

CITY OF LAWRENCE, MASSACHUSETTS

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

YEAR ENDED JUNE 30, 2015

CITY OF LAWRENCE, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2015

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Independent Auditor's Report

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

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, 2015, 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 did not audit the financial statements of the City of Lawrence, Massachusetts Contributory Retirement System. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for City of Lawrence Contributory Retirement System, is based solely on the report of the other auditors. 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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 December 10, 2015, 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.

A handwritten signature in black ink that reads "Powers & Sullivan, LLC". The signature is written in a cursive, flowing style.

December 10, 2015

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, 2015. 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, interest, and state and county charges. The business type activities include costs relating to the water and sewer 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 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 exceeded assets by \$121.6 million at the close of 2015.

Net position of \$248.4 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, \$21.4 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 \$391.4 million. This is due to the recognition of an OPEB and net pension liability of \$157.2 million and \$198.9 million, respectively.

At the end of the current year the City is able to report positive balances in two out of three categories of net position for the City as a whole. The \$391.4 million deficit balance in unrestricted net position is due to the recognition of an OPEB and net pension liability of \$157.2 million and \$198.9 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 of governmental activities exceeded assets by \$155.1 million at the close of 2015. Components of the City’s governmental financial position are listed below.

| | 2015 | (As revised) 2014 |
|--|-------------------------|-----------------------------|
| Assets: | | |
| Current assets..... | \$ 66,604,420 | \$ 60,448,649 |
| Noncurrent assets (excluding capital)..... | 20,943,035 | 23,291,606 |
| Capital assets..... | <u>230,489,242</u> | <u>234,016,418</u> |
| Total assets..... | <u>318,036,697</u> | <u>317,756,673</u> |
| Deferred Outflows of Resources: | | |
| Deferred outflow of resources related to pensions..... | <u>358,565</u> | <u>-</u> |
| Liabilities: | | |
| Current liabilities (excluding debt)..... | 18,318,871 | 18,426,141 |
| Noncurrent liabilities (excluding debt)..... | 356,619,246 | 337,125,873 |
| Current debt..... | 33,973,074 | 35,248,077 |
| Noncurrent debt..... | <u>64,556,611</u> | <u>64,157,232</u> |
| Total liabilities..... | <u>473,467,802</u> | <u>454,957,323</u> |
| Net Position: | | |
| Net investment in capital assets..... | 223,856,011 | 186,721,310 |
| Restricted..... | 21,413,172 | 17,987,671 |
| Unrestricted..... | <u>(400,341,723)</u> | <u>(341,909,631)</u> |
| Total net position..... | <u>\$ (155,072,540)</u> | <u>\$ (137,200,650)</u> |

| | 2015 | (As revised) 2014 |
|--|--------------------------------|--------------------------------|
| | <u>2015</u> | <u>2014</u> |
| Program Revenues: | | |
| Charges for services..... | \$ 3,283,847 | \$ 3,023,355 |
| Operating grants and contributions..... | 241,159,596 | 240,389,975 |
| Capital grants and contributions..... | <u>2,168,551</u> | <u>1,739,691</u> |
| Total program revenues..... | <u>246,611,994</u> | <u>245,153,021</u> |
| General Revenues: | | |
| Real estate and personal property taxes..... | 57,881,667 | 55,901,349 |
| Tax liens..... | 1,469,322 | 1,580,298 |
| Motor vehicle and other excise taxes..... | 5,467,127 | 5,222,722 |
| Penalties and interest on taxes..... | 1,368,138 | 1,032,055 |
| Payments in lieu of taxes..... | 547,701 | 540,784 |
| Grants and contributions not restricted | | |
| to specific programs..... | 19,547,548 | 19,580,783 |
| Unrestricted investment income..... | 278,353 | 279,156 |
| Other..... | <u>88,575</u> | <u>60,675</u> |
| Total general revenues..... | <u>86,648,431</u> | <u>84,197,822</u> |
| Expenses: | | |
| General government..... | 20,843,430 | 25,265,632 |
| Public safety..... | 41,946,535 | 40,645,211 |
| Education..... | 266,533,243 | 261,008,433 |
| Public works..... | 14,556,672 | 12,785,217 |
| Human services..... | 1,979,331 | 2,027,705 |
| Culture and recreation..... | 1,936,080 | 1,905,643 |
| Interest..... | <u>3,679,024</u> | <u>4,286,953</u> |
| Total expenses..... | <u>351,474,315</u> | <u>347,924,794</u> |
| Excess (deficiency) before transfers..... | (18,213,890) | (18,573,951) |
| Transfers, net..... | <u>342,000</u> | <u>342,264</u> |
| Change in net position..... | (17,871,890) | (18,231,687) |
| Net position, beginning of year (as revised)..... | <u>(137,200,650)</u> | <u>(118,968,963)</u> |
| Net position, end of year..... | <u><u>\$ (155,072,540)</u></u> | <u><u>\$ (137,200,650)</u></u> |

The governmental activities net position decreased in the current year by \$17.9 million. The decrease in net position is primarily due to the recognition of an expense of \$17.5 million for its portion of the other postemployment benefit liability that was not funded.

The beginning net position of governmental activities has been revised to reflect the implementation of GASB Statements #67, #68, and #71. To reflect this change, the City has recorded a net pension liability and a deferred outflow of resources, which has resulted in the revision of the June 30, 2014, balance of the governmental activities by \$186,537,587. Previously reported net position of \$49,336,843 has been revised to (\$137,200,710).

