

***CITY OF LAWRENCE, MASSACHUSETTS***

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

***YEAR ENDED JUNE 30, 2018***

CITY OF LAWRENCE, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

**TABLE OF CONTENTS**

|  |    |
|--|----|
| Independent Auditor's Report.....  | 1  |
| Management's Discussion and Analysis .....   | 3  |
| Basic Financial Statements .....   | 11 |
| Statement of net position .....  | 13 |
| Statement of activities.....   | 14 |
| Governmental funds – balance sheet.....  | 16 |
| Reconciliation of the governmental funds balance sheet total fund balances to the statement of net position .....                                  | 17 |
| Governmental funds – statement of revenues, expenditures and changes in fund balances .....  | 18 |
| Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities ..... | 19 |
| Proprietary funds – statement of net position .....  | 20 |
| Proprietary funds – statement of revenues, expenses and changes in net position .....  | 21 |
| Proprietary funds – statement of cash flows.....   | 22 |
| Fiduciary funds – statement of fiduciary net position.....   | 23 |
| Fiduciary funds – statement of changes in fiduciary net position .....   | 24 |
| Notes to basic financial statements .....  | 25 |
| Required Supplementary Information.....  | 60 |
| General fund – statement of revenues, expenditures and changes in fund balance – budget and actual.....  | 62 |
| Pension Plan Schedules – Retirement System .....   | 64 |
| Schedule of changes in the net pension liability and related ratios .....  | 65 |
| Schedule of contributions .....  | 66 |
| Schedule of investment return .....  | 67 |
| Pension Plan Schedules - City.....   | 68 |
| Schedule of City's proportionate share of net pension liability.....   | 69 |
| Schedule of City contributions.....  | 70 |
| Schedule of special funding amounts .....  | 71 |
| Other Postemployment Benefits Plan Schedules .....   | 72 |
| Schedule of the City's net OPEB Liability and Related Ratios.....  | 73 |
| Schedule of City Contributions .....   | 74 |
| Schedule of Investment Returns .....   | 75 |
| Notes to Required Supplementary Information.....   | 76 |



## Independent Auditor's Report

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

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

## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Lawrence, Massachusetts, as of and for the year ended June 30, 2018 (except for the Lawrence Contributory Retirement System which is as of and for the year ended December 31, 2017), and the related notes to the financial statements, which collectively comprise the City of Lawrence, Massachusetts' 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, based on our audit and the report of other auditors, 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 Lawrence, Massachusetts, as of June 30, 2018, 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 and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors 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 30, 2019, on our consideration of the City of Lawrence, Massachusetts' internal control over financial reporting and on 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 Lawrence's internal control over financial reporting and compliance.



January 30, 2019

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

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

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

### ***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. The government-wide financial statements provide both long-term and short-term information about the City as a whole. The fund financial statements focus on the individual components of the City government, reporting the City's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the City's accountability. An additional part of the basic financial statements are the notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

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

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

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

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

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

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

**Governmental funds** - *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the 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 30 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. Data from the other funds are combined into a single, aggregate presentation under the caption *non-major governmental funds*.

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

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

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

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

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

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

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

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

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$401 million at the close of 2018.

Net position of \$237 million reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$23.5 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position has a deficit amount of \$661.4 million. This is due to the recognition of the net OPEB liability and net pension liability of \$490.8 million and \$193.9 million, respectively.

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

### Governmental Activities

As noted earlier net position may serve, over time, as a useful indicator of a government's financial position. The liabilities and deferred inflows of resources of governmental activities exceeded assets and deferred outflows of resources by \$450 million at the close of 2018. Components of the City's governmental financial position are listed below.

|  | 2018                    | 2017<br>(As Revised)    |
|--|-------------------------|-------------------------|
| <b>Assets:</b>                                       |                         |                         |
| Current assets.....                                  | \$ 80,236,849           | \$ 71,216,593           |
| Noncurrent assets (excluding capital).....           | 9,205,414               | 13,055,910              |
| Capital assets, non depreciable.....                 | 6,700,525               | 6,025,525               |
| Capital assets, net of accumulated depreciation..... | 222,946,883             | 223,593,132             |
| <b>Total assets.....</b>                             | <b>319,089,671</b>      | <b>313,891,160</b>      |
| <b>Deferred outflows of resources.....</b>           | <b>26,677,265</b>       | <b>9,366,653</b>        |
| <b>Liabilities:</b>                                  |                         |                         |
| Current liabilities (excluding debt).....            | 17,720,394              | 18,189,853              |
| Noncurrent liabilities (excluding debt).....         | 675,736,785             | 638,156,102             |
| Current debt.....                                    | 35,146,549              | 35,789,604              |
| Noncurrent debt.....                                 | 51,677,279              | 52,036,378              |
| <b>Total liabilities.....</b>                        | <b>780,281,007</b>      | <b>744,171,937</b>      |
| <b>Deferred inflows of resources.....</b>            | <b>15,790,413</b>       | <b>9,344,440</b>        |
| <b>Net position:</b>                                 |                         |                         |
| Net investment in capital assets.....                | 188,845,774             | 184,031,475             |
| Restricted.....                                      | 23,469,154              | 23,223,683              |
| Unrestricted.....                                    | (662,619,412)           | (637,513,722)           |
| <b>Total net position.....</b>                       | <b>\$ (450,304,484)</b> | <b>\$ (430,258,564)</b> |



|   | 2018                    | 2017<br>(As Revised)    |
|---|-------------------------|-------------------------|
| <b>Program Revenues:</b>  |                         |                         |
| Charges for services.....   | \$ 3,263,929            | \$ 3,104,481            |
| Operating grants and contributions.....                                     | 268,692,089             | 267,443,976             |
| Capital grants and contributions.....                                       | 4,252,519               | 4,374,196               |
| <b>General Revenues:</b>  |                         |                         |
| Real estate and personal property taxes,<br>net of tax refunds payable..... | 66,019,338              | 63,621,197              |
| Tax and other liens.....  | 1,141,745               | 1,932,625               |
| Motor vehicle and other excise taxes.....                                   | 7,222,122               | 6,355,986               |
| Penalties and interest on taxes.....  | 1,061,333               | 1,362,606               |
| Payments in lieu of taxes.....  | 640,659                 | 610,109                 |
| Grants and contributions not restricted to<br>specific programs.....        | 21,923,569              | 21,143,303              |
| Unrestricted investment income.....   | 1,072,229               | 358,531                 |
| Miscellaneous.....  | 10,800                  | -                       |
| <b>Total revenues.....</b>  | <b>375,300,332</b>      | <b>370,307,010</b>      |
| <b>Expenses:</b>  |                         |                         |
| General government.....   | 20,662,669              | 24,734,899              |
| Public safety.....  | 43,628,440              | 42,797,264              |
| Education.....  | 310,782,242             | 299,168,917             |
| Public works.....   | 15,572,243              | 13,831,023              |
| Human services.....   | 1,632,478               | 1,621,595               |
| Culture and recreation.....   | 1,865,050               | 1,696,112               |
| Interest.....   | 2,080,278               | 1,890,241               |
| <b>Total expenses.....</b>  | <b>396,223,400</b>      | <b>385,740,051</b>      |
| <b>Excess (Deficiency) before transfers.....</b>                            | <b>(20,923,068)</b>     | <b>(15,433,041)</b>     |
| <b>Transfers.....</b>   | <b>877,148</b>          | <b>827,995</b>          |
| <b>Change in net position.....</b>  | <b>(20,045,920)</b>     | <b>(14,605,046)</b>     |
| <b>Net position, beginning of year (as revised).....</b>                    | <b>(430,258,564)</b>    | <b>(415,653,518)</b>    |
| <b>Net position, end of year.....</b>                                       | <b>\$ (450,304,484)</b> | <b>\$ (430,258,564)</b> |

The governmental activities net position decreased in the current year by \$20.0 million. Net position increased due to the receipt of \$4.3 million of capital grant revenue from various sources. This increase in net position was offset by the recognition of a \$26.4 million expense for the increase in the net OPEB liability, net of the corresponding deferred outflows of resources.

Additionally, general government expenditures decreased by \$4.1 million over the prior year primarily due to a reduction of operations in the Department of Training and Development. A significant portion of the grant funded activities of this department were taken on by another governmental entity.

## Business-Type Activities

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

|  | 2018                        | 2017<br>(As Revised)        |
|--|-----------------------------|-----------------------------|
| <b>Assets:</b>   |                             |                             |
| Current assets.....                                      | \$ 40,021,814               | \$ 37,192,297               |
| Capital assets, non depreciable.....                     | 200,214                     | 200,214                     |
| Capital assets, net of accumulated depreciation.....     | <u>104,333,962</u>          | <u>91,459,111</u>           |
| <b>Total assets.....</b>                                 | <b><u>144,555,990</u></b>   | <b><u>128,851,622</u></b>   |
| <b>Deferred outflows of resources.....</b>               | <b>880,504</b>              | <b>449,996</b>              |
| <b>Liabilities:</b>                                      |                             |                             |
| Current liabilities (excluding debt).....                | 2,060,170                   | 5,135,869                   |
| Noncurrent liabilities (excluding debt).....             | 22,761,418                  | 23,018,631                  |
| Current debt.....  | 4,235,767                   | 4,167,846                   |
| Noncurrent debt.....                                     | <u>66,177,282</u>           | <u>56,170,855</u>           |
| <b>Total liabilities.....</b>                            | <b><u>95,234,637</u></b>    | <b><u>88,493,201</u></b>    |
| <b>Deferred inflows of resources.....</b>                | <b>854,143</b>              | <b>559,274</b>              |
| <b>Net position:</b>                                     |                             |                             |
| Net investment in capital assets.....                    | 48,099,042                  | 37,703,173                  |
| Unrestricted.....  | <u>1,248,672</u>            | <u>2,545,970</u>            |
| <b>Total net position.....</b>                           | <b><u>\$ 49,347,714</u></b> | <b><u>\$ 40,249,143</u></b> |
| <b>Program Revenues:</b>                                 |                             |                             |
| Charges for services.....                                | \$ 17,914,894               | \$ 18,420,219               |
| Operating grants and contributions.....                  | 214,487                     | 208,981                     |
| Capital grants and contributions.....                    | 7,092,656                   | 3,643,597                   |
| <b>General Revenues:</b>                                 |                             |                             |
| Tax and other liens.....                                 | 1,444,074                   | 1,190,675                   |
| Penalties and interest on taxes.....                     | <u>148,946</u>              | <u>140,937</u>              |
| <b>Total revenues.....</b>                               | <b><u>26,815,057</u></b>    | <b><u>23,604,409</u></b>    |
| <b>Expenses:</b>   |                             |                             |
| Water and sewer.....                                     | 15,499,421                  | 13,458,041                  |
| Airport.....   | 761,267                     | 594,670                     |
| Parking.....   | <u>578,650</u>              | <u>788,918</u>              |
| <b>Total expenses.....</b>                               | <b><u>16,839,338</u></b>    | <b><u>14,841,629</u></b>    |
| <b>Excess (Deficiency) before transfers.....</b>         | <b>9,975,719</b>            | <b>8,762,780</b>            |
| <b>Transfers.....</b>                                    | <b><u>(877,148)</u></b>     | <b><u>(827,995)</u></b>     |
| <b>Change in net position.....</b>                       | <b>9,098,571</b>            | <b>7,934,785</b>            |
| <b>Net position, beginning of year (as revised).....</b> | <b><u>40,249,143</u></b>    | <b><u>32,314,358</u></b>    |
| <b>Net position, end of year.....</b>                    | <b><u>\$ 49,347,714</u></b> | <b><u>\$ 40,249,143</u></b> |

The City's business-type activities include Water & Sewer, Airport, and Parking services. They are designed to be self-supporting and each fund maintained its financial condition in 2018.

Business-type water and sewer net position increased by \$1.9 million primarily due to better than anticipated user charge collections, and principal payments on long-term debt exceeding depreciation expense by \$2.8 million.

Business-type airport net position increased by \$6.9 million due to the receipt of \$7.1 million of capital grant revenue for the purchase of a new runway.

Business-type parking net position increased by \$226,000 primarily due to better than anticipated parking receipts.

## ***Financial Analysis of the Governmental 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 \$54.8 million, an increase of \$8.9 million from the prior year. This increase is primarily the result of the permanent financing of current and future construction costs in the capital projects fund.

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund totaled \$18.3 million, while total fund balance equaled \$30.6 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 5.3% of the general fund budget while total fund balance represents 8.9%.

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original 2018 approved budget authorizing \$288.3 million in current year appropriations, other financing uses, and other amounts to be raised and \$9.7 million in encumbrances and appropriations carried over from previous years. During 2018, the Council approved supplemental appropriations totaling \$7.0 million for snow and ice, reserves and other various line items.

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

**Capital Assets** - The City's investment in capital assets for governmental activities as of June 30, 2018, amounts to \$229.6 million, net of accumulated depreciation. The investment in capital assets includes land; buildings; systems; improvements; machinery and equipment; park facilities; streets, sidewalks, and storm drains.

The City's investment in capital assets for business type activities as of June 30, 2018, amounts to \$104.5 million, net of accumulated depreciation. Major additions during the year included water and sewer infrastructure improvements, as well as airport runway improvements. Additional information on the City's governmental and business type capital assets may be found in Note 4 to the basic financial statements.

**Debt Administration** - At June 30, 2018, the City had total short-term and long-term governmental bonded debt of \$82.6 million. During 2018 the City issued \$9.3 million of governmental general obligation bonds to finance a variety of capital projects. Additionally, the City reissued \$19.1 million of deficit borrowing notes.

The water and sewer enterprise fund has \$70.4 million in long-term debt that is supported by the water rates and future MWPAT principal and interest subsidies totaling \$1.5 million.

Currently the City has \$62.7 million in authorized and unissued long-term debt relating to future governmental and business-type projects.

### ***Fiscal Overseer***

On December 31, 2009, the Governor of the Commonwealth of Massachusetts proposed legislation “An Act Providing For The Financial Stability of The City of Lawrence.” (Act) Under this Act, there was the establishment of a Fiscal Overseer appointed by the Secretary of Administration and Finance (Secretary) vested with comprehensive authority over all of the City’s finances, including appropriations, borrowings, transfers of funds, and municipal spending authorizations. The Act also called for the establishment of a Capital Reserve Fund in 2012, to which an amount equal to 1.5% of the amount of property taxes committed for the preceding year be deposited.

The Act also allows the Fiscal Overseer to conclude, at any time after January 31, 2011, whether or not the City is able to achieve a balanced budget and fiscal stability. If such a determination is negative, the Secretary may terminate the existence of the Fiscal Overseer and appoint a Finance Control Board (Board). Under the Act, the Board would not only have all of the powers of the Fiscal Overseer, but also the power to exercise any function or power of any municipal officer or employee, whether elected or otherwise, including certain powers to approve or disapprove contracts and have control over all personnel matters.

### ***Financial Condition***

The current focus of the City is to continue its ongoing resolution to improve the long-term financial condition of the General Fund. The Special Revenue Funds are self-supporting through charges for services, grants and contributions and therefore do not create deficits in their operations. The other Capital Projects Funds are supported by grants and long-term bond issues but can create deficits due to the uncertainty of the final costs incurred during construction.

### ***Requests for Information***

This financial report is designed to provide a general overview of the City of Lawrence’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 Office of Budget and Finance Director, City Hall, 200 Common Street, Lawrence, MA 01840.

# ***Basic Financial Statements***

This page intentionally left blank.

