8,889,908

Compensated absences, workers' compensation and other postemployment liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures, which consist of the general fund and the sewer, water, parking, and auditorium 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 \$10.6 million 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 fund, and Salary Reserve Stabilization funds, reported as committed fund balance within the General Fund, have year end balances of \$9 thousand, \$311 thousand, \$955 thousand, \$2.8 million and \$400 thousand, 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, 2016, 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..... \$	-	\$ 1,816,558	\$ 1,816,558
Restricted for:			
Chapter 17 special reserve.....	1,150	-	1,150
Gift and grant funds.....	-	8,195,296	8,195,296
Federal grant funds.....	-	977,111	977,111
Section 108 funds.....	-	1,735,338	1,735,338
Sale of city property funds.....	-	396,788	396,788
Ameresco project.....	-	1,738,125	1,738,125
Spendable permanent funds.....	-	174,164	174,164
Revolving funds.....	-	3,866,892	3,866,892
Committed to:			
Stabilization school construction	311,001	-	311,001
Pension assessment stabilization	8,813	-	8,813
Salary reserve stabilization	400,021	-	400,021
Capital debt service stabilization.....	955,290	-	955,290
Employee benefits and mitigation fund.....	2,824,608	-	2,824,608
Assigned to:			
General government.....	216,548	-	216,548
Public safety.....	15,694	-	15,694
Education.....	1,936,702	-	1,936,702
Public works.....	54,589	-	54,589
Human services.....	7,117	-	7,117
Culture and recreation.....	22,013	-	22,013
Unassigned.....	15,410,167	-	15,410,167
TOTAL FUND BALANCES..... \$	<u>22,163,713</u>	<u>\$ 18,900,272</u>	<u>\$ 41,063,985</u>

NOTE 9 - RISK FINANCING

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

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 \$3.3 million at June 30, 2016, which represents an estimate of all outstanding claims as of that date.

Changes in the reported liability since July 1, 2014, are as follows:

	Balance at Beginning of Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Year-End
2015.....	\$ 3,713,000	\$ (70,951)	\$ (139,049)	\$ 3,503,000
2016.....	3,503,000	(19,116)	(139,884)	3,344,000

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, 2015. The City's portion of the collective pension expense, contributed by the Commonwealth, of \$24,614,104 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 \$303,469,832 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, 2015.

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, 2015, the LCRS membership consists of the following:

	<u>2015</u>
Inactive plan members or beneficiaries currently receiving benefits....	1,201
Inactive plan members entitles to but not yet receiving benefits.....	188
Active plan members.....	<u>1,804</u>
 Total.....	 <u><u>3,193</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 actuarial determined contribution that is apportioned among the employers based on active current payroll. The total member units' contribution for the year ended December 31, 2015, was \$21,838,000, 24.39% 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 \$20,411,000 which equaled its actual contribution.

Pension Liabilities

The components of the net pension liability of the participating member units at June 30, 2016, were as follows:

Total pension liability.....	\$ 590,640,077
The pension plan's fiduciary net position.....	<u>(310,929,041)</u>
The net pension liability.....	<u><u>\$ 279,711,036</u></u>
 The pension plan's fiduciary net position as a percentage of the total pension liability.....	 52.64%

At June 30, 2016, the City reported a liability of \$261,434,717 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015. 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, 2015, the City's proportion was 93.47%.

Pension Expense

For the year ended June 30, 2016, the City recognized a pension expense of \$30,850,124. At June 30, 2016, the City reported deferred outflows of resources related to pensions of \$48,793,325 from the net difference between projected and actual investment earnings on pension plan investments, and deferred inflows of resources related to pensions of \$112,603, from the changes in proportion and difference between employer contributions and proportionate share of contributions.

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

Year ended June 30:	
2017.....	\$ 10,672,584
2018.....	10,672,584
2019.....	10,672,585
2020.....	10,311,101
2021.....	5,870,734
2022.....	<u>481,137</u>
Total.....	<u>\$ 48,680,722</u>

Actuarial Assumptions

The total pension liability in the January 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2015:

Valuation date.....	January 1, 2015
Actuarial cost method.....	Individual entry age normal cost method.
Amortization method.....	UAAL: Increasing dollar amount at 4.0% to reduce the unfunded actuarial accrued liability to zero on or before June 30, 2036.
	2002 & 2003 ERI's: Level dollar amount to reduce the unfunded actuarial accrued liability attributable to the ERI's to zero on or before June 30, 2017 (ERI 2002) and June 30, 2020 (ERI 2003).
Remaining amortization period.....	21 years for the UAL as of December 31, 2015 2 years for the 2002 ERI and 5 years for the 2003 ERI as of December 31, 2015.