Business-Type Activities

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

| | 2015 | (As revised) 2014 |
|--|-----------------------------|-----------------------------|
| Assets: | | |
| Current assets..... | \$ 32,520,967 | \$ 37,286,522 |
| Capital assets..... | 69,289,738 | 59,800,753 |
| Total assets..... | <u>101,810,705</u> | <u>97,087,275</u> |
| Deferred Outflows of Resources: | | |
| Deferred outflow of resources related to pensions..... | 21,461 | - |
| Liabilities: | | |
| Current liabilities (excluding debt)..... | 2,174,081 | 1,827,897 |
| Noncurrent liabilities (excluding debt)..... | 15,455,692 | 15,530,400 |
| Current debt..... | 3,313,061 | 6,058,261 |
| Noncurrent debt..... | 47,390,424 | 45,377,688 |
| Total liabilities..... | <u>68,333,258</u> | <u>68,794,246</u> |
| Net Position: | | |
| Net investment in capital assets..... | 24,590,554 | 23,019,604 |
| Unrestricted..... | 8,908,354 | 5,273,425 |
| Total net position..... | <u>\$ 33,498,908</u> | <u>\$ 28,293,029</u> |
| Program Revenues: | | |
| Charges for services..... | \$ 18,770,106 | \$ 17,814,228 |
| Operating grants and contributions..... | 200,850 | 190,209 |
| Capital grants and contributions..... | - | 1,619,660 |
| Total program revenues..... | <u>18,970,956</u> | <u>19,624,097</u> |
| General Revenues: | | |
| Tax liens..... | 1,581,313 | 1,574,617 |
| Penalties and interest on taxes..... | 236,547 | 255,940 |
| Total general revenues..... | <u>1,817,860</u> | <u>1,830,557</u> |
| Expenses: | | |
| Water & Sewer..... | 14,025,949 | 14,873,765 |
| Airport..... | 481,512 | 468,085 |
| Parking..... | 733,476 | 987,248 |
| Total expenses..... | <u>15,240,937</u> | <u>16,329,098</u> |
| Excess (deficiency) before transfers..... | 5,547,879 | 5,125,556 |
| Transfers, net..... | (342,000) | (342,264) |
| Change in net position..... | 5,205,879 | 4,783,292 |
| Net position, beginning of year (as revised)..... | <u>28,293,029</u> | <u>23,509,737</u> |
| Net position, end of year..... | <u>\$ 33,498,908</u> | <u>\$ 28,293,029</u> |

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 2015.

Business-type water and sewer net position increased by \$5.1 million primarily due to positive budgetary results, and principal payments on long-term debt exceeding depreciation expense by \$8.2 million.

Business-type airport net position increased by \$146,000.

Business-type parking net position essentially broke even.

The beginning net position of business-type activities has been revised to reflect the implementation of GASB Statements #67, #68, and #71. To reflect this change, the City has recorded a net pension liability and a deferred outflow of resources, which has resulted in the revision of the June 30, 2014, balance of the business-type activities by \$11,164,418. Previously reported net position of \$39,457,447 has been revised to \$28,293,029.

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 \$44.1 million, an increase of \$7.3 million from the prior year. The increase was due to long-term bonds being issued to fund various capital projects

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund totaled \$10.7 million, while total fund balance equaled \$24.6 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 approximately 3.4% of the general fund budget while total fund balance represents approximately 7.9%.

General Fund Budgetary Highlights

The change \$7.7 million change between the original budget and the final amended budget was due to \$6.6 million in supplemental appropriations, all of which were funded from free cash.

Capital Asset and Debt Administration

Capital Assets - The City's investment in capital assets for governmental activities as of June 30, 2015, amounts to \$231 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, 2015 amounts to \$69 million, net of accumulated depreciation. 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, 2015, the City had total governmental bonded debt of \$149.2 million.

The water and sewer enterprise fund has \$50.7 million in long-term debt that is supported by the water rates and future MWPAT principal and interest subsidies totaling \$2.9 million.

Currently the City has \$34 million in authorized and unissued long-term debt relating to future 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

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STATEMENT OF NET POSITION

JUNE 30, 2015

| | <i>Primary Government</i> | | |
|---|----------------------------|-----------------------------|-------------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| CURRENT: | | | |
| Cash and cash equivalents..... | \$ 54,365,231 | \$ 20,015,597 | \$ 74,380,828 |
| Investments..... | 774,992 | - | 774,992 |
| Receivables, net of allowance for uncollectibles: | | | |
| Real estate and personal property taxes..... | 2,379,749 | - | 2,379,749 |
| Water and sewer liens..... | - | 189,415 | 189,415 |
| Motor vehicle and other excise taxes..... | 1,111,489 | - | 1,111,489 |
| User fees..... | - | 5,736,761 | 5,736,761 |
| Departmental and other..... | 335 | 70,660 | 70,995 |
| Special assessments..... | 14,770 | - | 14,770 |
| Intergovernmental..... | 7,787,954 | 6,508,534 | 14,296,488 |
| Working capital deposit..... | 169,900 | - | 169,900 |
| NONCURRENT: | | | |
| Receivables, net of allowance for uncollectibles: | | | |
| Intergovernmental..... | 19,117,000 | - | 19,117,000 |
| Loans..... | 1,826,035 | - | 1,826,035 |
| Capital assets, not being depreciated..... | 6,051,525 | 7,538,813 | 13,590,338 |
| Capital assets, net of accumulated depreciation..... | 224,437,717 | 61,750,925 | 286,188,642 |
| TOTAL ASSETS..... | 318,036,697 | 101,810,705 | 419,847,402 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows of resources related to pensions..... | 358,565 | 21,461 | 380,026 |
| LIABILITIES | | | |
| CURRENT: | | | |
| Warrants payable..... | 2,857,732 | 1,335,303 | 4,193,035 |
| Accrued payroll..... | 1,708,508 | - | 1,708,508 |
| Accrued interest..... | 1,346,088 | 565,311 | 1,911,399 |
| Payroll withholdings..... | 4,627,864 | - | 4,627,864 |
| Other liabilities..... | 685,101 | 147 | 685,248 |
| Customer deposits payable..... | 561,578 | - | 561,578 |
| Capital lease obligations..... | - | 107,320 | 107,320 |
| Due to Commonwealth..... | 50,000 | - | 50,000 |
| Compensated absences..... | 6,482,000 | 166,000 | 6,648,000 |
| Notes payable..... | 3,500,000 | - | 3,500,000 |
| Bonds payable..... | 30,473,074 | 3,313,061 | 33,786,135 |
| NONCURRENT: | | | |
| Due to Commonwealth..... | 1,928,004 | - | 1,928,004 |
| Compensated absences..... | 13,936,000 | 45,000 | 13,981,000 |
| Other postemployment benefits..... | 153,040,106 | 4,175,791 | 157,215,897 |
| Net pension liability..... | 187,715,136 | 11,234,901 | 198,950,037 |
| Bonds payable..... | 64,556,611 | 47,390,424 | 111,947,035 |
| TOTAL LIABILITIES..... | 473,467,802 | 68,333,258 | 541,801,060 |
| NET POSITION | | | |
| Net investment in capital assets..... | 223,856,011 | 24,590,554 | 248,446,565 |
| Restricted for: | | | |
| Loans..... | 1,826,035 | - | 1,826,035 |
| Fiscal stability..... | 3,997,278 | - | 3,997,278 |
| Capital reserve..... | 1,020,102 | - | 1,020,102 |
| Permanent funds: | | | |
| Expendable..... | 402,701 | - | 402,701 |
| Nonexpendable..... | 1,638,431 | - | 1,638,431 |
| Other specific purposes..... | 12,528,625 | - | 12,528,625 |
| Unrestricted..... | (400,341,723) | 8,908,354 | (391,433,369) |
| TOTAL NET POSITION..... | \$ (155,072,540) | \$ 33,498,908 | \$ (121,573,632) |