**STATEMENT OF NET POSITION**

JUNE 30, 2018

|  | <i>Primary Government</i>  |                             |                         |
|--|----------------------------|-----------------------------|-------------------------|
|  | Governmental<br>Activities | Business-type<br>Activities | Total                   |
| <b>ASSETS</b>  |                            |                             |                         |
| <b>CURRENT:</b>                                      |                            |                             |                         |
| Cash and cash equivalents.....                       | \$ 70,048,415              | \$ 21,065,181               | \$ 91,113,596           |
| Investments.....                                     | 53,077                     | -                           | 53,077                  |
| Receivables, net of allowance for uncollectibles:    |                            |                             |                         |
| Real estate and personal property taxes.....         | 1,301,073                  | -                           | 1,301,073               |
| Tax liens.....                                       | -                          | 128,896                     | 128,896                 |
| Motor vehicle and other excise taxes.....            | 1,409,203                  | -                           | 1,409,203               |
| User charges.....                                    | -                          | 4,848,972                   | 4,848,972               |
| Departmental and other.....                          | -                          | 850                         | 850                     |
| Intergovernmental.....                               | 7,255,181                  | 13,977,915                  | 21,233,096              |
| Working capital deposit.....                         | 169,900                    | -                           | 169,900                 |
| Total current assets.....                            | <u>80,236,849</u>          | <u>40,021,814</u>           | <u>120,258,663</u>      |
| <b>NONCURRENT:</b>                                   |                            |                             |                         |
| Receivables, net of allowance for uncollectibles:    |                            |                             |                         |
| Intergovernmental.....                               | 7,647,000                  | -                           | 7,647,000               |
| Loans.....   | 1,558,414                  | -                           | 1,558,414               |
| Capital assets, nondepreciable.....                  | 6,700,525                  | 200,214                     | 6,900,739               |
| Capital assets, net of accumulated depreciation..... | <u>222,946,883</u>         | <u>104,333,962</u>          | <u>327,280,845</u>      |
| Total noncurrent assets.....                         | <u>238,852,822</u>         | <u>104,534,176</u>          | <u>343,386,998</u>      |
| <b>TOTAL ASSETS.....</b>                             | <u>319,089,671</u>         | <u>144,555,990</u>          | <u>463,645,661</u>      |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                |                            |                             |                         |
| Deferred outflows for refunding debt.....            | 1,511,829                  | -                           | 1,511,829               |
| Deferred outflows related to pensions.....           | 7,618,545                  | 412,107                     | 8,030,652               |
| Deferred outflows related to OPEB.....               | 17,546,891                 | 468,397                     | 18,015,288              |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES.....</b>     | <u>26,677,265</u>          | <u>880,504</u>              | <u>27,557,769</u>       |
| <b>LIABILITIES</b>                                   |                            |                             |                         |
| <b>CURRENT:</b>                                      |                            |                             |                         |
| Warrants payable.....                                | 2,899,072                  | 1,302,004                   | 4,201,076               |
| Accrued payroll.....                                 | 801,906                    | -                           | 801,906                 |
| Tax refunds payable.....                             | 199,000                    | -                           | 199,000                 |
| Due to Commonwealth.....                             | 50,000                     | -                           | 50,000                  |
| Accrued interest.....                                | 1,194,481                  | 615,166                     | 1,809,647               |
| Liabilities due depositors.....                      | 598,192                    | -                           | 598,192                 |
| Other liabilities.....                               | 6,318,743                  | -                           | 6,318,743               |
| Compensated absences.....                            | 5,659,000                  | 143,000                     | 5,802,000               |
| Notes payable.....                                   | 6,430,000                  | -                           | 6,430,000               |
| Bonds payable.....                                   | 28,716,549                 | 4,235,767                   | 32,952,316              |
| Total current liabilities.....                       | <u>52,866,943</u>          | <u>6,295,937</u>            | <u>59,162,880</u>       |
| <b>NONCURRENT:</b>                                   |                            |                             |                         |
| Due to Commonwealth.....                             | 1,778,004                  | -                           | 1,778,004               |
| Compensated absences.....                            | 11,924,000                 | 47,000                      | 11,971,000              |
| Net pension liability.....                           | 184,026,041                | 9,954,431                   | 193,980,472             |
| Net OPEB liability.....                              | 478,008,740                | 12,759,987                  | 490,768,727             |
| Bonds payable.....                                   | 51,677,279                 | 66,177,282                  | 117,854,561             |
| Total noncurrent liabilities.....                    | <u>727,414,064</u>         | <u>88,938,700</u>           | <u>816,352,764</u>      |
| <b>TOTAL LIABILITIES.....</b>                        | <u>780,281,007</u>         | <u>95,234,637</u>           | <u>875,515,644</u>      |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                 |                            |                             |                         |
| Deferred inflows related to pensions.....            | 15,790,413                 | 854,143                     | 16,644,556              |
| <b>NET POSITION</b>                                  |                            |                             |                         |
| Net investment in capital assets.....                | 188,845,774                | 48,099,042                  | 236,944,816             |
| Restricted for:                                      |                            |                             |                         |
| Fiscal stability.....                                | 4,321,773                  | -                           | 4,321,773               |
| Capital reserve.....                                 | 808,653                    | -                           | 808,653                 |
| Loans.....   | 1,558,414                  | -                           | 1,558,414               |
| Permanent funds:                                     |                            |                             |                         |
| Expendable.....                                      | 412,711                    | -                           | 412,711                 |
| Nonexpendable.....                                   | 1,734,536                  | -                           | 1,734,536               |
| Other specific purposes.....                         | 14,633,067                 | -                           | 14,633,067              |
| Unrestricted.....                                    | <u>(662,619,412)</u>       | <u>1,248,672</u>            | <u>(661,370,740)</u>    |
| <b>TOTAL NET POSITION.....</b>                       | <u>\$ (450,304,484)</u>    | <u>\$ 49,347,714</u>        | <u>\$ (400,956,770)</u> |

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2018

| <u>Functions/Programs</u>                  | <u>Expenses</u>       | <u>Program Revenues</u>         |   |   | <u>Net (Expense)<br/>Revenue</u> |
|--|-----------------------|---------------------------------|---|---|----------------------------------|
|  |                       | <u>Charges for<br/>Services</u> | <u>Operating<br/>Grants and<br/>Contributions</u> | <u>Capital<br/>Grants and<br/>Contributions</u> |                                  |
| <b>Primary Government:</b>                 |                       |                                 |   |   |                                  |
| <i>Governmental Activities:</i>            |                       |                                 |   |   |                                  |
| General government.....                    | \$ 20,662,669         | \$ 986,771                      | \$ 12,855,608                                     | \$ 402,722                                      | \$ (6,417,568)                   |
| Public safety.....                         | 43,628,440            | 1,976,357                       | 5,665,165   | -   | (35,986,918)                     |
| Education.....                             | 310,782,242           | 70,968                          | 247,842,708                                       | 1,190,089                                       | (61,678,477)                     |
| Public works.....                          | 15,572,243            | 171,580                         | 395,109   | 2,659,708                                       | (12,345,846)                     |
| Human services.....                        | 1,632,478             | -                               | 234,654   | -   | (1,397,824)                      |
| Culture and recreation.....                | 1,865,050             | 58,253                          | 183,382   | -   | (1,623,415)                      |
| Interest.....                              | 2,080,278             | -                               | 1,515,463   | -   | (564,815)                        |
| <b>Total Governmental Activities.....</b>  | <b>396,223,400</b>    | <b>3,263,929</b>                | <b>268,692,089</b>                                | <b>4,252,519</b>                                | <b>(120,014,863)</b>             |
| <i>Business-Type Activities:</i>           |                       |                                 |   |   |                                  |
| Water and sewer.....                       | 15,499,421            | 16,477,241                      | 214,487   | -   | 1,192,307                        |
| Airport.....                               | 761,267               | 602,609                         | -   | 7,092,656                                       | 6,933,998                        |
| Parking.....                               | 578,650               | 835,044                         | -   | -   | 256,394                          |
| <b>Total Business-Type Activities.....</b> | <b>16,839,338</b>     | <b>17,914,894</b>               | <b>214,487</b>                                    | <b>7,092,656</b>                                | <b>8,382,699</b>                 |
| <b>Total Primary Government.....</b>       | <b>\$ 413,062,738</b> | <b>\$ 21,178,823</b>            | <b>\$ 268,906,576</b>                             | <b>\$ 11,345,175</b>                            | <b>\$ (111,632,164)</b>          |

See notes to basic financial statements.

(Continued)



**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2018

|   | Primary Government         |                             |                         |
|---|----------------------------|-----------------------------|-------------------------|
|   | Governmental<br>Activities | Business-Type<br>Activities | Total                   |
| <b>Changes in net position:</b>   |                            |                             |                         |
| Net (expense) revenue from previous page..... \$                            | <b>(120,014,863)</b>       | \$ <b>8,382,699</b>         | \$ <b>(111,632,164)</b> |
| <i>General revenues:</i>  |                            |                             |                         |
| Real estate and personal property taxes,<br>net of tax refunds payable..... | 66,019,338                 | -                           | 66,019,338              |
| Tax liens.....  | 1,141,745                  | 1,444,074                   | 2,585,819               |
| Motor vehicle and other excise taxes.....                                   | 7,222,122                  | -                           | 7,222,122               |
| Penalties and interest on taxes.....  | 1,061,333                  | 148,946                     | 1,210,279               |
| Payments in lieu of taxes.....  | 640,659                    | -                           | 640,659                 |
| Grants and contributions not restricted to<br>specific programs.....        | 21,923,569                 | -                           | 21,923,569              |
| Unrestricted investment income.....   | 1,072,229                  | -                           | 1,072,229               |
| Miscellaneous.....  | 10,800                     | -                           | 10,800                  |
| <i>Transfers, net</i> .....   | 877,148                    | (877,148)                   | -                       |
| Total general revenues and transfers.....                                   | 99,968,943                 | 715,872                     | 100,684,815             |
| Change in net position.....   | (20,045,920)               | 9,098,571                   | (10,947,349)            |
| <i>Net position:</i>  |                            |                             |                         |
| Beginning of year, as revised.....  | (430,258,564)              | 40,249,143                  | (390,009,421)           |
| End of year..... \$   | <u>(450,304,484)</u>       | \$ <u>49,347,714</u>        | \$ <u>(400,956,770)</u> |

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2018

|   | General              | Capital<br>Reserve | Capital<br>Projects  | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|----------------------|--------------------|----------------------|-----------------------------------|--------------------------------|
| <b>ASSETS</b>   |                      |                    |                      |                                   |                                |
| Cash and cash equivalents.....  | \$ 38,644,967        | \$ 945,003         | \$ 13,721,924        | \$ 14,611,390                     | \$ 67,923,284                  |
| Investments.....  | -                    | -                  | -                    | 53,077                            | 53,077                         |
| Receivables, net of uncollectibles:   |                      |                    |                      |                                   |                                |
| Real estate and personal property taxes.....  | 1,301,073            | -                  | -                    | -                                 | 1,301,073                      |
| Motor vehicle and other excise taxes.....   | 1,409,203            | -                  | -                    | -                                 | 1,409,203                      |
| Intergovernmental.....  | 11,470,000           | -                  | -                    | 3,432,181                         | 14,902,181                     |
| Loans.....  | -                    | -                  | -                    | 1,558,414                         | 1,558,414                      |
| <b>TOTAL ASSETS.....</b>  | <b>\$ 52,825,243</b> | <b>\$ 945,003</b>  | <b>\$ 13,721,924</b> | <b>\$ 19,655,062</b>              | <b>\$ 87,147,232</b>           |
| <b>LIABILITIES</b>  |                      |                    |                      |                                   |                                |
| Warrants payable.....   | \$ 1,022,819         | \$ 136,350         | \$ 328,377           | \$ 1,411,526                      | \$ 2,899,072                   |
| Accrued payroll.....  | 801,906              | -                  | -                    | -                                 | 801,906                        |
| Tax refunds payable.....  | 199,000              | -                  | -                    | -                                 | 199,000                        |
| Other liabilities.....  | 6,318,743            | -                  | -                    | 598,192                           | 6,916,935                      |
| Notes payable.....  | -                    | -                  | 6,430,000            | -                                 | 6,430,000                      |
| <b>TOTAL LIABILITIES.....</b>   | <b>8,342,468</b>     | <b>136,350</b>     | <b>6,758,377</b>     | <b>2,009,718</b>                  | <b>17,246,913</b>              |
| <b>DEFERRED INFLOWS OF RESOURCES</b>  |                      |                    |                      |                                   |                                |
| Unavailable revenue.....  | 13,860,615           | -                  | -                    | 1,277,741                         | 15,138,356                     |
| <b>FUND BALANCES</b>  |                      |                    |                      |                                   |                                |
| Nonspendable.....   | -                    | -                  | -                    | 1,734,536                         | 1,734,536                      |
| Restricted.....   | 4,321,773            | 808,653            | 6,963,547            | 14,633,067                        | 26,727,040                     |
| Assigned.....   | 8,013,939            | -                  | -                    | -                                 | 8,013,939                      |
| Unassigned.....   | 18,286,448           | -                  | -                    | -                                 | 18,286,448                     |
| <b>TOTAL FUND BALANCES.....</b>   | <b>30,622,160</b>    | <b>808,653</b>     | <b>6,963,547</b>     | <b>16,367,603</b>                 | <b>54,761,963</b>              |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES, AND FUND BALANCES.....</b> | <b>\$ 52,825,243</b> | <b>\$ 945,003</b>  | <b>\$ 13,721,924</b> | <b>\$ 19,655,062</b>              | <b>\$ 87,147,232</b>           |

See notes to basic financial statements.

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

JUNE 30, 2018

|  |                     |                         |
|--|---------------------|-------------------------|
| Total governmental fund balances.....  |                     | \$ 54,761,963           |
| Capital assets (net) used in governmental activities are not financial resources<br>and, therefore, are not reported in the funds.....   |                     | 229,647,408             |
| Accounts receivable are not available to pay for current-period<br>expenditures and, therefore, are unavailable in the funds.....  |                     | 15,138,356              |
| The statement of net position includes certain deferred inflows of resources<br>and deferred outflows of resources that will be amortized over future periods.<br>In governmental funds, these amounts are not deferred..... |                     | 10,886,852              |
| The assets and liabilities of the internal service funds are included in<br>the governmental activities in the statement of net position.....  |                     | 2,295,031               |
| In the statement of activities, interest is accrued on outstanding long-term debt,<br>whereas in governmental funds interest is not reported until due.....  |                     | (1,194,481)             |
| Long-term liabilities are not due and payable in the current period and, therefore,<br>are not reported in the governmental funds:   |                     |                         |
| Bonds payable.....   | (80,393,828)        |                         |
| Net pension liability.....   | (184,026,041)       |                         |
| Other postemployment benefits.....   | (478,008,740)       |                         |
| Due to Commonwealth.....   | (1,828,004)         |                         |
| Compensated absences.....  | <u>(17,583,000)</u> |                         |
| Net effect of reporting long-term liabilities.....   |                     | <u>(761,839,613)</u>    |
| Net position of governmental activities.....   |                     | <u>\$ (450,304,484)</u> |

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2018

|   | General              | Capital<br>Reserve | Capital<br>Projects | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|----------------------|--------------------|---------------------|-----------------------------------|--------------------------------|
| <b>REVENUES:</b>  |                      |                    |                     |                                   |                                |
| Real estate and personal property taxes,<br>net of tax refunds.....       | \$ 65,966,458        | \$ -               | \$ -                | \$ -                              | \$ 65,966,458                  |
| Tax liens.....  | 1,141,745            | -                  | -                   | -                                 | 1,141,745                      |
| Motor vehicle and other excise taxes.....                                 | 7,160,242            | -                  | -                   | -                                 | 7,160,242                      |
| Penalties and interest on taxes.....                                      | 1,061,333            | -                  | -                   | -                                 | 1,061,333                      |
| Payments in lieu of taxes.....  | 640,659              | -                  | -                   | -                                 | 640,659                        |
| Licenses and permits.....   | 1,743,331            | -                  | -                   | -                                 | 1,743,331                      |
| Fines and forfeitures.....  | 963,247              | -                  | -                   | -                                 | 963,247                        |
| Intergovernmental.....  | 241,713,861          | -                  | 925,197             | 45,492,589                        | 288,131,647                    |
| Departmental and other.....   | 2,177,943            | -                  | 3,280,027           | 4,672,796                         | 10,130,766                     |
| Contributions and donations.....  | -                    | -                  | -                   | 546,427                           | 546,427                        |
| Investment income.....  | 1,014,890            | -                  | -                   | 57,339                            | 1,072,229                      |
| Miscellaneous.....  | -                    | -                  | -                   | 44,128                            | 44,128                         |
| <b>TOTAL REVENUES.....</b>  | <b>323,583,709</b>   | <b>-</b>           | <b>4,205,224</b>    | <b>50,813,279</b>                 | <b>378,602,212</b>             |
| <b>EXPENDITURES:</b>  |                      |                    |                     |                                   |                                |
| Current:  |                      |                    |                     |                                   |                                |
| General government.....   | 6,637,618            | -                  | 1,124,542           | 10,313,364                        | 18,075,524                     |
| Public safety.....  | 26,702,633           | 335,799            | 92,586              | 5,226,025                         | 32,357,043                     |
| Education.....  | 214,617,216          | 188,597            | 1,426,082           | 31,960,257                        | 248,192,152                    |
| Public works.....   | 12,166,111           | 214,459            | 4,171,313           | 2,201,229                         | 18,753,112                     |
| Human services.....   | 1,125,064            | -                  | -                   | 202,678                           | 1,327,742                      |
| Culture and recreation.....   | 996,793              | -                  | -                   | 230,767                           | 1,227,560                      |
| Pension benefits.....   | 8,887,519            | -                  | -                   | -                                 | 8,887,519                      |
| Employee benefits.....  | 15,972,681           | -                  | -                   | -                                 | 15,972,681                     |
| State and county charges.....   | 23,251,933           | -                  | -                   | -                                 | 23,251,933                     |
| Debt service:   |                      |                    |                     |                                   |                                |
| Principal.....  | 9,029,000            | -                  | -                   | -                                 | 9,029,000                      |
| Principal - deficit borrowing.....  | 19,062,450           | -                  | -                   | -                                 | 19,062,450                     |
| Interest.....   | 3,411,326            | -                  | -                   | -                                 | 3,411,326                      |
| <b>TOTAL EXPENDITURES.....</b>  | <b>341,860,344</b>   | <b>738,855</b>     | <b>6,814,523</b>    | <b>50,134,320</b>                 | <b>399,548,042</b>             |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER (UNDER) EXPENDITURES.....</b> | <b>(18,276,635)</b>  | <b>(738,855)</b>   | <b>(2,609,299)</b>  | <b>678,959</b>                    | <b>(20,945,830)</b>            |
| <b>OTHER FINANCING SOURCES (USES):</b>                                    |                      |                    |                     |                                   |                                |
| Issuance of bonds.....  | 19,062,450           | -                  | 9,295,000           | -                                 | 28,357,450                     |
| Premium from issuance of bonds.....                                       | -                    | -                  | 587,536             | -                                 | 587,536                        |
| Transfers in.....   | 1,212,429            | 741,107            | 1,375,000           | 797,515                           | 4,126,051                      |
| Transfers out.....  | (2,903,823)          | -                  | -                   | (345,080)                         | (3,248,903)                    |
| <b>TOTAL OTHER FINANCING SOURCES (USES)...</b>                            | <b>17,371,056</b>    | <b>741,107</b>     | <b>11,257,536</b>   | <b>452,435</b>                    | <b>29,822,134</b>              |
| <b>NET CHANGE IN FUND BALANCES.....</b>                                   | <b>(905,579)</b>     | <b>2,252</b>       | <b>8,648,237</b>    | <b>1,131,394</b>                  | <b>8,876,304</b>               |
| <b>FUND BALANCES AT BEGINNING OF YEAR.....</b>                            | <b>31,527,739</b>    | <b>806,401</b>     | <b>(1,684,690)</b>  | <b>15,236,209</b>                 | <b>45,885,659</b>              |
| <b>FUND BALANCES AT END OF YEAR.....</b>                                  | <b>\$ 30,622,160</b> | <b>\$ 808,653</b>  | <b>\$ 6,963,547</b> | <b>\$ 16,367,603</b>              | <b>\$ 54,761,963</b>           |