Asset valuation method.....	<p>The actuarial value of assets is the market value of assets as of the valuation date reduced by the sum of:</p> <ul style="list-style-type: none"> a) 80% of gains and losses of the prior year, b) 60% of gains and losses of the second prior year, c) 40% of gains and losses of the third prior year and d) 20% of gains and losses of the fourth prior year. <p>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.</p>
Inflation rate.....	3.50%
Projected salary increases.....	4.25-6.0% for year for general employees and 4.75-7.0 percent per year for public safety, including longevity.
Cost of living allowances.....	Cost of living allowances are assumed to be 3% of the first \$17,000 of the annual retirement allowance capped at \$510 per year.
Rates of retirement.....	Varies based upon age for general employees, police and fire employees.
Rates of disability.....	For general employees, it was assumed that 45% of all disabilities are ordinary (55% are accidental). For police and fire employees, 10% of all disabilities are assumed to be ordinary (90% are accidental).
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.
Investment rate of return/Discount rate.....	7.75%, net of pension plan investment expense, including inflation

Investment policy

The pension plan’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 pension plan’s target asset allocation as of January 1, 2015, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Long-Term Expected Asset Allocation
Global equity.....	8.02%	40.00%
Fixed income.....	3.72%	13.00%
Value added fixed income.....	6.86%	10.00%
Private equity.....	9.50%	10.00%
Real estate.....	6.50%	10.00%
Timber/natural resources.....	7.07%	4.00%
Hedge funds.....	6.50%	9.00%
Other.....	6.18%	4.00%
Total.....		<u>100.00%</u>

Rate of return

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 0.48%. 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%. This rate is a reduction of 0.25% from the 8% used for the funding schedule and has the impact of increasing the total pension liability. 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 pension plan’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%)
The City's proportionate share of the net pension liability.....	\$ <u>323,676,864</u>	\$ <u>261,434,717</u>	\$ <u>208,422,976</u>
LCRS total net pension liability.....	\$ <u>346,304,393</u>	\$ <u>279,711,036</u>	\$ <u>222,993,362</u>

Non-contributory Retirement Allowance – City employees with military veteran status and at least 30 years of service to the City, who began work prior to July 1, 1939, and others meeting eligibility criteria are entitled to a

non-contributory pension benefit equal to 72% of their highest rate of pay. Employees covered by this section of the plan are not included in the actuarial valuation and there is no available estimate of the related actuarial liability. The City funds these benefits from an annual general fund appropriation. The general fund expenditure for fiscal year 2015 was \$35,000.

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

Funding Policy - The contribution requirements of plan members and the City are established and may be amended through collective bargaining. The required contribution is based on projected pay-as-you-go financing requirements. The City contributes 75% of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 25 percent of their premium costs. For fiscal year 2016, the City contributed \$14,714,162 to the plan.

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

The components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$ 41,981,540
Interest on net OPEB obligation.....	5,531,792
Adjustment to annual required contribution.....	<u>(18,979,292)</u>
Annual OPEB cost (expense).....	28,534,040
Contributions made.....	<u>(14,714,162)</u>
Increase/Decrease in net OPEB obligation.....	13,819,878
Net OPEB obligation - beginning of year.....	<u>158,051,149</u>
Net OPEB obligation - end of year.....	<u>\$ 171,871,027</u>

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	\$ 28,534,040	51.6%	\$ 171,871,027
6/30/2015	27,152,680	54.8%	158,051,149
6/30/2014	26,349,345	52.2%	145,786,769

Funded Status and Funding Progress - As of July 1, 2014, the most recent actuarial valuation date, the actuarial liability for benefits was \$496 million, of which the City has set aside \$7.8 million in an OPEB trust fund subsequent to the preparation of the current valuation. These assets will be accounted for in the next valuation. Covered payroll was not available in the actuarial valuation.