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue |
|-------------------------------------|-----------------------|----------------------|------------------------------------|----------------------------------|-------------------------|
| | | Charges for | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary Government: | | | | | |
| <i>Governmental Activities:</i> | | | | | |
| General government..... | \$ 20,843,430 | \$ 643,354 | \$ 10,061,673 | \$ 31,721 | \$ (10,106,682) |
| Public safety..... | 41,946,535 | 2,310,045 | 4,297,019 | - | (35,339,471) |
| Education..... | 266,533,243 | 150,679 | 224,334,350 | - | (42,048,214) |
| Public works..... | 14,556,672 | 126,864 | 415,040 | 2,136,830 | (11,877,938) |
| Human services..... | 1,979,331 | - | 181,954 | - | (1,797,377) |
| Culture and recreation..... | 1,936,080 | 52,905 | 171,473 | - | (1,711,702) |
| Interest..... | 3,679,024 | - | 1,698,087 | - | (1,980,937) |
| Total Governmental Activities..... | <u>351,474,315</u> | <u>3,283,847</u> | <u>241,159,596</u> | <u>2,168,551</u> | (104,862,321) |
| <i>Business-Type Activities:</i> | | | | | |
| Water & Sewer..... | 14,025,949 | 17,384,190 | 200,850 | - | 3,559,091 |
| Airport..... | 481,512 | 639,778 | - | - | 158,266 |
| Parking..... | 733,476 | 746,138 | - | - | 12,662 |
| Total Business-Type Activities..... | <u>15,240,937</u> | <u>18,770,106</u> | <u>200,850</u> | <u>-</u> | 3,730,019 |
| Total Primary Government..... | <u>\$ 366,715,252</u> | <u>\$ 22,053,953</u> | <u>\$ 241,360,446</u> | <u>\$ 2,168,551</u> | <u>\$ (101,132,302)</u> |

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

YEAR ENDED JUNE 30, 2015

| | Primary Government | | |
|---|----------------------------|-----------------------------|-------------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Changes in net position: | | | |
| Net (expense) revenue from previous page..... | \$ (104,862,321) | \$ 3,730,019 | \$ (101,132,302) |
| <i>General revenues:</i> | | | |
| Real estate and personal property taxes, net of tax refunds payable..... | 57,881,667 | - | 57,881,667 |
| Tax liens..... | 1,469,322 | 1,581,313 | 3,050,635 |
| Motor vehicle and other excise taxes..... | 5,467,127 | - | 5,467,127 |
| Penalties and interest on taxes..... | 1,368,138 | 236,547 | 1,604,685 |
| Payments in lieu of taxes..... | 547,701 | - | 547,701 |
| Grants and contributions not restricted to specific programs..... | 19,547,548 | - | 19,547,548 |
| Unrestricted investment income..... | 278,353 | - | 278,353 |
| Other..... | 88,575 | - | 88,575 |
| <i>Transfers, net</i> | 342,000 | (342,000) | - |
| Total general revenues and transfers..... | 86,990,431 | 1,475,860 | 88,466,291 |
| Change in net position..... | (17,871,890) | 5,205,879 | (12,666,011) |
| <i>Net Position:</i> | | | |
| Beginning of year (as revised)..... | (137,200,650) | 28,293,029 | (108,907,621) |
| End of year..... | \$ (155,072,540) | \$ 33,498,908 | \$ (121,573,632) |

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2015

| | General | Capital Reserve Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|-------------------------|-----------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents..... | \$ 32,439,732 | \$ 1,030,344 | \$ 19,634,092 | \$ 53,104,168 |
| Investments..... | - | - | 774,992 | 774,992 |
| Receivables, net of uncollectibles: | | | | |
| Real estate and personal property taxes..... | 2,379,749 | - | - | 2,379,749 |
| Motor vehicle and other excise taxes..... | 1,111,489 | - | - | 1,111,489 |
| Departmental and other..... | 335 | - | - | 335 |
| Special assessments..... | 14,770 | - | - | 14,770 |
| Intergovernmental..... | 22,940,000 | - | 3,964,954 | 26,904,954 |
| Loans..... | - | - | 1,826,035 | 1,826,035 |
| TOTAL ASSETS..... | \$ 58,886,075 | \$ 1,030,344 | \$ 26,200,073 | \$ 86,116,492 |
| LIABILITIES: | | | | |
| Warrants payable..... | \$ 1,261,741 | \$ 10,242 | \$ 1,585,749 | \$ 2,857,732 |
| Accrued payroll..... | 1,708,508 | - | - | 1,708,508 |
| Liabilities due depositors..... | - | - | 561,578 | 561,578 |
| Payroll withholdings..... | 4,627,864 | - | - | 4,627,864 |
| Other liabilities..... | 685,101 | - | - | 685,101 |
| Notes payable..... | - | - | 3,500,000 | 3,500,000 |
| TOTAL LIABILITIES..... | 8,283,214 | 10,242 | 5,647,327 | 13,940,783 |
| DEFERRED INFLOWS OF RESOURCES: | | | | |
| Unavailable revenues..... | 26,032,436 | - | 2,055,858 | 28,088,294 |
| FUND BALANCES: | | | | |
| Nonspendable..... | - | - | 1,638,431 | 1,638,431 |
| Restricted..... | 3,997,278 | 1,020,102 | 16,858,457 | 21,875,837 |
| Assigned..... | 9,917,300 | - | - | 9,917,300 |
| Unassigned..... | 10,655,847 | - | - | 10,655,847 |
| TOTAL FUND BALANCES..... | 24,570,425 | 1,020,102 | 18,496,888 | 44,087,415 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES..... | \$ 58,886,075 | \$ 1,030,344 | \$ 26,200,073 | \$ 86,116,492 |

See notes to basic financial statements.