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2018

|  |                    |                               |
|--|--------------------|-------------------------------|
| Net change in fund balances - total governmental funds.....  |                    | \$ 8,876,304                  |
| <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.....  | 8,878,695          |                               |
| Depreciation expense.....  | <u>(8,849,944)</u> |                               |
| Net effect of reporting capital assets.....  |                    | 28,751                        |
| <p>Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. This amount represents the net change in unavailable revenue.....</p>  |                    |                               |
|  |                    | (3,889,545)                   |
| <p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are unavailable and amortized in the Statement of Activities.</p> |                    |                               |
| Issuance of bonds.....   | (28,357,450)       |                               |
| Premium from issuance of bonds.....  | (587,536)          |                               |
| Net amortization of premium from issuance of bonds.....  | 1,855,690          |                               |
| Net change in deferred charge on refunding.....  | (336,211)          |                               |
| Debt service principal payments.....   | <u>28,091,450</u>  |                               |
| Net effect of reporting long-term debt.....  |                    | 665,943                       |
| <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.....  | (353,000)          |                               |
| Net change in accrued interest on long-term debt.....  | 399,105            |                               |
| Net change in deferred outflow/(inflow) of resources related to pensions.....  | (6,346,041)        |                               |
| Net change in net pension liability.....   | 6,259,834          |                               |
| Net change in deferred outflow/(inflow) of resources related to OPEB.....  | 17,546,891         |                               |
| Net change in net OPEB liability.....  | (43,947,517)       |                               |
| Net change in legal settlement payable.....  | 225,000            |                               |
| Net change in due to Commonwealth.....   | <u>50,000</u>      |                               |
| Net effect of recording long-term liabilities.....   |                    | (26,165,728)                  |
| The net activity of internal service funds is reported with Governmental Activities.....   |                    | <u>438,355</u>                |
| Change in net position of governmental activities.....   |                    | \$ <u><u>(20,045,920)</u></u> |

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF NET POSITION

JUNE 30, 2018

|  | Water and<br>Sewer   | Airport              | Parking               | Total                | Governmental<br>Activities -<br>Internal Service<br>Fund |
|--|----------------------|----------------------|-----------------------|----------------------|--|
| <b>ASSETS</b>  |                      |                      |                       |                      |  |
| <b>CURRENT:</b>                                      |                      |                      |                       |                      |  |
| Cash and cash equivalents.....                       | \$ 20,222,633        | \$ 314,671           | \$ 527,877            | \$ 21,065,181        | \$ 2,125,131   |
| Receivables, net of allowance for uncollectibles:    |                      |                      |                       |                      |  |
| Liens - user charges.....                            | 128,896              | -                    | -                     | 128,896              | -  |
| User charges.....                                    | 4,848,972            | -                    | -                     | 4,848,972            | -  |
| Departmental and other.....                          | -                    | 850                  | -                     | 850                  | -  |
| Intergovernmental.....                               | 13,977,915           | -                    | -                     | 13,977,915           | -  |
| Working capital deposit.....                         | -                    | -                    | -                     | -                    | 169,900  |
| Total current assets.....                            | <u>39,178,416</u>    | <u>315,521</u>       | <u>527,877</u>        | <u>40,021,814</u>    | <u>2,295,031</u>   |
| <b>NONCURRENT:</b>                                   |                      |                      |                       |                      |  |
| Capital assets, non depreciable.....                 | 9,335                | 190,879              | -                     | 200,214              | -  |
| Capital assets, net of accumulated depreciation..... | <u>91,420,067</u>    | <u>12,889,308</u>    | <u>24,587</u>         | <u>104,333,962</u>   | <u>-</u>   |
| Total noncurrent assets.....                         | <u>91,429,402</u>    | <u>13,080,187</u>    | <u>24,587</u>         | <u>104,534,176</u>   | <u>-</u>   |
| <b>TOTAL ASSETS.....</b>                             | <u>130,607,818</u>   | <u>13,395,708</u>    | <u>552,464</u>        | <u>144,555,990</u>   | <u>2,295,031</u>   |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                |                      |                      |                       |                      |  |
| Deferred outflows related to pensions.....           | 286,475              | 42,355               | 83,277                | 412,107              | -  |
| Deferred outflows related to OPEB.....               | <u>378,320</u>       | <u>-</u>             | <u>90,077</u>         | <u>468,397</u>       | <u>-</u>   |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES.....</b>     | <u>664,795</u>       | <u>42,355</u>        | <u>173,354</u>        | <u>880,504</u>       | <u>-</u>   |
| <b>LIABILITIES</b>                                   |                      |                      |                       |                      |  |
| <b>CURRENT:</b>                                      |                      |                      |                       |                      |  |
| Warrants payable.....                                | 1,291,237            | 6,611                | 4,156                 | 1,302,004            | -  |
| Accrued interest.....                                | 615,166              | -                    | -                     | 615,166              | -  |
| Compensated absences.....                            | 103,000              | 15,000               | 25,000                | 143,000              | -  |
| Bonds payable.....                                   | <u>4,235,767</u>     | <u>-</u>             | <u>-</u>              | <u>4,235,767</u>     | <u>-</u>   |
| Total current liabilities.....                       | <u>6,245,170</u>     | <u>21,611</u>        | <u>29,156</u>         | <u>6,295,937</u>     | <u>-</u>   |
| <b>NONCURRENT:</b>                                   |                      |                      |                       |                      |  |
| Compensated absences.....                            | 33,000               | 3,000                | 11,000                | 47,000               | -  |
| Net pension liability.....                           | 6,919,796            | 1,023,087            | 2,011,548             | 9,954,431            | -  |
| Net OPEB liability.....                              | 10,306,143           | -                    | 2,453,844             | 12,759,987           | -  |
| Bonds payable.....                                   | <u>66,177,282</u>    | <u>-</u>             | <u>-</u>              | <u>66,177,282</u>    | <u>-</u>   |
| Total noncurrent liabilities.....                    | <u>83,436,221</u>    | <u>1,026,087</u>     | <u>4,476,392</u>      | <u>88,938,700</u>    | <u>-</u>   |
| <b>TOTAL LIABILITIES.....</b>                        | <u>89,681,391</u>    | <u>1,047,698</u>     | <u>4,505,548</u>      | <u>95,234,637</u>    | <u>-</u>   |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                 |                      |                      |                       |                      |  |
| Deferred inflows related to pensions.....            | <u>593,755</u>       | <u>87,786</u>        | <u>172,602</u>        | <u>854,143</u>       | <u>-</u>   |
| <b>NET POSITION</b>                                  |                      |                      |                       |                      |  |
| Net investment in capital assets.....                | 34,994,268           | 13,080,187           | 24,587                | 48,099,042           | -  |
| Unrestricted.....                                    | <u>6,003,199</u>     | <u>(777,608)</u>     | <u>(3,976,919)</u>    | <u>1,248,672</u>     | <u>2,295,031</u>   |
| <b>TOTAL NET POSITION.....</b>                       | <u>\$ 40,997,467</u> | <u>\$ 12,302,579</u> | <u>\$ (3,952,332)</u> | <u>\$ 49,347,714</u> | <u>\$ 2,295,031</u>                                      |

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2018

|   | Water and<br>Sewer   | Airport              | Parking               | Total                | Governmental<br>Activities -<br>Internal Service<br>Fund |
|---|----------------------|----------------------|-----------------------|----------------------|--|
| <b>OPERATING REVENUES:</b>  |                      |                      |                       |                      |  |
| Employer and employee contributions.....                                  | \$ -                 | \$ -                 | \$ -                  | \$ -                 | 1,931,463  |
| Charges for services.....   | 16,477,241           | 602,609              | 835,044               | 17,914,894           | -  |
| Liens - charges for services.....   | 1,444,074            | -                    | -                     | 1,444,074            | -  |
| Intergovernmental.....  | 363,433              | -                    | -                     | 363,433              | -  |
| <b>TOTAL OPERATING REVENUES</b> .....                                     | <b>18,284,748</b>    | <b>602,609</b>       | <b>835,044</b>        | <b>19,722,401</b>    | <b>1,931,463</b>   |
| <b>OPERATING EXPENSES:</b>  |                      |                      |                       |                      |  |
| Cost of services and administration.....                                  | 12,251,145           | 558,830              | 568,440               | 13,378,415           | -  |
| Other operating expenses.....   | 18,753               | -                    | -                     | 18,753               | -  |
| Depreciation.....   | 1,991,027            | 202,437              | 10,210                | 2,203,674            | -  |
| Employee benefits.....  | -                    | -                    | -                     | -                    | 1,493,237  |
| <b>TOTAL OPERATING EXPENSES</b> .....                                     | <b>14,260,925</b>    | <b>761,267</b>       | <b>578,650</b>        | <b>15,600,842</b>    | <b>1,493,237</b>   |
| <b>OPERATING INCOME (LOSS)</b> .....                                      | <b>4,023,823</b>     | <b>(158,658)</b>     | <b>256,394</b>        | <b>4,121,559</b>     | <b>438,226</b>   |
| <b>NONOPERATING REVENUES (EXPENSES):</b>                                  |                      |                      |                       |                      |  |
| Investment income.....  | -                    | -                    | -                     | -                    | 129  |
| Interest expense.....   | (1,238,496)          | -                    | -                     | (1,238,496)          | -  |
| Intergovernmental.....  | -                    | 7,092,656            | -                     | 7,092,656            | -  |
| <b>TOTAL NONOPERATING<br/>REVENUES (EXPENSES), NET</b> .....              | <b>(1,238,496)</b>   | <b>7,092,656</b>     | <b>-</b>              | <b>5,854,160</b>     | <b>129</b>   |
| <b>INCOME (LOSS) BEFORE CAPITAL<br/>CONTRIBUTIONS AND TRANSFERS</b> ..... | <b>2,785,327</b>     | <b>6,933,998</b>     | <b>256,394</b>        | <b>9,975,719</b>     | <b>438,355</b>   |
| <b>TRANSFERS:</b>   |                      |                      |                       |                      |  |
| Transfers out.....  | (835,148)            | (12,000)             | (30,000)              | (877,148)            | -  |
| <b>CHANGE IN NET POSITION</b> .....                                       | <b>1,950,179</b>     | <b>6,921,998</b>     | <b>226,394</b>        | <b>9,098,571</b>     | <b>438,355</b>   |
| <b>NET POSITION AT BEGINNING OF YEAR, as revised</b> .....                | <b>39,047,288</b>    | <b>5,380,581</b>     | <b>(4,178,726)</b>    | <b>40,249,143</b>    | <b>1,856,676</b>   |
| <b>NET POSITION AT END OF YEAR</b> .....                                  | <b>\$ 40,997,467</b> | <b>\$ 12,302,579</b> | <b>\$ (3,952,332)</b> | <b>\$ 49,347,714</b> | <b>\$ 2,295,031</b>                                      |

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**

YEAR ENDED JUNE 30, 2018

|  | Water and<br>Sewer   | Airport               | Parking           | Total                | Governmental<br>Activities -<br>Internal Service<br>Fund |
|--|----------------------|-----------------------|-------------------|----------------------|--|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>                              |                      |                       |                   |                      |  |
| Receipts from customers and users.....   | \$ 18,435,113        | \$ 602,534            | \$ 835,044        | \$ 19,872,691        | \$ 1,931,463   |
| Payments to vendors.....   | (9,963,085)          | (3,854,761)           | (174,837)         | (13,992,683)         | (1,493,237)  |
| Payments to employees.....   | (2,069,998)          | (277,569)             | (530,131)         | (2,877,698)          | -  |
| <b>NET CASH FROM OPERATING ACTIVITIES.....</b>                                   | <b>6,402,030</b>     | <b>(3,529,796)</b>    | <b>130,076</b>    | <b>3,002,310</b>     | <b>438,226</b>   |
| <b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>                   |                      |                       |                   |                      |  |
| Transfers out.....   | (835,148)            | (12,000)              | (30,000)          | (877,148)            | -  |
| <b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>          |                      |                       |                   |                      |  |
| Proceeds from the issuance of bonds and notes.....                               | 14,830,925           | -                     | -                 | 14,830,925           | -  |
| Acquisition and construction of capital assets.....                              | (10,247,310)         | (4,831,215)           | -                 | (15,078,525)         | -  |
| Principal payments on bonds and notes.....                                       | (4,756,577)          | -                     | -                 | (4,756,577)          | -  |
| Interest expense.....  | (1,233,833)          | -                     | -                 | (1,233,833)          | -  |
| Intergovernmental revenue.....   | (7,595,366)          | 7,092,656             | -                 | (502,710)            | -  |
| <b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>               | <b>(9,002,161)</b>   | <b>2,261,441</b>      | <b>-</b>          | <b>(6,740,720)</b>   | <b>-</b>   |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>                              |                      |                       |                   |                      |  |
| Investment income.....   | -                    | -                     | -                 | -                    | 129  |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>                              | <b>(3,435,279)</b>   | <b>(1,280,355)</b>    | <b>100,076</b>    | <b>(4,615,558)</b>   | <b>438,355</b>   |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....</b>                       | <b>23,657,912</b>    | <b>1,595,026</b>      | <b>427,801</b>    | <b>25,680,739</b>    | <b>1,686,776</b>   |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>                             | <b>\$ 20,222,633</b> | <b>\$ 314,671</b>     | <b>\$ 527,877</b> | <b>\$ 21,065,181</b> | <b>\$ 2,125,131</b>                                      |
| <b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</u></b>              |                      |                       |                   |                      |  |
| <b><u>FROM OPERATING ACTIVITIES:</u></b>   |                      |                       |                   |                      |  |
| Operating income (loss).....   | \$ 4,023,823         | \$ (158,658)          | \$ 256,394        | \$ 4,121,559         | \$ 438,226   |
| Adjustments to reconcile operating income to net cash from operating activities: |                      |                       |                   |                      |  |
| Depreciation.....  | 1,991,027            | 202,437               | 10,210            | 2,203,674            | -  |
| Deferred (outflows)/inflows related to pensions.....                             | 233,421              | 32,690                | 66,647            | 332,758              | -  |
| Deferred (outflows)/inflows related to OPEB.....                                 | (378,320)            | -                     | (90,077)          | (468,397)            | -  |
| Changes in assets and liabilities:   |                      |                       |                   |                      |  |
| User charges.....  | 183,586              | -                     | -                 | 183,586              | -  |
| Tax liens.....   | (33,221)             | -                     | -                 | (33,221)             | -  |
| Departmental and other.....  | -                    | (75)                  | -                 | (75)                 | -  |
| Warrants payable.....  | 237,022              | (3,307,392)           | 4,156             | (3,066,214)          | -  |
| Other liabilities.....   | (147)                | -                     | -                 | (147)                | -  |
| Compensated absences.....  | (25,000)             | 6,000                 | 9,000             | (10,000)             | -  |
| Net pension liability.....   | (777,695)            | (304,798)             | (351,858)         | (1,434,351)          | -  |
| Net OPEB liability.....  | 947,534              | -                     | 225,604           | 1,173,138            | -  |
| Total adjustments.....   | 2,378,207            | (3,371,138)           | (126,318)         | (1,119,249)          | -  |
| <b>NET CASH FROM OPERATING ACTIVITIES.....</b>                                   | <b>\$ 6,402,030</b>  | <b>\$ (3,529,796)</b> | <b>\$ 130,076</b> | <b>\$ 3,002,310</b>  | <b>\$ 438,226</b>  |

See notes to basic financial statements.