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

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

In the July 1, 2014, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 3.5 percent investment rate of return net of investment expenses, and an annual healthcare cost trend rate of 9 percent initially, graded to 5 percent after eight years. The actuarial value of assets was zero since the benefit is unfunded. The UAAL is being amortized as a level dollar open basis. The remaining amortization period at June 30, 2016, was 30 years.

NOTE 12 - COMMITMENTS

The City has entered into, or is planning to enter into, contracts totaling approximately \$84.7 million for school construction, sewer projects, water projects, energy improvement projects, parking kiosks, land purchases, and various other capital projects. These projects will be funded through the issuance of long-term debt, state grants, and federal grants.

NOTE 13 - CONTINGENCIES

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the 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, 2016, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2016.

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 31, 2017, which is the date the financial statements were available to be issued.

NOTE 15 – RESTATEMENT OF NET POSITION PREVIOUSLY REPORTED

Beginning net position of business-type activities and the water enterprise fund has been restated to reflect the recognition of a short-term note in which the drawdowns occurred in the prior year but were not recorded as a note but rather as revenue. As a result, the beginning balance of business-type activities has been restated from \$63,001,974 to a balance of \$61,248,605 and the water enterprise fund beginning retained earnings has been restated from \$11,148,423 to a balance of \$9,395,054. This represents a decrease of \$1,753,369 which equals the drawdowns received in prior years.

NOTE 16 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2016, the following GASB pronouncements were implemented:

- GASB Statement #72, *Fair Value Measurement and Application*. Notes to the basic financial statements were changed to provide additional disclosure on fair value measurement.
- GASB Statement #73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions of this Statement are effective for 2016—except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which is required to be implemented in 2017.
- GASB Statement #76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This pronouncement did not impact the basic financial statements.
- GASB Statement #79, *Certain External Investment Pools and Pool Participants*. The basic financial statements and related notes were updated to be in compliance with this pronouncement.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in 2017.

- The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.
- The GASB issued Statement #77, *Tax Abatement Disclosures*, which is required to be implemented in 2017.
- The GASB issued Statement #78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which is required to be implemented in 2017.
- The GASB issued Statement #80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement #14*, which is required to be implemented in 2017.
- The GASB issued Statement #81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in 2018.
- The GASB issued Statement #82, *Pension Issues – an amendment of GASB Statements #67, #68, and #73*, which is required to be implemented in 2018.

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

FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 119,194,120	\$ 119,194,120	\$ 117,334,045
Tax liens.....	-	2,300,000	2,300,000	2,300,000
Motor vehicle and other excise taxes.....	-	7,769,294	7,769,294	8,219,038
Trash disposal.....	-	3,161,000	3,161,000	3,226,202
Penalties and interest on taxes.....	-	1,795,208	1,795,208	1,795,208
Payments in lieu of taxes.....	-	930,000	930,000	930,000
Intergovernmental.....	-	169,920,934	169,920,934	169,699,659
Departmental and other.....	-	8,659,462	8,659,462	8,163,676
Investment income.....	-	428,604	428,604	428,604
TOTAL REVENUES.....	-	314,158,622	314,158,622	312,096,432
EXPENDITURES:				
Current:				
General government.....	43,034	16,815,274	16,858,308	16,061,523
Public safety.....	12,915	43,322,634	43,335,549	44,345,924
Education.....	3,724,497	148,602,740	152,327,237	150,258,386
Public works.....	42,480	12,900,762	12,943,242	13,050,742
Human services.....	-	3,967,751	3,967,751	3,600,424
Culture and recreation.....	16,005	4,366,766	4,382,771	4,412,130
Pension benefits.....	-	20,964,307	20,964,307	20,470,761
Employee benefits.....	-	39,362,503	39,362,503	40,222,390
State and county charges.....	-	20,906,666	20,906,666	20,906,666
Debt service:				
Principal.....	-	8,869,743	8,869,743	9,720,239
Interest.....	-	2,278,190	2,278,190	2,318,094
TOTAL EXPENDITURES.....	3,838,931	322,357,336	326,196,267	325,367,279
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES...	(3,838,931)	(8,198,714)	(12,037,645)	(13,270,847)
OTHER FINANCING SOURCES (USES):				
Premium from issuance of bonds.....	-	325,000	325,000	2,128,643
Sale of assets.....	-	-	-	-
Transfers in.....	-	8,571,714	8,571,714	8,400,060
Transfers out.....	-	(698,000)	(698,000)	(1,096,787)
TOTAL OTHER FINANCING SOURCES (USES).....	-	8,198,714	8,198,714	9,431,916
NET CHANGE IN FUND BALANCE.....	(3,838,931)	-	(3,838,931)	(3,838,931)
BUDGETARY FUND BALANCE, Beginning of year.....	-	9,060,385	9,060,385	9,060,385
BUDGETARY FUND BALANCE, End of year.....	\$ (3,838,931)	\$ 9,060,385	\$ 5,221,454	\$ 5,221,454