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

JUNE 30, 2015

| | | |
|--|----------------------|-------------------------|
| Total governmental fund balances..... | | \$ 44,087,415 |
| Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds..... | | 230,489,242 |
| Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds..... | | 28,088,294 |
| Certain changes in the net pension liability are required to be included in pension expenses over future periods. These changes are reported as deferred outflows of resources or (deferred inflows of resources) related to pensions..... | | 358,565 |
| Internal service funds are used by management to account for retirees' health insurance and workers' compensation activities: | | |
| The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position..... | | 1,430,963 |
| In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due..... | | (1,346,088) |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds: | | |
| Bonds payable..... | (94,687,450) | |
| Unamortized premiums on bonds and notes payable..... | (342,235) | |
| Due to commonwealth..... | (1,978,004) | |
| Compensated absences..... | (20,418,000) | |
| Other postemployment benefits liability..... | (153,040,106) | |
| Net pension liability..... | <u>(187,715,136)</u> | |
| Net effect of reporting long-term liabilities..... | | <u>(458,180,931)</u> |
| Net position of governmental activities..... | | <u>\$ (155,072,540)</u> |

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2015

| | General | Capital Reserve Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|-------------------------|-----------------------------------|--------------------------------|
| REVENUES: | | | | |
| Real estate and personal property taxes, net of tax refunds..... | \$ 58,028,053 | \$ - | \$ - | \$ 58,028,053 |
| Tax liens..... | 1,452,522 | - | - | 1,452,522 |
| Motor vehicle and other excise taxes..... | 5,327,565 | - | - | 5,327,565 |
| Penalties and interest on taxes..... | 1,368,138 | - | - | 1,368,138 |
| Payments in lieu of taxes..... | 547,701 | - | - | 547,701 |
| Licenses and permits..... | 1,882,270 | - | - | 1,882,270 |
| Fines and forfeitures..... | 923,471 | - | - | 923,471 |
| Intergovernmental..... | 213,394,966 | - | 48,163,270 | 261,558,236 |
| Departmental and other..... | 1,553,008 | - | 2,863,829 | 4,416,837 |
| Contributions..... | - | - | 588,490 | 588,490 |
| Investment income..... | 221,822 | - | 56,531 | 278,353 |
| TOTAL REVENUES..... | 284,699,516 | - | 51,672,120 | 336,371,636 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government..... | 6,585,665 | - | 10,321,607 | 16,907,272 |
| Public safety..... | 24,817,562 | - | 4,435,505 | 29,253,067 |
| Education..... | 197,301,200 | 1,153,270 | 33,414,233 | 231,868,703 |
| Public works..... | 11,516,914 | - | 2,401,785 | 13,918,699 |
| Human services..... | 1,194,621 | - | 202,924 | 1,397,545 |
| Culture and recreation..... | 982,853 | - | 183,207 | 1,166,060 |
| Pension benefits..... | 14,375,558 | - | - | 14,375,558 |
| Employee benefits..... | 14,756,278 | - | - | 14,756,278 |
| State and county charges..... | 1,250,061 | - | - | 1,250,061 |
| Debt service: | | | | |
| Principal..... | 31,707,450 | - | - | 31,707,450 |
| Interest..... | 3,747,529 | - | - | 3,747,529 |
| TOTAL EXPENDITURES..... | 308,235,691 | 1,153,270 | 50,959,261 | 360,348,222 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES..... | (23,536,175) | (1,153,270) | 712,859 | (23,976,586) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Proceeds from bonds and notes..... | 22,822,450 | - | 8,050,000 | 30,872,450 |
| Premium from issuance of bonds..... | 88,575 | - | - | 88,575 |
| Transfers in..... | 356,134 | 886,243 | 1,789,358 | 3,031,735 |
| Transfers out..... | (1,878,189) | - | (811,546) | (2,689,735) |
| TOTAL OTHER FINANCING SOURCES (USES).... | 21,388,970 | 886,243 | 9,027,812 | 31,303,025 |
| NET CHANGE IN FUND BALANCES..... | (2,147,205) | (267,027) | 9,740,671 | 7,326,439 |
| FUND BALANCES AT BEGINNING OF YEAR..... | 26,717,630 | 1,287,129 | 8,756,217 | 36,760,976 |
| FUND BALANCES AT END OF YEAR..... | \$ 24,570,425 | \$ 1,020,102 | \$ 18,496,888 | \$ 44,087,415 |

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, 2015

| | | |
|--|--------------------|---------------------|
| Net change in fund balances - total governmental funds..... | \$ | 7,326,439 |
| <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..... | | 8,615,902 |
| Depreciation expense..... | | <u>(8,199,697)</u> |
| Net effect of reporting capital assets..... | | 416,205 |
| <p>In the Statement of Activities, only the <i>gain</i> on the sale of capital assets is reported, whereas in the governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net position differs from the change in fund balance by the cost of the capital assets sold.....</p> | | |
| | | (3,943,381) |
| <p>Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue.....</p> | | |
| | | (3,199,786) |
| <p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p> | | |
| Proceeds from bonds..... | (30,872,450) | |
| Premium from issuance of bonds..... | (88,575) | |
| Debt service principal payments..... | <u>31,707,450</u> | |
| Net effect of reporting long-term debt..... | | 746,425 |
| <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 accrued interest on long-term debt..... | 27,881 | |
| Amortization of bond premiums..... | 129,199 | |
| Net change in compensated absences accrual..... | (1,154,000) | |
| Net change in other postemployment benefits accrual..... | (17,463,730) | |
| Net change in deferred outflow/(inflow) of resources related to pensions..... | 358,565 | |
| Net change in net pension liability..... | <u>(1,177,643)</u> | |
| Net effect of recording long-term liabilities and amortizing deferred losses..... | | (19,279,728) |
| <p>Internal service funds are used by management to account for health insurance and workers' compensation activities.</p> | | |
| The net activity of internal service funds is reported with governmental activities..... | | <u>61,936</u> |
| Change in net position of governmental activities..... | \$ | <u>(17,871,890)</u> |