**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2018

|  | Pension and Other<br>Employee<br>Benefit<br>Trust Funds (1) | Private<br>Purpose<br>Trust Funds | Agency<br>Funds |
|--|---|-----------------------------------|-----------------|
| <b>ASSETS</b>  |   |                                   |                 |
| Cash and cash equivalents.....                       | \$ 1,931,759  | \$ 587,029                        | \$ 281,612      |
| Investments:   |   |                                   |                 |
| Investments in Pension Reserve Investment Trust..... | 226,646,366   | -                                 | -               |
| Receivables, net of allowance for uncollectibles:    |   |                                   |                 |
| Intergovernmental.....                               | 387,998   | -                                 | -               |
| Other assets.....                                    | 12,938  | -                                 | -               |
| <b>TOTAL ASSETS.....</b>                             | <b>228,979,061</b>  | <b>587,029</b>                    | <b>281,612</b>  |
| <b>LIABILITIES</b>                                   |   |                                   |                 |
| Warrants payable.....                                | 1,336,530   | -                                 | -               |
| <b>NET POSITION</b>                                  |   |                                   |                 |
| Restricted for pensions.....                         | 227,442,531   | -                                 | -               |
| Restricted for other postemployment benefits.....    | 200,000   | -                                 | -               |
| Held in trust for other purposes.....                | -   | 587,029                           | -               |
| <b>TOTAL NET POSITION.....</b>                       | <b>\$ 227,642,531</b>                                       | <b>\$ 587,029</b>                 | <b>\$ -</b>     |

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

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2018

|  | Pension and Other<br>Employee<br>Benefit<br>Trust Funds (1) | Private<br>Purpose<br>Trust Funds |
|--|---|-----------------------------------|
| <b>ADDITIONS:</b>  |   |                                   |
| Contributions:   |   |                                   |
| Employer contributions.....  | \$ 20,705,965   | \$ -                              |
| Employer contributions for other postemployment benefit payments.... | 9,887,987   | -                                 |
| Member contributions.....  | 6,726,421   | -                                 |
| Transfers from other systems.....                                    | 360,296   | -                                 |
| 3(8)c contributions from other systems.....                          | 266,382   | -                                 |
| Workers compensation settlements.....                                | 7,000   | -                                 |
| State COLA reimbursements.....                                       | 161,410   | -                                 |
| Member makeup payments and redeposits.....                           | 54,793  | -                                 |
| Interest not refunded.....   | 7,178   | -                                 |
| Total contributions.....   | 38,177,432  | -                                 |
| Net investment income:   |   |                                   |
| Investment income.....   | 34,189,107  | 4,097                             |
| Less: investment expense.....  | (1,101,272)   | -                                 |
| Net investment income (loss).....                                    | 33,087,835  | 4,097                             |
| TOTAL ADDITIONS.....   | 71,265,267  | 4,097                             |
| <b>DEDUCTIONS:</b>   |   |                                   |
| Administration.....  | 503,253   | -                                 |
| Transfers to other systems.....                                      | 1,520,601   | -                                 |
| 3(8)c transfer to other systems.....                                 | 1,317,918   | -                                 |
| Retirement benefits and refunds.....                                 | 25,958,887  | -                                 |
| Other postemployment benefit payments.....                           | 9,887,987   | -                                 |
| Educational scholarships.....  | -   | 3,624                             |
| TOTAL DEDUCTIONS.....  | 39,188,646  | 3,624                             |
| NET INCREASE (DECREASE) IN NET POSITION.....                         | 32,076,621  | 473                               |
| NET POSITION AT BEGINNING OF YEAR.....                               | 195,565,910   | 586,556                           |
| NET POSITION AT END OF YEAR.....                                     | \$ 227,642,531  | \$ 587,029                        |

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

See notes to basic financial statements.

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

The accompanying basic financial statements of the City of Lawrence, 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 governed by an elected Mayor and a nine member City Council.

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

*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 Lawrence Contributory Retirement System (System) was established to provide retirement benefits to City, Lawrence Housing Authority, Greater Lawrence Regional Vocational Technical High School, M.V.T.R.A employees, and their beneficiaries. The System is governed by the five-member board comprised of the City Finance Director (ex-officio), two members elected by the System's participants, one member appointed by the Mayor and one member appointed by the Board 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.

The System issues a publicly available audited 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 354 Merrimack Street, Entry C, Lawrence, MA 01843.

***Joint Ventures******Greater Lawrence Regional Technical Vocational School (GLRTVS)***

The City is a member of the GLRTVS that serves the members' students seeking an education in academic and technical. The GLRTVS is governed by a seven member school committee consisting of one elected representative from the City. The City is indirectly liable for the GLRTVS' debt and other expenditures and is assessed annually for its share of operating and capital costs. For the year ended June 30, 2018, the City's assessment totaled \$2,469,918. Separate financial statements may be obtained by writing to the Treasurer of the GLRTVS at 57 River Road, Andover, MA 01810.

*Greater Lawrence Sanitary District (GLSD)*

GLSD operates a wastewater treatment plant for five member communities, of which the City is a member. The GLSD is governed by a seven member board consisting of one appointed representative from each member community. The City is indirectly liable for the GLSD's debt and other expenditures and is assessed annually for its share of operating and capital costs. For the year ended June 30, 2018, the City's assessment totaled \$6,052,145. Separate financial statements may be obtained by writing to the Treasurer of the GLSD at 240 Charles Street, North Andover, MA 01845.

**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 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 or 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 susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

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

The *capital reserve fund* is a fund required to be established under *Chapter 58 of the Acts of 2010 – An Act Providing for the Financial Stability of the City of Lawrence*. Beginning in 2012, at least 1.5% of the amount of property taxes committed for the preceding year is to be transferred into this fund.

The *capital projects fund* is used to account for and report financial resources for the expenditure of various capital outlays, including various construction and improvement projects.

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:

*Water and sewer enterprise fund* is used to account for water and sewer activities.

*Airport enterprise fund* is used to account for the airport activities.

*Parking enterprise fund* is used to account for the off-street parking garages and lots.

Additionally, the *internal service fund* is reported as a proprietary fund type, which is designed to account for the financing of services provided by one department to other departments or governmental units. The internal service fund is used to account for risk financing activities related to employees' dental health insurance.

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

The following fiduciary fund types are reported:

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

The *other postemployment benefits trust fund* is used to accumulate resources to provide funding for future other postemployment benefit (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 – Cash and Investments.

#### F. Accounts Receivable

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

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

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

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

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

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

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

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

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

##### ***Water***

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



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

### **Sewer**

Sewer user fees are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Sewer liens are processed in December of every year and included as a lien on the property owner's tax bill. Sewer charges and liens are recorded as receivables in the 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 airport receivables and are recorded as receivables in the year accrued. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

### **Intergovernmental**

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

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

### **Loans**

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

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

## **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, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial

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

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

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

| <u>Capital Asset Type</u>       | <u>Estimated Useful Life (in years)</u> |
|---------------------------------|---|
| Buildings and improvements..... | 20-40                                   |
| Machinery and equipment.....    | 5                                       |
| Vehicles.....                   | 5                                       |
| Infrastructure.....             | 30-75                                   |

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

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

*Governmental Fund Financial Statements*

Capital asset costs are recorded as expenditures in the acquiring fund in the 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 has reported deferred outflows of resources related to pensions, deferred outflows of resources related to OPEB, and deferred loss on refunding 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 has reported deferred inflows of resources related to pensions in this category.

*Governmental Fund Financial Statements*

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

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

#### 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

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:

“Loans” represents home and community development outstanding loans receivable balances.

“Fiscal stability” represents amounts accumulated that can be used for unforeseen expenditures pursuant to Chapter 41 of the Acts of 1990, as amended by Chapter 377 of the Acts of 1992. This amount is equal to 1.5% of the prior year’s amount to be raised.

“Capital Reserve” represents amounts accumulated that can be used only for capital purposes for which the City could borrow for 10 years or longer under Chapter 44 of the General Laws. This reserve was established under the Chapter 58 of the Acts of 2010, and began in 2012. Under the Act the City is required to appropriate into the reserve fund at least 1.5% of the amount of property taxes committed for the preceding year.

“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.

“Other specific purposes” represents restrictions placed on assets from outside parties such as federal and state grants.

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.

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

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

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.

#### N. 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 the Lawrence Contributory Retirement System and the Massachusetts Teachers Retirement System. Additions to/deductions from the System’s fiduciary net position have been determined on the same basis as they are reported by the System. 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.

#### O. Long-term debt

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

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

##### *Governmental Fund Financial Statements*

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

#### P. Investment Income

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

#### Q. 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.

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

There are several individual fund deficits within the Special Revenue and Capital Project funds. These deficits will be funded through grants, bond proceeds, and available fund balances.

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 government does not have a deposit policy for custodial credit risk. At year-end, the

carrying amount of deposits totaled \$61,215,732 and the bank balance totaled \$66,998,755. Of the bank balance, \$1,612,341 was covered by Federal Depository Insurance, and \$65,386,414 is collateralized.

At December 31, 2017, carrying amount of deposits for the System totaled \$1,731,579 and the bank balance totaled \$1,831,183, all of which was covered by the Federal Depository Insurance. None of the funds were exposed to custodial risk.

Investments

As of June 30, 2018, the City had the following investments:

| <u>Investment Type</u>         | <u>Fair value</u>    | <u>Maturities<br/>Over 10 Years</u> |
|--------------------------------|----------------------|-------------------------------------|
| <u>Debt securities:</u>        |                      |                                     |
| Corporate bonds.....           | \$ 53,077            | \$ <u>53,077</u>                    |
| <u>Other investments:</u>      |                      |                                     |
| Money market mutual funds..... | 82,440               |                                     |
| MMDT - Cash portfolio.....     | <u>30,884,065</u>    |                                     |
| Total investments.....         | \$ <u>31,019,582</u> |                                     |

As of December 31, 2017, the System had \$226,646,366 invested in the Pension Reserve Investment Trust (PRIT).

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

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the City’s investments, the \$53,077 in corporate bonds have custodial credit risk exposure because the related securities are uninsured, unregistered and are not held in the City’s name.

Interest Rate Risk

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

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

Credit Risk

The City has not adopted a formal policy related to credit risk. At June 30, 2018, all of the City’s investments were rated BBB+ using the S&P’s rating scale.

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

Concentration of Credit Risk

The City has not adopted a formal policy related to the amount that may be invested in any one issuer. At June 30, 2018, the City’s investment in any one issuer did not exceed 5% of the total amount invested.

The System has not adopted a formal policy related to the amount that may be invested in any one issuer. At December 31, 2017, the System’s investment in any one issuer did not exceed 5% of the total amount invested.

Fair Market Value of Investments

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

The following table presents financial assets at June 30, 2018, that the City measures fair value on a recurring basis, by level, within the fair value hierarchy:

| Investment Type                                | June 30,<br>2018 | Fair Value Measurements Using  |   |  |
|--|------------------|--|---|--|
|  |                  | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Investments measured at fair value:</b>     |                  |  |   |  |
| <u>Debt securities:</u>                        |                  |  |   |  |
| Corporate bonds.....                           | \$ 53,077        | \$ -   | \$ 53,077   | \$ -   |
| <u>Other investments:</u>                      |                  |  |   |  |
| Money market mutual funds.....                 | 82,440           | 82,440   | -   | -  |
| Total investments measured at fair value.....  | 135,517          | \$ 82,440  | \$ 53,077   | \$ -   |
| <b>Investments measured at amortized cost:</b> |                  |  |   |  |
| MMDT - Cash portfolio.....                     | 30,884,065       |  |   |  |
| Total investments.....                         | \$ 31,019,582    |  |   |  |

Corporate bonds classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities’ relationship to benchmark quoted prices.

MMDT investments are valued at amortized cost. Under the amortized cost method, an investment is valued initially at its cost and adjusted for the amount of interest income accrued each day over the term of the investment to account for any difference between the initial cost and the amount payable at its maturity. If



amortized cost is determined not to approximate fair value, the value of the portfolio securities will be determined under procedures established by the Advisor.

**Retirement System**

The retiree pension defined benefit plan holds significant amounts of investments that are measured at net asset value on a recurring basis.

As of December 31, 2017, the System had \$226,646,366 invested in PRIT. PRIT Investments are valued using the net asset value method. This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board (PRIM). The fair values of the positions in each investment Pool are the same as the value of each Pool's shares. The System does not have the ability to control any of the investment decisions relative to its funds in PRIT.

**NOTE 3 - RECEIVABLES**

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

|  | Gross<br>Amount      | Allowance<br>for<br>Uncollectibles | Net<br>Amount        |
|--|----------------------|------------------------------------|----------------------|
| <u>Receivables:</u>                          |                      |                                    |                      |
| Real estate and personal property taxes..... | \$ 2,062,825         | \$ (761,752)                       | \$ 1,301,073         |
| Motor vehicle and other excise taxes.....    | 2,743,064            | (1,333,861)                        | 1,409,203            |
| Intergovernmental.....                       | 14,902,181           | -                                  | 14,902,181           |
| Loans.....                                   | 1,558,414            | -                                  | 1,558,414            |
| Total.....                                   | <u>\$ 21,266,484</u> | <u>\$ (2,095,613)</u>              | <u>\$ 19,170,871</u> |

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

|                             | Gross<br>Amount      | Allowance<br>for<br>Uncollectibles | Net<br>Amount        |
|-----------------------------|----------------------|------------------------------------|----------------------|
| <u>Receivables:</u>         |                      |                                    |                      |
| Liens.....                  | \$ 128,896           | \$ -                               | \$ 128,896           |
| User charges.....           | 4,848,972            | -                                  | 4,848,972            |
| Intergovernmental.....      | 13,977,915           | -                                  | 13,977,915           |
| Departmental and other..... | 850                  | -                                  | 850                  |
| Total.....                  | <u>\$ 18,956,633</u> | <u>\$ -</u>                        | <u>\$ 18,956,633</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<br>Fund          | Other<br>Governmental<br>Funds | Total                    |
|--|--------------------------|--------------------------------|--------------------------|
| <u>Receivables:</u>                          |                          |                                |                          |
| Real estate and personal property taxes..... | \$ 980,562               | \$ -                           | \$ 980,562               |
| Motor vehicle and other excise taxes.....    | 1,409,203                | -                              | 1,409,203                |
| Intergovernmental.....                       | 11,470,000               | 1,277,741                      | 12,747,741               |
| Departmental and other.....                  | 850                      | -                              | 850                      |
| <br>Total.....                               | <br><u>\$ 13,860,615</u> | <br><u>\$ 1,277,741</u>        | <br><u>\$ 15,138,356</u> |