See accompanying notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
\$	117,066,253	\$ -	\$ (267,792)
	857,661	-	(1,442,339)
	8,364,664	-	145,626
	3,101,426	-	(124,776)
	1,211,000	-	(584,208)
	1,106,289	-	176,289
	169,897,650	-	197,991
	9,599,316	-	1,435,640
	345,333	-	(83,271)
	<u>311,549,592</u>	<u>-</u>	<u>(546,840)</u>
	15,449,245	216,548	395,730
	43,749,124	15,694	581,106
	148,006,476	1,936,702	315,208
	12,883,156	54,589	112,997
	3,399,315	7,117	193,992
	4,190,593	22,013	199,524
	20,389,684	-	81,077
	40,448,115	-	(225,725)
	20,722,575	-	184,091
	9,720,239	-	-
	2,315,778	-	2,316
	<u>321,274,300</u>	<u>2,252,663</u>	<u>1,840,316</u>
	<u>(9,724,708)</u>	<u>(2,252,663)</u>	<u>1,293,476</u>
	1,993,431	-	(135,212)
	37,603	-	37,603
	8,948,205	-	(548,145)
	<u>(1,085,929)</u>	<u>-</u>	<u>(10,858)</u>
	<u>9,893,310</u>	<u>-</u>	<u>461,394</u>
	168,602	(2,252,663)	1,754,870
	9,060,385	-	-
\$	<u>9,228,987</u>	<u>(2,252,663)</u>	<u>1,754,870</u>

Pension Plan Schedules -Retirement System

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

The Retirement System Schedule of Investment Return presents multi-year trend information on the City's 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, 2015	December 31, 2014
Total pension liability:		
Service cost.....	\$ 12,776,431	\$ 12,776,431
Interest.....	42,298,799	39,817,736
Changes in benefit terms.....		-
Differences between expected and actual experience.....	5,750,829	-
Changes in assumptions.....	31,423,849	-
Benefit payments, including refunds of employee contributions.....	(35,136,789)	(33,577,831)
Net change in total pension liability.....	57,113,119	19,016,336
Total pension liability, beginning.....	533,526,958	514,510,622
Total pension liability, ending (a)	<u>\$ 590,640,077</u>	<u>\$ 533,526,958</u>
Plan fiduciary net position:		
Member contributions.....	\$ 8,903,043	8,983,678
Employer contributions.....	21,837,654	21,880,170
Net investment income (loss).....	1,213,427	21,617,178
Retirement benefits and refunds.....	(35,136,789)	(33,577,831)
Administrative expenses.....	(355,999)	(358,770)
Net increase (decrease) in fiduciary net position.....	(3,538,664)	18,544,425
Fiduciary net position at beginning of year.....	314,467,705	295,923,280
Fiduciary net position at end of year (b)	<u>\$ 310,929,041</u>	<u>\$ 314,467,705</u>
Net pension liability - ending (a) - (b)	<u>\$ 279,711,036</u>	<u>\$ 219,059,253</u>
Plan fiduciary net position as a percentage of the total pension liability.....	52.64%	58.94%
Covered-employee payroll.....	\$ 89,520,851	\$ 80,555,739
Net pension liability as a percentage of covered-employee payroll.....	312.45%	271.94%

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 CONTRIBUTIONS
LOWELL CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2015	December 31, 2014
Actuarially determined contribution.....	\$ 21,837,654	\$ 21,880,170
Contributions in relation to the actuarially determined contribution.....	<u>(21,837,654)</u>	<u>(21,880,170)</u>
Contribution deficiency (excess).....	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll.....	\$ 89,520,851	\$ 80,555,739
Contributions as a percentage of covered- employee payroll.....	24.39%	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 RETURN
LOWELL CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2015	December 31, 2014
Annual money-weighted rate of return, net of investment expense.....	0.48%	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.