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2015

| | Water & Sewer Enterprise | Airport Enterprise | Parking Enterprise | Total | Governmental Activities - Internal Service Funds |
|---|-----------------------------|-----------------------|-----------------------|----------------------|---|
| ASSETS | | | | | |
| CURRENT: | | | | | |
| Cash and cash equivalents..... | \$ 18,889,092 | \$ 776,694 | \$ 349,811 | \$ 20,015,597 | \$ 1,261,063 |
| Receivables, net of allowance for uncollectibles: | | | | | |
| User fees..... | 5,736,761 | - | - | 5,736,761 | - |
| Water and sewer liens..... | 189,415 | - | - | 189,415 | - |
| Departmental and other..... | - | 70,660 | - | 70,660 | - |
| Intergovernmental..... | 6,508,534 | - | - | 6,508,534 | - |
| Working capital deposit..... | - | - | - | - | 169,900 |
| Total current assets..... | <u>31,323,802</u> | <u>847,354</u> | <u>349,811</u> | <u>32,520,967</u> | <u>1,430,963</u> |
| NONCURRENT: | | | | | |
| Capital assets, not being depreciated..... | 7,347,934 | 190,879 | - | 7,538,813 | - |
| Capital assets, net of accumulated depreciation..... | 61,694,875 | - | 56,050 | 61,750,925 | - |
| Total noncurrent assets..... | <u>69,042,809</u> | <u>190,879</u> | <u>56,050</u> | <u>69,289,738</u> | <u>-</u> |
| TOTAL ASSETS..... | <u>100,366,611</u> | <u>1,038,233</u> | <u>405,861</u> | <u>101,810,705</u> | <u>1,430,963</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Deferred outflows of resources related to pensions..... | 14,505 | 2,502 | 4,454 | 21,461 | - |
| LIABILITIES | | | | | |
| CURRENT: | | | | | |
| Warrants payable..... | 1,318,319 | 16,593 | 391 | 1,335,303 | - |
| Accrued interest..... | 565,311 | - | - | 565,311 | - |
| Other liabilities..... | 147 | - | - | 147 | - |
| Capital lease obligations..... | 107,320 | - | - | 107,320 | - |
| Compensated absences..... | 132,000 | 13,000 | 21,000 | 166,000 | - |
| Bonds payable..... | 3,313,061 | - | - | 3,313,061 | - |
| Total current liabilities..... | <u>5,436,158</u> | <u>29,593</u> | <u>21,391</u> | <u>5,487,142</u> | <u>-</u> |
| NONCURRENT: | | | | | |
| Compensated absences..... | 36,000 | 2,000 | 7,000 | 45,000 | - |
| Other postemployment benefits..... | 3,164,718 | - | 1,011,073 | 4,175,791 | - |
| Net pension liability..... | 7,593,499 | 1,309,945 | 2,331,457 | 11,234,901 | - |
| Bonds payable..... | 47,390,424 | - | - | 47,390,424 | - |
| Total noncurrent liabilities..... | <u>58,184,641</u> | <u>1,311,945</u> | <u>3,349,530</u> | <u>62,846,116</u> | <u>-</u> |
| TOTAL LIABILITIES..... | <u>63,620,799</u> | <u>1,341,538</u> | <u>3,370,921</u> | <u>68,333,258</u> | <u>-</u> |
| NET POSITION | | | | | |
| Net investment in capital assets..... | 24,343,625 | 190,879 | 56,050 | 24,590,554 | - |
| Unrestricted..... | 12,416,692 | (491,682) | (3,016,656) | 8,908,354 | 1,430,963 |
| TOTAL NET POSITION..... | <u>\$ 36,760,317</u> | <u>\$ (300,803)</u> | <u>\$ (2,960,606)</u> | <u>\$ 33,498,908</u> | <u>\$ 1,430,963</u> |

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2015

| | Water & Sewer Enterprise | Airport Enterprise | Parking Enterprise | Total | Governmental Activities - Internal Service Funds |
|---|-----------------------------|-----------------------|-----------------------|----------------------|---|
| OPERATING REVENUES: | | | | | |
| Employer and employee contributions | \$ - | \$ - | \$ - | \$ - | \$ 2,096,314 |
| Charges for services | 17,384,190 | 639,778 | 746,138 | 18,770,106 | - |
| Utility liens..... | 1,581,313 | - | - | 1,581,313 | - |
| Penalties and interest..... | 236,547 | - | - | 236,547 | - |
| Intergovernmental..... | 200,850 | - | - | 200,850 | - |
| TOTAL OPERATING REVENUES | 19,402,900 | 639,778 | 746,138 | 20,788,816 | 2,096,314 |
| OPERATING EXPENSES: | | | | | |
| Cost of services and administration | 11,894,183 | 419,552 | 722,433 | 13,036,168 | - |
| Intergovernmental assessments..... | 18,860 | - | - | 18,860 | - |
| Depreciation..... | 1,158,955 | - | 11,043 | 1,169,998 | - |
| Employee benefits | 289,147 | 61,960 | - | 351,107 | 2,034,378 |
| TOTAL OPERATING EXPENSES | 13,361,145 | 481,512 | 733,476 | 14,576,133 | 2,034,378 |
| OPERATING INCOME..... | 6,041,755 | 158,266 | 12,662 | 6,212,683 | 61,936 |
| NONOPERATING REVENUES (EXPENSES): | | | | | |
| Interest expense..... | (664,804) | - | - | (664,804) | - |
| INCOME (LOSS) BEFORE TRANSFERS..... | 5,376,951 | 158,266 | 12,662 | 5,547,879 | 61,936 |
| TRANSFERS: | | | | | |
| Transfers out..... | (300,000) | (12,000) | (30,000) | (342,000) | - |
| CHANGE IN NET POSITION..... | 5,076,951 | 146,266 | (17,338) | 5,205,879 | 61,936 |
| NET POSITION AT BEGINNING OF YEAR (as revised).. | 31,683,366 | (447,069) | (2,943,268) | 28,293,029 | 1,369,027 |
| NET POSITION AT END OF YEAR..... | \$ 36,760,317 | \$ (300,803) | \$ (2,960,606) | \$ 33,498,908 | \$ 1,430,963 |