**NOTE 4 - CAPITAL ASSETS**

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

|  | Beginning<br>Balance      | Increases              | Decreases       | Ending<br>Balance         |
|--|---------------------------|------------------------|-----------------|---------------------------|
| <b>Governmental Activities:</b>                            |                           |                        |                 |                           |
| <u>Capital assets not being depreciated:</u>               |                           |                        |                 |                           |
| Land.....  | \$ 6,025,525              | \$ 675,000             | \$ -            | \$ 6,700,525              |
| <br><u>Capital assets being depreciated:</u>               |                           |                        |                 |                           |
| Buildings and improvements.....                            | 280,039,430               | 4,666,044              | -               | 284,705,474               |
| Machinery and equipment.....                               | 24,761,067                | 1,073,683              | -               | 25,834,750                |
| Vehicles.....  | 5,881,259                 | 515,122                | -               | 6,396,381                 |
| Infrastructure.....  | 30,239,248                | 1,948,846              | -               | 32,188,094                |
| <br>Total capital assets being depreciated.....            | <br><u>340,921,004</u>    | <br><u>8,203,695</u>   | <br><u>-</u>    | <br><u>349,124,699</u>    |
| <br><u>Less accumulated depreciation for:</u>              |                           |                        |                 |                           |
| Buildings and improvements.....                            | (82,821,869)              | (6,845,988)            | -               | (89,667,857)              |
| Machinery and equipment.....                               | (23,318,623)              | (752,800)              | -               | (24,071,423)              |
| Vehicles.....  | (3,554,211)               | (470,814)              | -               | (4,025,025)               |
| Infrastructure.....  | (7,633,169)               | (780,342)              | -               | (8,413,511)               |
| <br>Total accumulated depreciation.....                    | <br><u>(117,327,872)</u>  | <br><u>(8,849,944)</u> | <br><u>-</u>    | <br><u>(126,177,816)</u>  |
| <br>Total capital assets being depreciated, net.....       | <br><u>223,593,132</u>    | <br><u>(646,249)</u>   | <br><u>-</u>    | <br><u>222,946,883</u>    |
| <br>Total governmental activities capital assets, net..... | <br><u>\$ 229,618,657</u> | <br><u>\$ 28,751</u>   | <br><u>\$ -</u> | <br><u>\$ 229,647,408</u> |

|   | Beginning<br>Balance | Increases    | Decreases | Ending<br>Balance |
|---|----------------------|--------------|-----------|-------------------|
| <b>Water and Sewer Activity:</b>                          |                      |              |           |                   |
| <u>Capital assets not being depreciated:</u>              |                      |              |           |                   |
| Land.....   | \$ 9,335             | \$ -         | \$ -      | \$ 9,335          |
| <u>Capital assets being depreciated:</u>                  |                      |              |           |                   |
| Buildings and improvements.....                           | 6,164,913            | -            | -         | 6,164,913         |
| Machinery and equipment.....                              | 1,781,680            | -            | -         | 1,781,680         |
| Vehicles.....   | 1,488,573            | 294,362      | -         | 1,782,935         |
| Infrastructure.....                                       | 93,187,840           | 9,952,948    | -         | 103,140,788       |
| Total capital assets being depreciated.....               | 102,623,006          | 10,247,310   | -         | 112,870,316       |
| <u>Less accumulated depreciation for:</u>                 |                      |              |           |                   |
| Buildings and improvements.....                           | (2,804,559)          | (119,181)    | -         | (2,923,740)       |
| Machinery and equipment.....                              | (924,676)            | (132,167)    | -         | (1,056,843)       |
| Vehicles.....   | (1,143,483)          | (161,406)    | -         | (1,304,889)       |
| Infrastructure.....                                       | (14,586,504)         | (1,578,273)  | -         | (16,164,777)      |
| Total accumulated depreciation.....                       | (19,459,222)         | (1,991,027)  | -         | (21,450,249)      |
| Total capital assets being depreciated, net.....          | 83,163,784           | 8,256,283    | -         | 91,420,067        |
| Total water and sewer activities capital assets, net..... | \$ 83,173,119        | \$ 8,256,283 | \$ -      | \$ 91,429,402     |
| <br>  |                      |              |           |                   |
|   | Beginning<br>Balance | Increases    | Decreases | Ending<br>Balance |
| <b>Airport Activity:</b>                                  |                      |              |           |                   |
| <u>Capital assets not being depreciated:</u>              |                      |              |           |                   |
| Land.....   | \$ 190,879           | \$ -         | \$ -      | \$ 190,879        |
| <u>Capital assets being depreciated:</u>                  |                      |              |           |                   |
| Buildings and improvements.....                           | 112,628              | -            | -         | 112,628           |
| Machinery and equipment.....                              | 44,364               | -            | -         | 44,364            |
| Vehicles.....   | 155,056              | -            | -         | 155,056           |
| Infrastructure.....                                       | 8,337,711            | 4,831,215    | -         | 13,168,926        |
| Total capital assets being depreciated.....               | 8,649,759            | 4,831,215    | -         | 13,480,974        |
| <u>Less accumulated depreciation for:</u>                 |                      |              |           |                   |
| Buildings and improvements.....                           | (112,628)            | -            | -         | (112,628)         |
| Machinery and equipment.....                              | (4,436)              | (4,436)      | -         | (8,872)           |
| Vehicles.....   | (155,056)            | -            | -         | (155,056)         |
| Infrastructure.....                                       | (117,109)            | (198,001)    | -         | (315,110)         |
| Total accumulated depreciation.....                       | (389,229)            | (202,437)    | -         | (591,666)         |
| Total capital assets being depreciated, net.....          | 8,260,530            | 4,628,778    | -         | 12,889,308        |
| Total airport activities capital assets, net.....         | \$ 8,451,409         | \$ 4,628,778 | \$ -      | \$ 13,080,187     |

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u>   | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|--------------------|------------------|---------------------------|
| <b>Parking Activity:</b>                                   |                              |                    |                  |                           |
| <u>Capital assets being depreciated:</u>                   |                              |                    |                  |                           |
| Buildings and improvements.....                            | \$ 220,864                   | \$ -               | \$ -             | \$ 220,864                |
| <u>Less accumulated depreciation for:</u>                  |                              |                    |                  |                           |
| Buildings and improvements.....                            | (186,067)                    | (10,210)           | -                | (196,277)                 |
| Total municipal parking activities capital assets, net.... | <u>\$ 34,797</u>             | <u>\$ (10,210)</u> | <u>\$ -</u>      | <u>\$ 24,587</u>          |

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

|  |                     |
|--|---------------------|
| <b>Governmental Activities:</b>                            |                     |
| General government.....                                    | \$ 1,121,166        |
| Public safety.....   | 541,658             |
| Education.....   | 5,988,584           |
| Public works.....  | 1,024,083           |
| Human services.....  | 72,900              |
| Library.....   | <u>101,553</u>      |
| Total depreciation expense - governmental activities.....  | <u>\$ 8,849,944</u> |
| <b>Business-Type Activities:</b>                           |                     |
| Water and sewer.....                                       | \$ 1,991,027        |
| Airport.....   | 202,437             |
| Parking.....   | <u>10,210</u>       |
| Total depreciation expense - business-type activities..... | <u>\$ 2,203,674</u> |

**NOTE 5 - INTERFUND TRANSFERS**

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

| <u>Transfers Out:</u>              | <u>Transfers In:</u>    |                                     |                                      |  | <u>Total</u>        |
|------------------------------------|-------------------------|-------------------------------------|--------------------------------------|--|---------------------|
|                                    | <u>General<br/>fund</u> | <u>Capital<br/>reserve<br/>fund</u> | <u>Capital<br/>projects<br/>fund</u> | <u>Nonmajor<br/>governmental<br/>funds</u> |                     |
| General fund.....                  | \$ -                    | \$ 741,107                          | \$ 1,375,000                         | \$ 787,716                                 | \$ 2,903,823        |
| Nonmajor governmental funds.....   | 335,281                 | -                                   | -                                    | 9,799                                      | 345,080             |
| Water & Sewer Enterprise fund..... | 835,148                 | -                                   | -                                    | -  | 835,148             |
| Airport Enterprise fund.....       | 12,000                  | -                                   | -                                    | -  | 12,000              |
| Parking Enterprise fund.....       | <u>30,000</u>           | -                                   | -                                    | -  | <u>30,000</u>       |
| Total.....                         | <u>\$ 1,212,429</u>     | <u>\$ 741,107</u>                   | <u>\$ 1,375,000</u>                  | <u>\$ 797,515</u>                          | <u>\$ 4,126,051</u> |

- 1.) Budgeted transfers from the general fund to the Capital Reserve Fund, capital project funds, as well as to various nonmajor governmental funds for grant matching purposes.
- 2.) Transfers to and from various nonmajor governmental funds.
- 3.) Budgeted transfers from the enterprise funds to the General Fund for indirect costs, as well as a transfer from the Airport Enterprise to the Airport Enterprise Grant Fund.

**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 anticipation notes (SANS).

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.

As of June 30, 2018, the City has the following outstanding short-term debt:

| Type                          | Purpose                     | Rate (%) | Due Date | Balance at June 30, 2017 | Renewed/ Issued | Retired/ Redeemed | Balance at June 30, 2018 |
|-------------------------------|-----------------------------|----------|----------|--------------------------|-----------------|-------------------|--------------------------|
| <b>Governmental Funds:</b>    |                             |          |          |                          |                 |                   |                          |
| BAN                           | Bond anticipation note..... | 2.00%    | 09/01/17 | \$ 3,500,000             | \$ -            | \$ (3,500,000)    | \$ -                     |
| BAN                           | Bond anticipation note..... | 1.50%    | 09/01/17 | 2,930,000                | -               | (2,930,000)       | -                        |
| BAN                           | Bond anticipation note..... | 2.00%    | 03/01/18 | -                        | 1,730,000       | (1,730,000)       | -                        |
| BAN                           | Bond anticipation note..... | 1.50%    | 09/01/18 | -                        | 2,930,000       | -                 | 2,930,000                |
| BAN                           | Bond anticipation note..... | 2.00%    | 09/01/18 | -                        | 3,500,000       | -                 | 3,500,000                |
| Total Governmental Funds..... |                             |          |          | \$ 6,430,000             | \$ 8,160,000    | \$ (8,160,000)    | \$ 6,430,000             |

**NOTE 7 - LONG-TERM DEBT**

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

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

| Project  | Maturities Through | Original Loan Amount | Interest Rate (%) | Outstanding at June 30, 2018 |
|--|--------------------|----------------------|-------------------|------------------------------|
| <b>Governmental Funds</b>                        |                    |                      |                   |                              |
| Municipal Purpose Bonds of 2009.....             | 2029               | 2,305,460            | 3.3 - 5.0%        | \$ 1,100,000                 |
| Municipal Purpose Bonds of 2015.....             | 2045               | 8,050,000            | 3.0 - 4.0%        | 7,485,000                    |
| Municipal Purpose Bonds of 2016 - refunding..... | 2027               | 19,885,000           | 3.0 - 5.0%        | 18,090,000                   |
| Municipal Purpose Bonds of 2017.....             | 2037               | 2,499,000            | 2.0 - 4.0%        | 2,275,000                    |
| Municipal Purpose Bonds of 2017 - refunding..... | 2025               | 23,450,000           | 2.0 - 5.0%        | 18,835,000                   |
| Municipal Purpose Bonds of 2018.....             | 2038               | 9,295,000            | 3.5 - 4.0%        | 9,295,000                    |
| Sub-total of long-term governmental bonds.....   |                    |                      |                   | <u>57,080,000</u>            |
| Add: Unamortized premium on bonds.....           |                    |                      |                   | <u>4,251,378</u>             |
| Deficit borrowing note.....                      | 2019               | -                    | 2.0%              | 12,000,000                   |
| Deficit borrowing note.....                      | 2019               | -                    | 2.0%              | 7,062,450                    |
| Sub-total of long-term deficit notes.....        |                    |                      |                   | <u>19,062,450</u>            |
| Total Bonds Payable, net.....                    |                    |                      |                   | <u>\$ 80,393,828</u>         |

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

| Year       | Principal            | Interest             | Total                |
|------------|----------------------|----------------------|----------------------|
| 2019.....  | \$ 27,622,450        | \$ 3,521,328         | \$ 31,143,778        |
| 2020.....  | 8,210,000            | 2,929,409            | 11,139,409           |
| 2021.....  | 8,500,000            | 2,386,157            | 10,886,157           |
| 2022.....  | 4,010,000            | 1,805,194            | 5,815,194            |
| 2023.....  | 4,085,000            | 1,556,932            | 5,641,932            |
| 2024.....  | 4,045,000            | 1,302,550            | 5,347,550            |
| 2025.....  | 4,095,000            | 1,047,363            | 5,142,363            |
| 2026.....  | 3,220,000            | 788,000              | 4,008,000            |
| 2027.....  | 2,330,000            | 540,788              | 2,870,788            |
| 2028.....  | 1,025,000            | 366,313              | 1,391,313            |
| 2029.....  | 855,000              | 327,738              | 1,182,738            |
| 2030.....  | 750,000              | 296,713              | 1,046,713            |
| 2031.....  | 735,000              | 270,182              | 1,005,182            |
| 2032.....  | 735,000              | 243,407              | 978,407              |
| 2033.....  | 735,000              | 216,132              | 951,132              |
| 2034.....  | 695,000              | 188,419              | 883,419              |
| 2035.....  | 695,000              | 163,906              | 858,906              |
| 2036.....  | 695,000              | 139,050              | 834,050              |
| 2037.....  | 610,000              | 114,750              | 724,750              |
| 2038.....  | 570,000              | 92,826               | 662,826              |
| 2039.....  | 275,000              | 71,500               | 346,500              |
| 2040.....  | 275,000              | 60,500               | 335,500              |
| 2041.....  | 275,000              | 49,500               | 324,500              |
| 2042.....  | 275,000              | 38,500               | 313,500              |
| 2043.....  | 275,000              | 27,500               | 302,500              |
| 2044.....  | 275,000              | 16,500               | 291,500              |
| 2045.....  | 275,000              | 5,500                | 280,500              |
| Total..... | <u>\$ 76,142,450</u> | <u>\$ 18,566,657</u> | <u>\$ 94,709,107</u> |

The Commonwealth has approved school construction assistance for the City. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for construction costs and debt service interest of general obligation school bonds outstanding. During 2018, \$5,522,087 of such assistance was received. Approximately \$16,566,000 will be received in future years. Of this amount, approximately \$5,096,000 represents reimbursement of long-term interest costs, and \$11,470,000 represents reimbursement of approved construction costs. Accordingly, an \$11,470,000 intergovernmental receivable and corresponding unavailable revenue has been recorded in the fund based financial statements and the change in the receivable has been recognized as revenue in the conversion to the government-wide financial statements.

| Project                                  | Maturities Through | Original Loan Amount | Interest Rate (%) | Outstanding at June 30, 2018 |
|--|--------------------|----------------------|-------------------|------------------------------|
| <b>Business-Type Enterprise Funds</b>    |                    |                      |                   |                              |
| MCWT.....                                | 2038               | \$ 86,185,098        | 2.00%             | \$ 62,703,049                |
| Municipal Purpose Bonds of 2016.....     | 2036               | 5,400,000            | 3.0 - 5.0%        | 4,860,000                    |
| Municipal Purpose Bonds of 2017.....     | 2037               | 3,000,000            | 3.0 - 5.0%        | 2,850,000                    |
| Total Water and Sewer Bonds Payable..... |                    |                      |                   | <u>\$ 70,413,049</u>         |

Debt service requirements for principal and interest for the water and sewer enterprise fund bonds payable are as follows:

| Year       | Principal            | Interest             | Total                |
|------------|----------------------|----------------------|----------------------|
| 2019.....  | \$ 4,235,767         | \$ 1,399,828         | \$ 5,635,595         |
| 2020.....  | 4,896,185            | 1,531,458            | 6,427,643            |
| 2021.....  | 5,047,180            | 1,401,964            | 6,449,144            |
| 2022.....  | 4,384,334            | 1,263,034            | 5,647,368            |
| 2023.....  | 4,477,894            | 1,141,023            | 5,618,917            |
| 2024.....  | 4,572,893            | 1,016,357            | 5,589,250            |
| 2025.....  | 4,659,369            | 889,241              | 5,548,610            |
| 2026.....  | 3,972,343            | 779,288              | 4,751,631            |
| 2027.....  | 3,308,495            | 699,721              | 4,008,216            |
| 2028.....  | 3,155,535            | 628,446              | 3,783,981            |
| 2029.....  | 3,213,653            | 559,337              | 3,772,990            |
| 2030.....  | 2,981,606            | 493,718              | 3,475,324            |
| 2031.....  | 3,035,960            | 430,139              | 3,466,099            |
| 2032.....  | 2,984,907            | 365,866              | 3,350,773            |
| 2033.....  | 3,039,453            | 300,662              | 3,340,115            |
| 2034.....  | 3,095,163            | 233,414              | 3,328,577            |
| 2035.....  | 3,152,062            | 164,689              | 3,316,751            |
| 2036.....  | 2,580,094            | 102,273              | 2,682,367            |
| 2037.....  | 1,784,512            | 63,851               | 1,848,363            |
| 2038.....  | 871,574              | 28,752               | 900,326              |
| 2039.....  | 964,070              | 11,284               | 975,354              |
| Total..... | <u>\$ 70,413,049</u> | <u>\$ 13,504,345</u> | <u>\$ 83,917,394</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 \$824,085 and interest costs for \$657,131. Thus, net MCWT loan repayments, including interest, are scheduled to be \$6,644,038. The principal subsidies are guaranteed. The interest subsidies are supported through future investment income and are expected to be made, although not guaranteed.