The annual money-weighted rate of return has been calculated by the System's actuary.

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 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**

	December 31, 2015	December 31, 2014
City's proportion of the net pension liability (asset).....	93.47%	93.01%
City's proportionate share of the net pension liability (asset).....	\$ 261,434,717	\$ 203,753,583
City's covered employee payroll.....	\$ 84,104,839	\$ 74,927,309
Net pension liability as a percentage of City's covered-employee payroll.....	332.57%	292.36%
Plan fiduciary net position as a percentage of the total pension liability.....	52.64%	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 CITY CONTRIBUTIONS
LOWELL CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2015	December 31, 2014
Actuarially determined contribution.....	\$ 20,410,761	\$ 20,351,365
Contributions in relation to the actuarially determined contribution.....	<u>(20,410,761)</u>	<u>(20,351,365)</u>
Contribution deficiency (excess).....	<u>\$ -</u>	<u>\$ -</u>
City's Covered-employee payroll.....	\$ 84,104,839	\$ 74,927,309
Contributions as a percentage of City covered- employee payroll.....	24.27%	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. 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 a revenue and pension expense recognized by the City; and the Plan's fiduciary net position as a percentage of the total liability.

<u>Year</u>	<u>Commonwealth's 100% Share of the Net Pension Liability Associated with the City</u>	<u>City's Expense and Revenue Recognized for the Commonwealth's Support</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Liability</u>
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 Funding progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

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

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

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
07/01/14	\$ -	\$ 496,236,125	\$ 496,236,125	0.0%	\$ N/A	N/A
07/01/12	-	520,007,997	520,007,997	0.0%	N/A	N/A
07/01/10	-	689,936,566	689,936,566	0.0%	177,396,732	388.9%
01/01/08	-	432,751,582	432,751,582	0.0%	170,183,191	254.3%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2016	\$ 41,981,540	\$ 14,714,162	35.0%
6/30/2015	41,029,435	14,888,300	36.3%
6/30/2014	37,061,348	13,755,061	37.1%
6/30/2013	35,697,196	14,182,656	39.7%
6/30/2012	42,754,538	16,334,309	38.2%
6/30/2011	41,163,431	14,605,754	35.5%
6/30/2010	33,445,970	9,685,461	29.0%
6/30/2009	31,916,608	8,738,305	27.3%

See accompanying notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Valuation date.....	July 1, 2014
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Level dollar open basis
Remaining amortization period.....	30 years as of July 1, 2014
Asset valuation method.....	Not valued since benefit is unfunded.

Actuarial Assumptions:

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

Plan Membership:

Current retirees, beneficiaries, and dependents...	2,466
Current active members.....	<u>2,872</u>
Total.....	<u><u>5,338</u></u>

See accompanying 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 2016 approved budget authorizing approximately \$323.1 million in current year appropriations, other financing uses, and other amounts to be raised and approximately \$3.8 million in encumbrances and appropriations carried over from previous years. During 2016, the Council approved also approved a net decrease in appropriations of \$430 thousand.

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

B. Budgetary - GAAP Reconciliation

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

A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2016, is as follows:

Net change in fund balance - budgetary basis.....	\$ 168,602
<u>Perspective difference:</u>	
Stabilization Funds recorded in the General Fund for GAAP.....	298,478
Employee Benefit Trust recorded in the General Fund for GAAP.....	(1,080,823)
<u>Basis of accounting differences:</u>	
Net change in recording 60-day receipts accrual.....	426,002
Net change in recording tax refunds payable.....	(949,457)
Net change in unrecorded liabilities.....	150,739
Increase in revenues due to on-behalf payments.....	24,614,000
Increase in expenditures due to on-behalf payments.....	<u>(24,614,000)</u>
Net change in fund balance - GAAP basis.....	<u>\$ (986,459)</u>

C. Appropriation Deficits

Expenditures exceeded budgeted appropriations for employee benefits at year end. This deficit will be funded through tax levy and available funds in 2017.

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 Return

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 discount rate changed from 8% as of the beginning of the measurement period to 7.75% as of the end of the measurement period.
- The mortality rates were updated from the rates in the RP-2000 Mortality Table projected to 2012 with Scale AA to the rates in the RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB.
- The annual rates of expected salary increases were modified and are based on service by Group.

E. Changes in Plan Provisions

None

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

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

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