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015

| | Water & Sewer Enterprise | Airport Enterprise | Parking Enterprise | Total | Governmental Activities - Internal Service Funds |
|--|-----------------------------|-----------------------|-----------------------|----------------------|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Receipts from customers and users..... | \$ 19,654,738 | \$ 590,078 | \$ 746,138 | \$ 20,990,954 | \$ 2,096,314 |
| Payments to other governments..... | (18,860) | - | - | (18,860) | - |
| Payments to vendors..... | (9,391,333) | (125,661) | (217,544) | (9,734,538) | (2,034,378) |
| Payments to employees..... | (2,217,330) | (272,583) | (498,829) | (2,988,742) | - |
| Payments for interfund services used..... | (438,225) | (113,509) | 52,436 | (499,298) | - |
| NET CASH FROM OPERATING ACTIVITIES..... | 7,588,990 | 78,325 | 82,201 | 7,749,516 | 61,936 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Transfers out..... | (300,000) | (12,000) | (30,000) | (342,000) | - |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Proceeds from the issuance of bonds and notes..... | 8,720,000 | - | - | 8,720,000 | - |
| Acquisition and construction of capital assets..... | (10,658,983) | - | - | (10,658,983) | - |
| Principal payments on bonds and notes..... | (9,345,144) | - | - | (9,345,144) | - |
| Principal payments on capital lease obligations..... | (103,912) | - | - | (103,912) | - |
| Interest expense..... | (582,894) | - | - | (582,894) | - |
| Intergovernmental revenue..... | 6,770,394 | - | - | 6,770,394 | - |
| NET CASH FROM CAPITAL AND FINANCING RELATED ACTIVITIES..... | (5,200,539) | - | - | (5,200,539) | - |
| NET CHANGE IN CASH AND CASH EQUIVALENTS..... | 2,088,451 | 66,325 | 52,201 | 2,206,977 | 61,936 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.... | 16,800,641 | 710,369 | 297,610 | 17,808,620 | 1,199,127 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR..... | \$ 18,889,092 | \$ 776,694 | \$ 349,811 | \$ 20,015,597 | \$ 1,261,063 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO TO NET CASH FROM OPERATING ACTIVITIES: | | | | | |
| Operating income (loss)..... | \$ 6,041,755 | \$ 158,266 | \$ 12,662 | \$ 6,212,683 | \$ 61,936 |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | | | |
| Depreciation..... | 1,158,955 | - | 11,043 | 1,169,998 | - |
| Changes in assets and liabilities: | | | | | |
| User fees..... | 216,319 | - | - | 216,319 | - |
| Water and sewer liens..... | 35,519 | - | - | 35,519 | - |
| Departmental and other..... | - | (49,700) | - | (49,700) | - |
| Warrants payable..... | 275,386 | 11,593 | (2,113) | 284,866 | - |
| Compensated absences..... | (23,000) | 4,000 | (2,000) | (21,000) | - |
| Other postemployment benefits..... | (149,078) | (51,549) | 52,436 | (148,191) | - |
| Net pension liability..... | 33,134 | 5,715 | 10,173 | 49,022 | - |
| Total adjustments..... | 1,547,235 | (79,941) | 69,539 | 1,536,833 | - |
| NET CASH FROM OPERATING ACTIVITIES..... | \$ 7,588,990 | \$ 78,325 | \$ 82,201 | \$ 7,749,516 | \$ 61,936 |

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2015

| | Pension Trust Fund (as of December 31, 2014) | Private Purpose | Agency Funds |
|--|---|--------------------|-----------------|
| ASSETS | | | |
| CURRENT: | | | |
| Cash and cash equivalents..... | \$ 1,825,334 | \$ 586,296 | \$ 294,654 |
| Investments..... | 179,367,113 | - | - |
| Receivables, net of allowance for uncollectibles: | | | |
| Intergovernmental..... | 314,382 | - | - |
| Prepaid expenses..... | 7,300 | - | - |
| TOTAL ASSETS..... | 181,514,129 | 586,296 | 294,654 |
| LIABILITIES | | | |
| Warrants payable..... | 935,386 | - | - |
| Liabilities due depositors..... | - | - | 294,654 |
| TOTAL LIABILITIES..... | 935,386 | - | 294,654 |
| NET POSITION | | | |
| Held in trust for pension benefits and other purposes..... | \$ <u>180,578,743</u> | \$ <u>586,296</u> | \$ <u>-</u> |

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2015

| | Pension Trust Fund (as of December 31, 2014) | Private Purpose Trust Funds |
|--|---|-----------------------------------|
| ADDITIONS: | | |
| Contributions: | | |
| Employer..... | \$ 16,729,565 | \$ - |
| Employee..... | 6,348,535 | - |
| Total contributions..... | 23,078,100 | - |
| Net investment income (loss): | | |
| Net change in fair value of investments..... | 8,443,369 | - |
| Interest and dividends..... | 4,911,608 | 1,669 |
| Total investment income (loss)..... | 13,354,977 | 1,669 |
| Less: investment expense..... | (922,274) | - |
| Net investment income (loss)..... | 12,432,703 | 1,669 |
| Intergovernmental..... | 801,082 | - |
| Transfers from other systems..... | 605,617 | - |
| TOTAL ADDITIONS..... | 36,917,502 | 1,669 |
| DEDUCTIONS: | | |
| Administration..... | 454,640 | - |
| Transfers to other systems..... | 1,391,983 | - |
| Retirement benefits and refunds..... | 23,471,603 | - |
| Educational scholarships..... | - | 1,766 |
| TOTAL DEDUCTIONS..... | 25,318,226 | 1,766 |
| CHANGE IN NET POSITION..... | 11,599,276 | (97) |
| NET POSITION AT BEGINNING OF YEAR..... | 168,979,467 | 586,393 |
| NET POSITION AT END OF YEAR..... | \$ 180,578,743 | \$ 586,296 |

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 did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 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, 2015, the City's assessment totaled \$2,118,467. 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, 2015, the City's assessment totaled \$5,785,393. 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 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 *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

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

Government-Wide and Fund Financial Statements

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes and Tax Liens

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

F. Inventories

Government-Wide and Fund Financial Statements

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

G. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

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

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

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

| <u>Capital Asset Type</u> | <u>Estimated Useful Life (in years)</u> |
|--|---|
| Buildings and improvements..... | 20-40 |
| Machinery, equipment, and furnishings..... | 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.

H. Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements (Net Position)

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City had no elements that qualify for reporting 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.

I. 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.

J. 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.

K. 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.

L. 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.

M. 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.

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

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

Governmental Fund Financial Statements

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

O. Investment Income

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

P. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

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

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

R. Individual Fund Deficits

There are several individual fund deficits within the Special Revenue Funds. These deficits will be funded through grants and available fund balances.

S. Total Column*Government-Wide Financial Statements*

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

Fund Financial Statements

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

NOTE 2 - CASH AND INVESTMENTS

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

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

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

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year-end, the carrying amount of deposits totaled \$74,935,311 and the bank balance totaled \$82,740,952. Of the bank balance, \$11,981,421 was covered by Federal Depository Insurance, and \$70,759,531 is collateralized.

At December 31, 2014, carrying amount of deposits for the System totaled \$1,825,334 and the bank balance totaled \$1,825,334. All of the bank balance was covered by the Federal Depository Insurance and none of the funds were exposed to custodial risk.