Since the City is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The 2018 principal and interest subsidies totaled \$214,487 and \$226,159, respectively.

Authorized and Unissued Debt

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

| <u>Purpose</u>                | <u>Amount</u>            |
|-------------------------------|--------------------------|
| Water.....                    | \$ 15,165,741            |
| Sewer.....                    | 20,796,103               |
| School Construction.....      | 5,500,000                |
| Fire Ladder Truck.....        | 480,000                  |
| Library HVAC Replacement..... | 450,000                  |
| Deficit Financing.....        | <u>20,352,450</u>        |
| <br>Total.....                | <br><u>\$ 62,744,294</u> |

Changes in Long-term Liabilities

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

|  | <u>Beginning<br/>Balance</u> | <u>Additions</u>         | <u>Reductions</u>          | <u>Ending<br/>Balance</u> | <u>Due Within<br/>One Year</u> |
|--|------------------------------|--------------------------|----------------------------|---------------------------|--------------------------------|
| <b>Governmental Activities:</b>                                |                              |                          |                            |                           |                                |
| Long-term bonds payable.....                                   | \$ 75,876,450                | \$ 28,357,450            | \$ (28,091,450)            | \$ 76,142,450             | \$ 27,622,450                  |
| Add: Unamortized premium on bonds...                           | 5,519,532                    | -                        | (1,268,154)                | 4,251,378                 | 1,094,099                      |
| Total bonds payable.....                                       | <u>81,395,982</u>            | <u>28,357,450</u>        | <u>(29,359,604)</u>        | <u>80,393,828</u>         | <u>28,716,549</u>              |
| Compensated absences.....                                      | 17,230,000                   | 5,602,000                | (5,249,000)                | 17,583,000                | 5,659,000                      |
| Net pension liability.....                                     | 190,285,875                  | 10,890,277               | (17,150,111)               | 184,026,041               | -                              |
| Net OPEB liability.....  | <u>434,061,233</u>           | <u>53,675,806</u>        | <u>(9,728,299)</u>         | <u>478,008,740</u>        | <u>-</u>                       |
| <br>Total governmental activity<br>long-term liabilities.....  | <br><u>\$ 722,973,090</u>    | <br><u>\$ 98,525,533</u> | <br><u>\$ (61,487,014)</u> | <br><u>\$ 760,011,609</u> | <br><u>\$ 34,375,549</u>       |
| <b>Business-Type Activities:</b>                               |                              |                          |                            |                           |                                |
| Long-term bonds payable.....                                   | \$ 60,338,701                | \$ 14,830,925            | \$ (4,756,577)             | \$ 70,413,049             | \$ 4,235,767                   |
| Compensated absences.....                                      | 200,000                      | 147,000                  | (157,000)                  | 190,000                   | 143,000                        |
| Net pension liability.....                                     | 11,388,782                   | (506,658)                | (927,693)                  | 9,954,431                 | -                              |
| Net OPEB liability.....  | <u>11,586,849</u>            | <u>1,432,826</u>         | <u>(259,688)</u>           | <u>12,759,987</u>         | <u>-</u>                       |
| <br>Total business-type activity<br>long-term liabilities..... | <br><u>\$ 83,514,332</u>     | <br><u>\$ 15,904,093</u> | <br><u>\$ (6,100,958)</u>  | <br><u>\$ 93,317,467</u>  | <br><u>\$ 4,378,767</u>        |

**NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

The City has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the City’s financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.



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

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

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. The City has established a stabilization funds for legal services, compensated absences, workers compensation, and injured on duty reserve, the balances of which totaled \$65,000, \$112,000, \$193,000, and \$100,000 at year end, respectively. The legal services stabilization fund has been reported as a component of committed fund balance.

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

|   | General              | Capital Reserve Fund | Capital Projects    | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|----------------------|---------------------|-----------------------------|--------------------------|
| Fund Balances:                                    |                      |                      |                     |                             |                          |
| Nonspendable:                                     |                      |                      |                     |                             |                          |
| Permanent fund principal.....                     | \$ -                 | \$ -                 | \$ -                | \$ 1,734,536                | \$ 1,734,536             |
| Restricted for:                                   |                      |                      |                     |                             |                          |
| Capital Reserve Chp. 48 of the Acts of 2010.....  | -                    | 808,653              | -                   | -                           | 808,653                  |
| Capital projects funds.....                       | -                    | -                    | 6,963,547           | -                           | 6,963,547                |
| City revolving fund.....                          | -                    | -                    | -                   | 491,518                     | 491,518                  |
| City federal grant funds.....                     | -                    | -                    | -                   | 2,207,542                   | 2,207,542                |
| City other funds.....                             | -                    | -                    | -                   | 3,074,852                   | 3,074,852                |
| School lunch.....                                 | -                    | -                    | -                   | 7,619,770                   | 7,619,770                |
| School state grants.....                          | -                    | -                    | -                   | 475,016                     | 475,016                  |
| School other funds.....                           | -                    | -                    | -                   | 351,658                     | 351,658                  |
| Expendable permanent funds.....                   | -                    | -                    | -                   | 412,711                     | 412,711                  |
| Fiscal Stability Chp. 41 of the Acts of 1990..... | 4,321,773            | -                    | -                   | -                           | 4,321,773                |
| Assigned to:                                      |                      |                      |                     |                             |                          |
| Encumbrances:                                     |                      |                      |                     |                             |                          |
| General government.....                           | 452,073              | -                    | -                   | -                           | 452,073                  |
| Public safety.....                                | 55,966               | -                    | -                   | -                           | 55,966                   |
| Education.....                                    | 6,702,353            | -                    | -                   | -                           | 6,702,353                |
| Public works.....                                 | 717,186              | -                    | -                   | -                           | 717,186                  |
| Human services.....                               | 49                   | -                    | -                   | -                           | 49                       |
| Culture and recreation.....                       | 85,662               | -                    | -                   | -                           | 85,662                   |
| Employee benefits.....                            | 650                  | -                    | -                   | -                           | 650                      |
| Unassigned.....                                   | 18,286,448           | -                    | -                   | -                           | 18,286,448               |
| <b>Total Fund Balances.....</b>                   | <b>\$ 30,622,160</b> | <b>\$ 808,653</b>    | <b>\$ 6,963,547</b> | <b>\$ 16,367,603</b>        | <b>\$ 54,761,963</b>     |

**NOTE 9 - RISK FINANCING**

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

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

*Health Insurance* - In 2012, the City joined the Commonwealth of Massachusetts' group insurance plan which is a premium based health insurance plan. Since that time the internal service fund has accounted for residual health insurance activity from that time through June 30, 2018. At June 30, 2018 there was no liability to report.

**NOTE 10 - PENSION PLAN***Plan Description*

The City is a member of the Lawrence Contributory Retirement System (LCRS), a cost-sharing multiple-employer defined benefit pension plan covering eligible employees of the 4 member units. The System is administered by a five board members (Board) on behalf of all current employees and retirees except for current teachers and retired teachers. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System is a component unit and is reported as a pension trust fund in the fiduciary fund financial statements. The City is a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multi-employer defined benefit plan. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for 100% of the contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives and Quincy College. The MTRS is part of the Commonwealth's reporting entity and the audited financial report may be obtained by visiting <http://www.mass.gov/osc/publications-and-reports/financial-reports/>.

*Special Funding Situation*

The Commonwealth is a nonemployer contributor and is required by statute to make 100% of all actuarially determined employer contributions on behalf of the City to the MTRS. Therefore, the City is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in MTRS. Since the City does not contribute directly to MTRS, there is no net pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based on each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2017. The City's portion of the collective pension expense, contributed by the Commonwealth, of \$32,054,383 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 \$307,114,012 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.

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

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

At December 31, 2017, the System's membership consists of the following:

|  |                     |
|--|---------------------|
| Active members.....  | 1,580               |
| Inactive members.....  | 530                 |
| Retirees and beneficiaries currently receiving benefits..... | <u>911</u>          |
| Total.....   | <u><u>3,021</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, 2017, was \$20,605,965, 26.62% 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 \$18,148,664; its actual contribution was \$18,077,804.

*Pension Liabilities*

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

|   |    |                      |
|---|----|----------------------|
| Total pension liability.....  | \$ | 441,726,748          |
| Total pension plan's fiduciary net position.....  |    | <u>(227,442,531)</u> |
| Total net pension liability.....  | \$ | <u>214,284,217</u>   |
|   |    |                      |
| The pension plan's fiduciary net position as a percentage of the total pension liability..... |    | 51.49%               |

At June 30, 2018, the City reported a liability of \$193,980,472 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. Accordingly, update procedures were used to roll backward the total pension liability to the measurement date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members. At December 31, 2017, the City's proportion was 90.52%, as compared to its proportion of 90.59% measured at December 31, 2016.

*Pension Expense*

For the year ended June 30, 2018, the City recognized pension expense of \$17,062,419. At June 30, 2018, the City reported deferred outflows of resources related to pensions of \$8,030,652, and deferred inflows of resources related to pensions of \$16,644,556. The balances of deferred outflows and inflows of resources related to pensions at June 30, 2018 consist of the following:

| <u>Deferred Category</u>  | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> | <u>Total</u>          |
|---|---------------------------------------|--------------------------------------|-----------------------|
| Differences between expected and actual experience.....             | \$ 866,472                            | \$ (7,440,159)                       | \$ (6,573,687)        |
| Difference between projected and actual earnings.....               | -                                     | (7,859,621)                          | (7,859,621)           |
| Changes in assumptions.....   | 7,081,276                             | -                                    | 7,081,276             |
| Changes in proportion and proportionate share of contributions..... | <u>82,904</u>                         | <u>(1,344,776)</u>                   | <u>(1,261,872)</u>    |
| Total deferred outflows/(inflows) of resources.....                 | \$ <u>8,030,652</u>                   | \$ <u>(16,644,556)</u>               | \$ <u>(8,613,904)</u> |

The City's deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

|                            |                       |
|----------------------------|-----------------------|
| <u>Year ended June 30:</u> |                       |
| 2019.....                  | \$ (885,966)          |
| 2020.....                  | (980,705)             |
| 2021.....                  | (3,338,394)           |
| 2022.....                  | (3,490,187)           |
| 2023.....                  | (62,661)              |
| Thereafter.....            | <u>144,009</u>        |
| Total.....                 | \$ <u>(8,613,904)</u> |

*Actuarial Assumptions* - The total pension liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated back to December 31, 2017:

|  |   |
|--|---|
| Valuation date.....                          | January 1, 2018   |
| Actuarial cost method.....                   | Individual Entry Age Normal Cost Method.  |
| Amortization method - UAAL.....              | 3.24% amortization increase.  |
| Remaining amortization period.....           | 17 years for the fresh start base.  |
| Asset valuation method.....                  | Market value adjusted by accounts payable and receivables.  |
| Investment rate of return/Discount rate..... | 7.50% (7.75% in prior valuation)  |
| Projected salary increases.....              | 3.75% ultimate rate, plus 4.00% steps for the first five years of service.  |
| Cost of living adjustments.....              | 3% of the first \$12,000 of a member's retirement allowance.  |
| Rates of retirement/disability.....          | Groups 1 and 2, Ages 50-70.<br>Group 4, Ages 50-65.   |
| Mortality rates.....                         | RP-2014 adjusted to 2006 and projected generationally using MP-2016. For members retired under and Accidental Disability (job-related), 40% of deaths are assumed to be from the same cause as the disability. Disabled mortality RP-2014 adjusted to 2006 and projected generationally using MP-2016, ages set forward two years. (Prior valuation used RP-2000 mortality table projected with generational mortality, scale BB, and a base year of 2000). |

*Investment policy*

The pension plan's policy in regard to the allocation of invested assets is established by PRIT. Plan assets are managed on a total return basis with a long-term objective of achieving 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, 2018, are summarized in the following table:

| Asset Class                              | Long-Term Expected Asset Allocation | Long-Term Expected Real Rate of Return |
|--|-------------------------------------|--|
| Domestic equities.....                   | 17.50%                              | 4.47%                                  |
| International equities.....              | 15.50%                              | 4.66%                                  |
| Emerging international equities.....     | 6.00%                               | 6.12%                                  |
| Core bonds.....                          | 5.00%                               | 0.73%                                  |
| 20+ year treasuries.....                 | 2.00%                               | 0.49%                                  |
| TIPS.....                                | 5.00%                               | 0.73%                                  |
| High-yield bonds.....                    | 10.00%                              | 3.50%                                  |
| Private equity.....                      | 12.00%                              | 6.31%                                  |
| Real estate.....                         | 10.00%                              | 3.59%                                  |
| Timberland.....                          | 4.00%                               | 3.16%                                  |
| Hedge fund and portfolio completion..... | 13.00%                              | 3.44%                                  |
| Total.....                               | 100.00%                             |  |

*Rate of return*

For the year ended December 31, 2017 the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 17.07%. 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 7.5%. 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 position liability to changes in the discount rate*

The following presents the net position liability, calculated using the discount rate of 7.5%, as well as what the net position liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

|  | 1% Decrease<br>(6.5%) | Current<br>Discount<br>(7.5%) | 1% Increase<br>(8.5%) |
|--|-----------------------|-------------------------------|-----------------------|
| The City’s proportionate share of the net pension liability..... | \$ 238,275,423        | \$ 193,980,472                | \$ 156,578,775        |

*Changes in Assumptions* - The following assumption changes were reflected in the January 1, 2018 actuarial valuation; The discount rate assumption was reduced to 7.50%; previously 7.75%; and the mortality assumption was changed to the RP-2014 mortality table adjusted to 2006 and projected generationally using MP-2016.

*Changes in Plan Provisions* – None.

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

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

*Funding Policy* - The contribution requirements of plan members and the City are established and may be amended through collective bargaining. The required contribution is based on projected pay-as-you-go financing requirements. The City contributes 75 percent of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 25 percent of their premium costs. For the year ended June 30, 2018, the City’s average contribution rate was 5.67% of covered-employee payroll.

The Commonwealth of Massachusetts passed special legislation that has allowed the City to establish a postemployment benefit trust fund and to enable the City to raise taxes necessary to begin pre-funding its OPEB liabilities. During 2018, the City pre-funded future OPEB liabilities by contributing funds to the Other Postemployment Benefit Fund in excess of the pay-as-you-go required contribution. These funds are reported within the Fiduciary Funds financial statements. As of June 30, 2018, the balance of this fund totaled \$200,000.

*Summary of Significant Accounting Policies* – For purposes of measuring the net OPEB liability, deferred outflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms, and investments are reported at market value.

*Measurement Date* – GASB Statement #75 requires the net OPEB liability to be measured as of a date no earlier than the end of the employer’s prior fiscal year and no later than the end of the employer’s current fiscal year, consistently applied from period to period. Accordingly, the net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2017.

*Plan Membership* – The following table represents the Plan’s membership at July 1, 2017:

|  |                     |
|--|---------------------|
| Active members.....                                | 2,252               |
| Inactive members currently receiving benefits..... | <u>1,325</u>        |
| Total.....   | <u><u>3,577</u></u> |

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

|  |                              |
|--|------------------------------|
| Total OPEB liability.....  | \$ 490,968,727               |
| Less: OPEB plan's fiduciary net position.....  | <u>(200,000)</u>             |
| Net OPEB liability.....  | <u><u>\$ 490,768,727</u></u> |
| The OPEB plan's fiduciary net position<br>as a percentage of the total OPEB liability..... | 0.04%                        |

*Significant Actuarial Methods and Assumptions* – The total OPEB liability in the July 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified, that was updated to June 30, 2018, to be in accordance with GASB Statements #74 and #75:

|  |   |
|--|---|
| Valuation date.....                          | July 1, 2017  |
| Actuarial cost method.....                   | Entry age normal, level percentage of pay.  |
| Remaining amortization period.....           | Investment gains/losses: 5 years;<br>Experience: average expected future service. |
| Asset valuation method.....                  | Market value.   |
| Discount rate/investment rate of return..... | 3.13% per annum (2.98% for disclosures 6/30/2018).                                |
| Healthcare trend rate.....                   | 8% decreasing to an ultimate rate of 5%.  |
| Inflation rate.....                          | 3% per annum.   |
| Payroll growth.....                          | 3% per annum.   |
| Mortality rates.....                         | RP-2014 mortality table with MP-2016 projection.                                  |

*Rate of return* – For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 0.00%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Investment Policy* - The City’s policy in regard to the allocation of invested assets is established and may be amended by City Council by a majority vote of its members. The OPEB plan’s assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the OPEB plan. The City’s OPEB investments were invested using the City’s investment policy. The City maintains their OPEB trust funds in a cash portfolio account and is not invested to achieve a specific real rate of return.