Investments

As of June 30, 2015, the City had the following investments:

| Investment Type | <u>Fair Value</u> | <u>1-5 Years</u> | <u>Maturity 6-10 Years</u> | <u>Over 10 Years</u> |
|--------------------------------|---------------------|-------------------|--------------------------------|----------------------|
| <u>Debt Securities</u> | | | | |
| Corporate Bonds..... | \$ 774,992 | \$ <u>163,179</u> | \$ <u>25,480</u> | \$ <u>586,333</u> |
| <u>Other Investments</u> | | | | |
| Money Market Mutual Funds..... | 288,299 | | | |
| MMDT..... | <u>38,168</u> | | | |
| Total Investments..... | \$ <u>1,101,459</u> | | | |

As of December 31, 2014, the System had the following investments:

| Investment Type | <u>Fair Value</u> |
|---|-----------------------|
| <u>Other Investments</u> | |
| Pension Reserve Investment Trust (PRIT) | \$ <u>179,367,113</u> |

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from 1.33 to 21.81 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 \$774,992 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, 2015, all of the City’s investments were rated by Moody’s Investment Services (Moody’s) and/or an equivalent national rating organization and the ratings are presented below using the Moody’s rating scale.

| <u>Rated Debt Investments</u> | <u>Fair Value</u> | <u>Ratings</u> | | | | |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|------------------|
| | | <u>A1</u> | <u>A3</u> | <u>Baa1</u> | <u>Baa2</u> | <u>Ba3</u> |
| Corporate Bonds..... | \$ <u>774,992</u> | \$ <u>127,104</u> | \$ <u>173,870</u> | \$ <u>192,221</u> | \$ <u>249,322</u> | \$ <u>32,475</u> |

The System has not adopted a formal policy related to credit risk. At December 31, 2014 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, 2015, 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, 2014, the System’s investment in any one issuer did not exceed 5% of the total amount invested.

NOTE 3 - RECEIVABLES

At June 30, 2015, receivables for the individual major governmental funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|--|----------------------|------------------------------------|----------------------|
| Real estate and personal property taxes..... | \$ 3,080,749 | \$ (701,000) | \$ 2,379,749 |
| Motor vehicle and other excise taxes..... | 2,250,489 | (1,139,000) | 1,111,489 |
| Departmental and other..... | 335 | - | 335 |
| Special assessments..... | 14,770 | - | 14,770 |
| Intergovernmental..... | 26,904,954 | - | 26,904,954 |
| Loans..... | 21,833,337 | (20,007,302) | 1,826,035 |
| Total | \$ 54,084,634 | \$ (21,847,302) | \$ 32,237,332 |

At June 30, 2015, receivables for the business type enterprise funds consist of the following:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|-----------------------------|----------------------|------------------------------------|----------------------|
| User fees..... | \$ 5,736,761 | \$ - | \$ 5,736,761 |
| Departmental and other..... | 70,660 | - | 70,660 |
| Liens..... | 189,415 | - | 189,415 |
| Intergovernmental..... | 6,508,534 | - | 6,508,534 |
| Total | \$ 12,505,370 | \$ - | \$ 12,505,370 |

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

| | General Fund | Non Major Funds | Total |
|--|----------------------|---------------------|----------------------|
| <u>Receivable type:</u> | | | |
| Real estate and personal property taxes..... | \$ 1,965,843 | \$ - | \$ 1,965,843 |
| Motor vehicle and other excise taxes..... | 1,111,488 | - | 1,111,488 |
| Departmental and other..... | 335 | - | 335 |
| Special assessments..... | 14,770 | - | 14,770 |
| Intergovernmental..... | 22,940,000 | 2,055,858 | 24,995,858 |
| Total..... | \$ 26,032,436 | \$ 2,055,858 | \$ 28,088,294 |

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

| Governmental Activities: | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|----------------------|------------------------|---------------------------|
| <u>Capital assets not being depreciated:</u> | | | | |
| Land..... | \$ 6,025,525 | \$ - | \$ - | \$ 6,025,525 |
| Construction in progress..... | 3,943,381 | 26,000 | (3,943,381) | 26,000 |
| Total capital assets not being depreciated..... | <u>9,968,906</u> | <u>26,000</u> | <u>(3,943,381)</u> | <u>6,051,525</u> |
| <u>Capital assets being depreciated:</u> | | | | |
| Buildings and improvements..... | 266,080,280 | 5,083,831 | - | 271,164,111 |
| Machinery, Equipment, and Furnishings..... | 24,223,629 | - | - | 24,223,629 |
| Vehicles..... | 3,221,133 | 448,371 | - | 3,669,504 |
| Infrastructure..... | 22,655,401 | 3,057,700 | - | 25,713,101 |
| Total capital assets being depreciated..... | <u>316,180,443</u> | <u>8,589,902</u> | <u>-</u> | <u>324,770,345</u> |
| <u>Less accumulated depreciation for:</u> | | | | |
| Buildings and improvements..... | (62,903,853) | (6,574,101) | - | (69,477,954) |
| Machinery, Equipment, and Furnishings..... | (21,249,710) | (706,886) | - | (21,956,596) |
| Vehicles..... | (2,354,469) | (314,104) | - | (2,668,573) |
| Infrastructure..... | (5,624,899) | (604,606) | - | (6,229,505) |
| Total accumulated depreciation..... | <u>(92,132,931)</u> | <u>(8,199,697)</u> | <u>-</u> | <u>(100,332,628)</u> |
| Total capital assets being depreciated, net..... | <u>224,047,512</u> | <u>390,205</u> | <u>-</u> | <u>224,437,717</u> |
| Total governmental activities capital assets, net..... | <u>\$ 234,016,418</u> | <u>\$ 416,205</u> | <u>\$ (3,943,381)</u> | <u>\$ 230,489,242</u> |
| | | | | |
| Water and Sewer Activity | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
| <u>Capital assets not being depreciated:</u> | | | | |
| Land..... | \$ 9,335 | \$ - | \$ - | \$ 9,335 |
| Construction in progress..... | 11,073,275 | 7,338,599 | (11,073,275) | 7,338,599 |
| Total capital assets not being depreciated..... | <u>11,082,610</u> | <u>7,338,599</u> | <u>(11,073,275)</u> | <u>7,347,934</u> |
| <u>Capital assets being depreciated:</u> | | | | |
| Buildings and improvements..... | 4,656,182 | - | - | 4,656,182 |
| Machinery, Equipment, and Furnishings..... | 1,386,891 | 26,500 | - | 1,413,391 |
| Vehicles..... | 1,282,067 | 104,938 | - | 1,387,005 |
| Infrastructure..... | 56,137,533 | 14,262,221 | - | 70,399,754 |
| Total capital assets being depreciated..... | <u>63,462,673</u> | <u>14,393,659</u> | <u>-</u> | <u>77,856,332</u> |
| <u>Less accumulated depreciation for:</u> | | | | |
| Buildings and improvements..... | (2,522,454) | (89,006) | - | (2,611,460) |
| Machinery, Equipment, and Furnishings..... | (673,472) | (63,882) | - | (737,354) |
| Vehicles..... | (691,694) | (125,708) | - | (817,402) |
| Infrastructure..... | (11,114,882) | (880,359) | - | (11,995,241) |
| Total accumulated depreciation..... | <u>(15,002,502)</u> | <u>(1,158,955)</u> | <u>-</u> | <u>(16,161,457)</u> |
| Total capital assets being depreciated, net..... | <u>48,460,171</u> | <u>13,234,704</u> | <u>-</u> | <u>61,694,875</u> |
| Total water and sewer activities capital assets, net..... | <u>\$ 59,542,781</u> | <u>\$ 20,573,303</u> | <u>\$ (11,073,275)</u> | <u>\$ 69,042,809</u> |