*Discount Rate* - The City’s net other postemployment benefits liability was determined based on the S&P Municipal Bond 20-Year High Grade Rate Index as of June 30, 2018.

*Changes in the Net OPEB Liability*

|   | Increase (Decrease)            |  |                                    |
|---|--------------------------------|--|------------------------------------|
|   | Total OPEB<br>Liability<br>(a) | Plan<br>Fiduciary<br>Net Position<br>(b) | Net OPEB<br>Liability<br>(a) - (b) |
| Balances at June 30, 2017.....                          | \$ 445,748,082                 | \$ 100,000                               | \$ 445,648,082                     |
| Changes for the year:                                   |                                |  |                                    |
| Service cost.....                                       | 22,174,669                     | -  | 22,174,669                         |
| Interest.....   | 13,794,038                     | -  | 13,794,038                         |
| Changes of assumptions.....                             | 12,397,059                     | -  | 12,397,059                         |
| Differences between expected and actual experience..... | 6,742,866                      | -  | 6,742,866                          |
| Employer contributions.....                             | -                              | 9,987,987                                | (9,987,987)                        |
| Benefit payments.....                                   | (9,887,987)                    | (9,887,987)                              | -                                  |
| Net change.....   | 45,220,645                     | 100,000                                  | 45,120,645                         |
| Balances at June 30, 2018.....                          | \$ 490,968,727                 | 200,000                                  | 490,768,727                        |



*Sensitivity of the net other postemployment liability to changes in the discount rate* – The following table presents the net other postemployment benefit liability and service cost, calculated using the discount rate of 2.98%, as well as what the net other postemployment benefit liability and service cost would be if it were calculated using a discount rate that is 1-percentage-point lower (1.98%) or 1-percentage-point higher (3.98%) than the current rate:

|                         | <u>1% Decrease<br/>(1.98%)</u> | <u>Current<br/>Discount Rate<br/>(2.98%)</u> | <u>1% Increase<br/>(3.98%)</u> |
|-------------------------|--------------------------------|--|--------------------------------|
| Net OPEB liability..... | \$ 573,419,237                 | \$ 490,768,727                               | \$ 408,118,237                 |

*Sensitivity of the net other postemployment liability to changes in the healthcare trend* – The following table presents the net other postemployment benefit liability and service cost, calculated using the current healthcare trend rate of 8% initially, decreasing to an ultimate rate of 5%, as well as what the net other postemployment benefit liability and service cost would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher:

|                         | <u>1% Decrease</u> | <u>Current Trend</u> | <u>1% Increase</u> |
|-------------------------|--------------------|----------------------|--------------------|
| Net OPEB liability..... | \$ 398,608,188     | \$ 490,768,727       | \$ 602,805,968     |

*Deferred Outflows of Resources Related to OPEB* – For the year ended June 30, 2018, the GASB Statement #75 measurement date, the City reported \$18,015,288 of deferred outflows of resources related to OPEB due to differences between expected and actual experience. The components of deferred outflows is as follows:

| <u>Deferred Category</u>                                | <u>Deferred<br/>Outflows of<br/>Resources</u> |
|---|---|
| Differences between expected and actual experience..... | \$ 6,346,227                                  |
| Changes of assumptions.....                             | 11,667,820                                    |
| Difference between projected and actual earnings.....   | <u>1,241</u>                                  |
| Total deferred outflows/(inflows) of resources.....     | \$ <u>18,015,288</u>                          |

The deferred outflows of resources related to OPEB will be recognized in pension expense in future years as follows:

Measurement date year ended June 30:

|                 |                      |
|-----------------|----------------------|
| 2019.....       | \$ 1,126,188         |
| 2020.....       | 1,126,188            |
| 2021.....       | 1,126,188            |
| 2022.....       | 1,126,189            |
| 2023.....       | 1,125,878            |
| Thereafter..... | <u>12,384,657</u>    |
| Total.....      | \$ <u>18,015,288</u> |

*Changes in Assumptions and Plan Provisions* – None.

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

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

|  | Pension<br>Trust Fund<br>(as of December<br>31, 2017) | Other<br>Postemployment<br>Benefit<br>Trust Fund | Total Pension<br>and Other<br>Postemployment<br>Benefit<br>Trust Funds |
|--|---|--|--|
| <b>ASSETS</b>  |   |  |  |
| Cash and cash equivalents.....                       | \$ 1,731,759  | \$ 200,000                                       | \$ 1,931,759   |
| Investments:   |   |  |  |
| Investments in Pension Reserve Investment Trust..... | 226,646,366   | -  | 226,646,366  |
| Receivables, net of allowance for uncollectibles:    |   |  |  |
| Intergovernmental.....                               | 387,998   | -  | 387,998  |
| Other assets.....                                    | 12,938  | -  | 12,938   |
| <b>TOTAL ASSETS.....</b>                             | <b>228,779,061</b>                                    | <b>200,000</b>                                   | <b>228,979,061</b>   |
| <b>LIABILITIES</b>                                   |   |  |  |
| Warrants payable.....                                | 1,336,530   | -  | 1,336,530  |
| <b>NET POSITION</b>                                  |   |  |  |
| Restricted for pensions.....                         | 227,442,531   | -  | 227,442,531  |
| Restricted for other postemployment benefits.....    | -   | 200,000  | 200,000  |
| <b>TOTAL NET POSITION.....</b>                       | <b>\$ 227,442,531</b>                                 | <b>\$ 200,000</b>                                | <b>\$ 227,642,531</b>  |

|   | Pension<br>Trust Fund<br>(as of December<br>31, 2017) | Other<br>Postemployment<br>Benefit<br>Trust Fund | Total Pension<br>and Other<br>Postemployment<br>Benefit<br>Trust Funds |
|---|---|--|--|
| <b>ADDITIONS:</b>   |   |  |  |
| Contributions:  |   |  |  |
| Employer contributions.....   | \$ 20,605,965   | \$ 100,000                                       | \$ 20,705,965  |
| Employer contributions for other postemployment benefit payments..... | -   | 9,887,987  | 9,887,987  |
| Member contributions.....   | 6,726,421   | -  | 6,726,421  |
| Transfers from other systems.....                                     | 360,296   | -  | 360,296  |
| 3(8)c contributions from other systems.....                           | 266,382   | -  | 266,382  |
| Workers compensation settlements.....                                 | 7,000   | -  | 7,000  |
| State COLA reimbursements.....  | 161,410   | -  | 161,410  |
| Member makeup payments and redeposits.....                            | 54,793  | -  | 54,793   |
| Interest not refunded.....  | 7,178   | -  | 7,178  |
| <b>Total contributions.....</b>                                       | <b>28,189,445</b>                                     | <b>9,987,987</b>                                 | <b>38,177,432</b>  |
| Net investment income:  |   |  |  |
| Investment income.....  | 34,189,107  | -  | 34,189,107   |
| Less: investment expense.....   | (1,101,272)   | -  | (1,101,272)  |
| <b>Net investment income (loss).....</b>                              | <b>33,087,835</b>                                     | <b>-</b>   | <b>33,087,835</b>  |
| <b>TOTAL ADDITIONS.....</b>   | <b>61,277,280</b>                                     | <b>9,987,987</b>                                 | <b>71,265,267</b>  |
| <b>DEDUCTIONS:</b>  |   |  |  |
| Administration.....   | 503,253   | -  | 503,253  |
| Transfers to other systems.....                                       | 1,520,601   | -  | 1,520,601  |
| 3(8)c transfer to other systems.....                                  | 1,317,918   | -  | 1,317,918  |
| Retirement benefits and refunds.....                                  | 25,958,887  | -  | 25,958,887   |
| Other postemployment benefit payments.....                            | -   | 9,887,987  | 9,887,987  |
| <b>TOTAL DEDUCTIONS.....</b>  | <b>29,300,659</b>                                     | <b>9,887,987</b>                                 | <b>39,188,646</b>  |
| <b>NET INCREASE (DECREASE) IN NET POSITION.....</b>                   | <b>31,976,621</b>                                     | <b>100,000</b>                                   | <b>32,076,621</b>  |
| <b>NET POSITION AT BEGINNING OF YEAR.....</b>                         | <b>195,465,910</b>                                    | <b>100,000</b>                                   | <b>195,565,910</b>   |
| <b>NET POSITION AT END OF YEAR.....</b>                               | <b>\$ 227,442,531</b>                                 | <b>\$ 200,000</b>                                | <b>\$ 227,642,531</b>  |

**NOTE 13 - CONTINGENCIES**

The District participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* through June 30, 2018, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

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

**NOTE 14 – DUE TO COMMONWEALTH**

During 2017 it was discovered that the Commonwealth of Massachusetts State Retirement Board (Board) had been, for several years, overpaying the City in connection reimbursements issued by the Board to the City for non-contributory retirees pursuant to *Chapter 351 Acts of 1981*, as amended. The amount of this overpayment totaled \$1,928,004. To pay off this overpayment the City has entered into an agreement with the Board whereby it will pay, through September 2034, all amounts due. The payment schedule is as follows:

- Annual payments of \$50,000 September 1, 2016 through September 1, 2019
- Annual payments of \$75,000 September 1, 2020 through September 1, 2024
- Annual payments of \$120,000 September 1, 2025 through September 1, 2029
- Annual payments of \$150,000 September 1, 2030 through September 1, 2033
- Final payment of \$153,004 September 1, 2034

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

The City implemented GASB Statement No. 75 during 2018 which resulted in the revision of net position previously reported in governmental and enterprise funds. These revisions included reporting the Net OPEB liability at the beginning of the period. The following table details the effect of the net position revisions:

|  | 06/30/2017<br>Previously<br>Reported<br>Balances | Implementation<br>of GASB #75 | 06/30/2017<br>Revised<br>Balances |
|--|--|-------------------------------|-----------------------------------|
|  | <u>                    </u>                      | <u>                    </u>   | <u>                    </u>       |
| <b>Government-Wide Financial Statements</b>        |  |                               |                                   |
| Governmental activities.....                       | \$ (187,219,327)                                 | \$ (243,039,237)              | \$ (430,258,564)                  |
| Business-type activities.....                      | 46,686,929                                       | (6,437,786)                   | 40,249,143                        |
| Total.....   | <u>\$ (140,532,398)</u>                          | <u>\$ (249,477,023)</u>       | <u>\$ (390,009,421)</u>           |
| <b>Business-type Activities - Enterprise Funds</b> |  |                               |                                   |
| Water & sewer enterprise fund.....                 | \$ 44,586,622                                    | \$ (5,539,334)                | \$ 39,047,288                     |
| Airport enterprise fund.....                       | 5,380,581  | -                             | 5,380,581                         |
| Parking enterprise fund.....                       | (3,280,274)                                      | (898,452)                     | (4,178,726)                       |
| Total.....   | <u>\$ 46,686,929</u>                             | <u>\$ (6,437,786)</u>         | <u>\$ 40,249,143</u>              |

**NOTE 16 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 30, 2019, which is the date the financial statements were available to be issued.

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

During 2018, the following GASB pronouncements were implemented:

- GASB Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The basic financial statements, related notes and required supplementary information were updated to be in compliance with this pronouncement.
- GASB Statement #81, *Irrevocable Split-Interest Agreements*. This pronouncement did not impact the basic financial statements.
- GASB Statement #85, *Omnibus 2017*. This pronouncement did not impact the basic financial statements.
- GASB Statement #86, *Certain Debt Extinguishment Issues*. This pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #83, *Certain Asset Retirement Obligations*, which is required to be implemented in 2019.
- The GASB issued Statement #84, *Fiduciary Activities*, which is required to be implemented in 2019.
- The GASB issued Statement #87, *Leases*, which is required to be implemented in 2021.
- The GASB issued Statement #88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which is required to be implemented in 2019.
- The GASB issued Statement #89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is required to be implemented in 2021.
- The GASB issued Statement #90, *Majority Equity Interests – an amendment of GASB Statements #14 and #61*, which is required to be implemented in 2019.

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

**NOTE 18 – FISCAL OVERSEER**

On December 31, 2009, the Governor of the Commonwealth of Massachusetts proposed legislation “An Act Providing For The Financial Stability of The City of Lawrence.” (Act) Under this Act, there was the establishment of a Fiscal Overseer appointed by the Secretary of Administration and Finance (Secretary) vested with comprehensive authority over all of the City’s finances, including appropriations, borrowings, transfers of funds, and municipal spending authorizations. The Act also called for the establishment of a Capital Reserve Fund in 2012, to which an amount equal to 1.5% of the amount of property taxes committed for the preceding year be deposited.

The Act also allows the Fiscal Overseer to conclude, at any time after January 31, 2011, whether or not the City is able to achieve a balanced budget and fiscal stability. If such a determination is negative, the Secretary may terminate the existence of the Fiscal Overseer and appoint a Finance Control Board (Board). Under the Act, the Board would not only have all of the powers of the Fiscal Overseer, but also the power to exercise any function or power of any municipal officer or employee, whether elected or otherwise, including certain powers to approve or disapprove contracts and have control over all personnel matters.

## ***Required Supplementary Information***

# ***General Fund Budgetary Comparison Schedule***

The General Fund is the general operating fund of the City. It is used to account for all the financial resources, except those required to be accounted for in another fund.

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

YEAR ENDED JUNE 30, 2018

|   | Amounts<br>Carried Forward<br>From Prior Year | Budgeted Amounts                  |                      |                      |
|---|---|-----------------------------------|----------------------|----------------------|
|   |   | Current Year<br>Initial<br>Budget | Original<br>Budget   | Final<br>Budget      |
| <b>REVENUES:</b>  |   |                                   |                      |                      |
| Real estate and personal property taxes,<br>net of tax refunds.....       | \$ -  | \$ 66,486,097                     | \$ 66,486,097        | \$ 66,486,098        |
| Tax liens.....  | -   | -                                 | -                    | -                    |
| Motor vehicle and other excise taxes.....                                 | -   | 5,451,141                         | 5,451,141            | 5,451,141            |
| Penalties and interest on taxes.....                                      | -   | 1,361,700                         | 1,361,700            | 1,361,700            |
| Payments in lieu of taxes.....  | -   | 550,000                           | 550,000              | 550,000              |
| Licenses and permits.....   | -   | 1,450,000                         | 1,450,000            | 1,460,500            |
| Fines and forfeitures.....  | -   | 875,160                           | 875,160              | 874,160              |
| Intergovernmental.....  | -   | 209,519,813                       | 209,519,813          | 209,529,813          |
| Departmental and other.....   | -   | 1,556,830                         | 1,556,830            | 1,533,830            |
| Investment income.....  | -   | 198,000                           | 198,000              | 198,000              |
| <b>TOTAL REVENUES.....</b>  | <b>-</b>                                      | <b>287,448,741</b>                | <b>287,448,741</b>   | <b>287,445,242</b>   |
| <b>EXPENDITURES:</b>  |   |                                   |                      |                      |
| Current:  |   |                                   |                      |                      |
| General government.....   | 418,354                                       | 6,336,219                         | 6,754,573            | 7,525,423            |
| Public safety.....  | 93,751  | 26,717,904                        | 26,811,655           | 26,885,364           |
| Education.....  | 8,552,635                                     | 180,908,161                       | 189,460,796          | 189,365,444          |
| Public works.....   | 608,186                                       | 9,125,138                         | 9,733,324            | 13,078,600           |
| Human services.....   | -   | 1,246,842                         | 1,246,842            | 1,246,842            |
| Culture and recreation.....   | 27,453  | 1,123,733                         | 1,151,186            | 1,123,733            |
| Pension benefits.....   | -   | 8,913,806                         | 8,913,806            | 8,888,051            |
| Employee benefits.....  | 650   | 17,205,300                        | 17,205,950           | 16,389,405           |
| State and county charges.....   | -   | 23,655,219                        | 23,655,219           | 23,655,219           |
| Debt service:   |   |                                   |                      |                      |
| Principal.....  | -   | 9,029,000                         | 9,029,000            | 9,029,000            |
| Interest.....   | -   | 3,329,396                         | 3,329,396            | 3,411,326            |
| <b>TOTAL EXPENDITURES.....</b>  | <b>9,701,029</b>                              | <b>287,590,718</b>                | <b>297,291,747</b>   | <b>300,598,407</b>   |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER (UNDER) EXPENDITURES.....</b> | <b>(9,701,029)</b>                            | <b>(141,977)</b>                  | <b>(9,843,006)</b>   | <b>(13,153,165)</b>  |
| <b>OTHER FINANCING SOURCES (USES):</b>                                    |   |                                   |                      |                      |
| Transfers in.....   | -   | 877,159                           | 877,159              | 877,159              |
| Transfers out.....  | -   | (735,182)                         | (735,182)            | (4,417,883)          |
| <b>TOTAL OTHER FINANCING<br/>SOURCES (USES).....</b>                      | <b>-</b>                                      | <b>141,977</b>                    | <b>141,977</b>       | <b>(3,540,724)</b>   |
| <b>NET CHANGE IN FUND BALANCE.....</b>                                    | <b>(9,701,029)</b>                            | <b>-</b>                          | <b>(9,701,029)</b>   | <b>(16,693,889)</b>  |
| <b>BUDGETARY FUND BALANCE, Beginning of year.....</b>                     | <b>-</b>                                      | <b>30,762,262</b>                 | <b>30,762,262</b>    | <b>30,762,262</b>    |
| <b>BUDGETARY FUND BALANCE, End of year.....</b>                           | <b>\$ (9,701,029)</b>                         | <b>\$ 30,762,262</b>              | <b>\$ 21,061,233</b> | <b>\$ 14,068,373</b> |



|    | Actual<br>Budgetary<br>Amounts | Amounts<br>Carried Forward<br>To Next Year | Variance<br>to Final<br>Budget |
|----|--------------------------------|--|--------------------------------|
| \$ | 66,241,703                     | \$ -                                       | \$ (244,395)                   |
|    | 1,141,745                      | -  | 1,141,745                      |
|    | 7,160,242                      | -  | 1,709,101                      |
|    | 1,061,333                      | -  | (300,367)                      |
|    | 640,659                        | -  | 90,659                         |
|    | 1,743,331                      | -  | 282,831                        |
|    | 963,247                        | -  | 89,087                         |
|    | 209,659,478                    | -  | 129,665                        |
|    | 2,177,943                      | -  | 644,113                        |
|    | 1,014,890                      | -  | 816,890                        |
|    | <u>291,804,571</u>             | <u>-</u>                                   | <u>4,359,329</u>               |
|    | 6,542,618                      | 452,073                                    | 530,732                        |
|    | 26,602,633                     | 55,966                                     | 226,765                        |
|    | 182,562,833                    | 6,702,353                                  | 100,258                        |
|    | 12,166,111                     | 717,186                                    | 195,303                        |
|    | 1,125,064                      | 49   | 121,729                        |
|    | 996,793                        | 85,662                                     | 41,278                         |
|    | 8,887,519                      | -  | 532                            |
|    | 15,872,681                     | 650  | 516,074                        |
|    | 23,251,933                     | -  | 403,286                        |
|    | 9,029,000                      | -  | -                              |
|    | 3,411,326                      | -  | -                              |
|    | <u>290,448,511</u>             | <u>8,013,939</u>                           | <u>2,135,957</u>               |
|    | <u>1,356,060</u>               | <u>(8,013,939)</u>                         | <u>6,495,286</u>               |
|    | 1,212,429                      | -  | 335,270                        |
|    | <u>(3,303,823)</u>             | <u>-</u>                                   | <u>1,114,060</u>               |
|    | <u>(2,091,394)</u>             | <u>-</u>                                   | <u>1,449,330</u>               |
|    | (735,334)                      | (8,013,939)                                | 7,944,616                      |
|    | <u>30,762,262</u>              | <u>-</u>                                   | <u>-</u>                       |
| \$ | <u><u>30,026,928</u></u>       | \$ <u><u>(8,013,939)</u></u>               | \$ <u><u>7,944,616</u></u>     |

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

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

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

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

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

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

|  | December 31,<br>2014  | December 31,<br>2015  | December 31,<br>2016  | December 31,<br>2017  |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Total pension liability:</b>  |                       |                       |                       |                       |
| Service cost.....  | \$ 8,469,461          | \$ 8,829,413          | \$ 8,737,363          | \$ 9,108,701          |
| Interest.....  | 29,607,284            | 30,713,326            | 31,842,170            | 32,023,014            |
| Changes in benefit terms.....  | -                     | -                     | -                     | -                     |
| Differences between expected and actual experience.....                            | -                     | -                     | (11,573,571)          | 1,144,844             |
| Changes in assumptions.....  | -                     | -                     | -                     | 9,356,284             |
| Benefit payments.....  | <u>(24,653,000)</u>   | <u>(23,677,370)</u>   | <u>(26,092,541)</u>   | <u>(27,995,140)</u>   |
| Net change in total pension liability.....   | 13,423,745            | 15,865,369            | 2,913,421             | 23,637,703            |
| Total pension liability - beginning.....   | <u>385,886,510</u>    | <u>399,310,255</u>    | <u>415,175,624</u>    | <u>418,089,045</u>    |
| Total pension liability - ending (a).....  | <u>\$ 399,310,255</u> | <u>\$ 415,175,624</u> | <u>\$ 418,089,045</u> | <u>\$ 441,726,748</u> |
| <b>Plan fiduciary net position:</b>  |                       |                       |                       |                       |
| Employer contributions.....  | \$ 17,323,139         | \$ 18,508,811         | \$ 19,329,195         | \$ 20,605,965         |
| Member contributions.....  | 6,950,852             | 6,706,412             | 6,851,473             | 6,781,214             |
| Net investment income (loss).....  | 12,432,924            | 1,013,895             | 13,190,264            | 33,087,835            |
| Administrative expenses.....   | (454,640)             | (470,218)             | (472,754)             | (503,253)             |
| Retirement benefits and refunds.....   | <u>(24,653,000)</u>   | <u>(23,677,370)</u>   | <u>(26,092,541)</u>   | <u>(27,995,140)</u>   |
| Net increase (decrease) in fiduciary net position.....                             | 11,599,275            | 2,081,530             | 12,805,637            | 31,976,621            |
| Fiduciary net position - beginning of year.....                                    | <u>168,979,467</u>    | <u>180,578,742</u>    | <u>182,660,273</u>    | <u>195,465,910</u>    |
| Fiduciary net position - end of year (b).....                                      | <u>\$ 180,578,742</u> | <u>\$ 182,660,273</u> | <u>\$ 195,465,910</u> | <u>\$ 227,442,531</u> |
| <b>Net pension liability - ending (a)-(b).....</b>                                 | <u>\$ 218,731,513</u> | <u>\$ 232,515,351</u> | <u>\$ 222,623,135</u> | <u>\$ 214,284,217</u> |
| Plan fiduciary net position as a percentage of the<br>total pension liability..... | 45.22%                | 44.00%                | 46.75%                | 51.49%                |
| Covered payroll.....   | \$ 71,253,430         | \$ 74,624,910         | \$ 73,741,641         | \$ 77,421,566         |
| Net pension liability as a percentage of<br>covered payroll.....                   | 306.98%               | 311.58%               | 301.90%               | 276.78%               |

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  
LAWRENCE CONTRIBUTORY RETIREMENT SYSTEM**

| Year                   | Actuarially<br>determined<br>contribution | Contributions in<br>relation to the<br>actuarially<br>determined<br>contribution | Contribution<br>deficiency<br>(excess) | Covered<br>payroll | Contributions as<br>a percentage of<br>covered<br>payroll |
|------------------------|---|--|--|--------------------|---|
| December 31, 2017..... | \$ 20,684,393                             | \$ (20,605,965)  | \$ 78,428                              | \$ 77,421,566      | 26.62%  |
| December 31, 2016..... | 19,320,161                                | (19,329,195)   | (9,034)                                | 73,741,641         | 26.21%  |
| December 31, 2015..... | 18,515,120                                | (18,508,911)   | 6,209                                  | 74,624,910         | 24.80%  |
| December 31, 2014..... | 17,714,686                                | (17,714,686)   | -                                      | 71,253,430         | 24.86%  |

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

See notes to required supplementary information.

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

---

| <u>Year</u>            | <u>Annual money-weighted<br/>rate of return,<br/>net of investment expense</u> |
|------------------------|--|
| December 31, 2017..... | 17.07%   |
| December 31, 2016..... | 7.53%  |
| December 31, 2015..... | 0.59%  |
| December 31, 2014..... | 7.39%  |

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

See notes to required supplementary information.

# ***Pension Plan Schedules – City***

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

The Schedule of 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  
LAWRENCE CONTRIBUTORY RETIREMENT SYSTEM**

| Year                   | Proportion of<br>the net pension<br>liability (asset) | Proportionate<br>share of the<br>net pension<br>liability (asset) | Covered<br>payroll | Net pension<br>liability as a<br>percentage of<br>covered<br>payroll | Plan fiduciary<br>net position as<br>a percentage of<br>the total<br>pension liability |
|------------------------|---|---|--------------------|--|--|
| December 31, 2017..... | 90.52%  | \$ 193,980,472  | \$ 70,509,618      | 275.11%  | 51.49%   |
| December 31, 2016..... | 90.59%  | 201,674,657   | 67,134,686         | 300.40%  | 46.75%   |
| December 31, 2015..... | 91.01%  | 211,615,277   | 68,450,129         | 309.15%  | 44.00%   |
| December 31, 2014..... | 90.78%  | 198,564,467   | 65,339,569         | 303.90%  | 45.22%   |

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

See notes to required supplementary information.

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

| Year               | Actuarially<br>determined<br>contribution | Contributions in<br>relation to the<br>actuarially<br>determined<br>contribution | Contribution<br>deficiency<br>(excess) | Covered<br>payroll | Contributions as<br>a percentage of<br>covered<br>payroll |
|--------------------|---|--|--|--------------------|---|
| June 30, 2018..... | \$ 18,148,664                             | \$ (18,077,804)  | \$ 70,860                              | \$ 70,509,618      | 25.64%  |
| June 30, 2017..... | 17,409,358                                | (17,414,550)   | (5,192)                                | 67,134,686         | 25.94%  |
| June 30, 2016..... | 16,858,734                                | (16,852,525)   | 6,209                                  | 68,450,129         | 24.62%  |
| June 30, 2015..... | 15,540,500                                | (16,134,074)   | (593,574)                              | 65,339,569         | 24.69%  |

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

See notes to required supplementary information.



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

---

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

| Year      | Commonwealth's<br>100% Share of the<br>Associated Net<br>Pension Liability | Expense and<br>Revenue<br>Recognized for the<br>Commonwealth's<br>Support | Plan Fiduciary Net<br>Position as a<br>Percentage of the<br>Total Liability |
|-----------|--|---|---|
| 2018..... | \$ 307,114,012   | \$ 32,054,383   | 54.25%  |
| 2017..... | 308,512,586  | 31,470,306  | 52.73%  |
| 2016..... | 286,771,353  | 23,259,709  | 55.38%  |
| 2015..... | 224,979,881  | 13,266,657  | 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 Benefits Plan Schedules***

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

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

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

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

|   | June 30,<br>2017      | June 30,<br>2018      |
|---|-----------------------|-----------------------|
| <b>Total OPEB Liability</b>   |                       |                       |
| Service Cost.....   | \$ 19,744,567         | \$ 22,174,669         |
| Interest.....   | 13,140,885            | 13,794,038            |
| Changes of benefit terms.....   | -                     | -                     |
| Differences between expected and actual experience....                          | -                     | 6,742,866             |
| Changes of assumptions.....   | -                     | 12,397,059            |
| Benefit payments.....   | (9,685,596)           | (9,887,987)           |
| Net change in total OPEB liability.....   | 23,199,856            | 45,220,645            |
| Total OPEB liability - beginning.....   | 422,548,226           | 445,748,082           |
| Total OPEB liability - ending (a).....  | \$ 445,748,082        | \$ 490,968,727        |
| <b>Plan fiduciary net position</b>  |                       |                       |
| Employer contributions.....   | \$ 100,000            | \$ 100,000            |
| Employer contributions for OPEB payments.....                                   | 9,685,596             | 9,887,987             |
| Benefit payments.....   | (9,685,596)           | (9,887,987)           |
| Net change in plan fiduciary net position.....                                  | 100,000               | 100,000               |
| Plan fiduciary net position - beginning of year.....                            | -                     | 100,000               |
| Plan fiduciary net position - end of year (b).....                              | \$ 100,000            | \$ 200,000            |
| <b>Net OPEB liability - ending (a)-(b).....</b>                                 | <b>\$ 445,648,082</b> | <b>\$ 490,768,727</b> |
| Plan fiduciary net position as a percentage of the<br>total OPEB liability..... | 0.02%                 | 0.04%                 |
| Covered-employee payroll.....   | \$ 155,000,000        | \$ 176,000,000        |
| Net OPEB liability as a percentage of<br>covered-employee payroll.....          | 287.51%               | 278.85%               |

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

See notes to required supplementary information.

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

| <u>Year</u>        | <u>Actuarially<br/>determined<br/>contribution</u> | <u>Contributions in<br/>relation to the<br/>actuarially<br/>determined<br/>contribution</u> | <u>Contribution<br/>deficiency<br/>(excess)</u> | <u>Covered-<br/>employee payroll</u> | <u>Contributions as<br/>a percentage of<br/>covered-<br/>employee payroll</u> |
|--------------------|--|---|---|--------------------------------------|---|
| June 30, 2018..... | \$ 35,970,298                                      | \$ (9,987,987)  | \$ 25,982,311                                   | \$ 176,000,000                       | 5.67%   |
| June 30, 2017..... | 32,885,452   | (9,785,596)   | 23,099,856                                      | 155,000,000                          | 6.31%   |

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

See notes to required supplementary information.

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

---

| Year               | Annual money-weighted<br>rate of return,<br>net of investment expense |
|--------------------|---|
| June 30, 2018..... | 0.00%   |
| June 30, 2017..... | 0.00%   |

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

See notes to required supplementary information.

**NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

A. Budgetary Information

Municipal Law requires the City to adopt a balanced budget that is approved by the City Council (the “Council”). The Mayor 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 Mayor’s approval via a supplemental appropriation or Council order.

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original 2018 approved budget authorizing \$288.3 million in current year appropriations, other financing uses, and other amounts to be raised and \$9.7 million in encumbrances and appropriations carried over from previous years. During 2018, the Council approved supplemental appropriations totaling \$7.0 million for snow and ice, reserves, as well as other various line items.

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

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2018, is presented below:

|  |    |                         |
|--|----|-------------------------|
| Net change in fund balance - budgetary basis.....                                | \$ | (735,334)               |
| <u>Perspective differences:</u>  |    |                         |
| Activity of the stabilization fund recorded in the<br>general fund for GAAP..... |    | 105,000                 |
| <u>Basis of accounting differences:</u>  |    |                         |
| Net change in recording tax refunds payable.....                                 |    | (199,000)               |
| Net change in recording 60 day receipts.....                                     |    | (76,245)                |
| Recognition of revenue for on-behalf payments.....                               |    | 32,054,383              |
| Recognition of expenditures for on-behalf payments.....                          |    | <u>(32,054,383)</u>     |
| Net change in fund balance - GAAP basis.....                                     | \$ | <u><u>(905,579)</u></u> |

**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 and Plan Provisions

The following assumption changes were reflected in the January 1, 2018 actuarial valuation:

- The discount rate assumption was reduced to 7.50%; previously 7.75%.
- The mortality assumption was changed to the RP-2014 mortality table adjusted to 2006 and projected generationally using MP-2016.

There were no changes in plan provisions during the plan year.

**NOTE C – OTHER POSTEMPLOYMENT BENEFITS**

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

**The Other Postemployment Benefit Plan**The Schedule of Changes in the City’s Net Other Postemployment Benefit Liability and Related Ratios

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

Schedule of the City’s Contributions

The Schedule of the City’s Contributions includes the City’s annual required contribution to the Plan, along with the contribution made in relation to the actuarially determined contribution and the covered employee payroll. The City is not required to fully fund this contribution. It also demonstrates the contributions as a percentage of covered payroll. Methods and assumptions used to determine contribution rates are as follows:



|  |   |
|--|---|
| Valuation date.....                          | July 1, 2017  |
| Actuarial cost method.....                   | Entry age normal, level percentage of pay.  |
| Remaining amortization period.....           | Investment gains/losses: 5 years;<br>Experience: average expected future service. |
| Asset valuation method.....                  | Market value.   |
| Discount rate/investment rate of return..... | 3.13% per annum (2.98% for disclosures 6/30/2018).                                |
| Healthcare trend rate.....                   | 8% decreasing to an ultimate rate of 5%.  |
| Inflation rate.....                          | 3% per annum.   |
| Payroll growth.....                          | 3% per annum.   |
| Mortality rates.....                         | RP-2014 mortality table with MP-2016 projection.                                  |

Schedule of Investment Return

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

Changes in Assumptions – None.

Changes in Plan Provisions – None.