| Airport Activity | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|--------------------|-------------|-------------------|
| <u>Capital assets not being depreciated:</u> | | | | |
| Land..... | \$ 190,879 | \$ - | \$ - | \$ 190,879 |
| | | | | |
| Parking Activity | Beginning Balance | Increases | Decreases | Ending Balance |
| <u>Capital assets being depreciated:</u> | | | | |
| Buildings and improvements..... | \$ 220,864 | \$ - | \$ - | \$ 220,864 |
| | | | | |
| <u>Less accumulated depreciation for:</u> | | | | |
| Buildings and improvements..... | (153,771) | (11,043) | - | (164,814) |
| Total parking activities capital assets, net..... | <u>\$ 67,093</u> | <u>\$ (11,043)</u> | <u>\$ -</u> | <u>\$ 56,050</u> |

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

Governmental Activities:

| | |
|---|---------------------|
| General government..... | \$ 1,069,500 |
| Public safety..... | 391,419 |
| Education..... | 5,878,298 |
| Public works..... | 754,799 |
| Human services..... | 4,683 |
| Culture and recreation..... | <u>100,998</u> |
| Total depreciation expense - governmental activities..... | <u>\$ 8,199,697</u> |

Business-Type Activities:

| | |
|--|---------------------|
| Water & sewer..... | \$ 1,158,955 |
| Parking..... | <u>11,043</u> |
| Total depreciation expense - business-type activities..... | <u>\$ 1,169,998</u> |

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2015, are summarized as follows:

| <u>Operating Transfers In:</u> | | | | |
|------------------------------------|-------------------|-------------------------|-----------------------------------|---------------------|
| <u>Operating Transfers Out:</u> | General Fund | Capital Reserve Fund | Nonmajor Governmental Funds | Total |
| General Fund..... | \$ - | \$ 886,243 | \$ 991,946 | \$ 1,878,189 (1) |
| Nonmajor Governmental Funds..... | 14,134 | - | 797,412 | 811,546 (2) |
| Water & Sewer Enterprise Fund..... | 300,000 | - | - | 300,000 (3) |
| Airport Enterprise Fund..... | 12,000 | - | - | 12,000 (3) |
| Parking Enterprise Fund..... | <u>30,000</u> | <u>-</u> | <u>-</u> | <u>30,000 (3)</u> |
| Total..... | <u>\$ 356,134</u> | <u>\$ 886,243</u> | <u>\$ 1,789,358</u> | <u>\$ 3,031,735</u> |

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, 2015, the City has the following outstanding short-term debt:

| Type | Description | Issue Date | Maturity Date | Rate % | Balance at June 30 2014 | Renewed/ Issued | Retired/ Redeemed | Balance at June 30 2015 |
|---|-----------------------------|------------|---------------|-----------|-------------------------|---------------------|-----------------------|-------------------------|
| Governmental Funds | | | | | | | | |
| BAN | Bond anticipation note..... | 9/2/14 | 9/1/15 | 1.00 | \$ 3,500,000 | \$ - | \$ (3,500,000) | \$ - |
| BAN | Bond anticipation note..... | 9/1/15 | 9/1/16 | 0.55-1.00 | - | 3,500,000 | - | 3,500,000 |
| Subtotal Governmental Short Term Debt..... | | | | | <u>3,500,000</u> | <u>3,500,000</u> | <u>(3,500,000)</u> | <u>3,500,000</u> |
| Water & Sewer Enterprise Fund | | | | | | | | |
| BAN | Bond anticipation note..... | 10/30/13 | 9/2/14 | 1.00 | 1,500,000 | - | (1,500,000) | - |
| BAN | Bond anticipation note..... | 6/1/14 | 9/2/14 | 0.60 | 1,900,000 | - | (1,900,000) | - |
| BAN | Bond anticipation note..... | 9/2/14 | 9/1/15 | 0.55-1.00 | - | 1,500,000 | - | 1,500,000 |
| BAN | Bond anticipation note..... | 9/2/14 | 9/1/15 | 0.55-1.00 | - | 1,900,000 | - | 1,900,000 |
| Subtotal Business-Type Short-Term Debt..... | | | | | <u>3,400,000</u> | <u>3,400,000</u> | <u>(3,400,000)</u> | <u>3,400,000</u> |
| General obligation bonds issued 9/1/15..... | | | | | | | | <u>(3,400,000)</u> |
| Total Short Term Debt..... | | | | | <u>\$ 6,900,000</u> | <u>\$ 6,900,000</u> | <u>\$ (6,900,000)</u> | <u>\$ 3,500,000</u> |

At maturity, the \$3.5 million of bond anticipation notes outstanding at year-end were renewed on September 1, 2015 at an interest rate of 1.75%. On September 1, 2015, the City issued \$3,400,000, of long-term bonds payable, which was used to permanently finance bond anticipation that matured on September 1, 2015. In accordance with GAAP, the short-term debt has been reclassified and presented as long-term debt.

NOTE 7 – CAPITAL LEASE OBLIGATIONS

In 2015 the City entered into a non-cancelable long-term lease for the purchase of a Vacuum Truck for the Water & Sewer Enterprise Fund. This lease agreement qualifies as a capital leases for accounting purposes and, therefore, has been recorded at the present value of their future minimum lease payments as of the inception date.

Assets acquired through capital leases are as follows:

| | | |
|-------------------------------------|------------------|------------------------------------|
| | | <u>Governmental Activities</u> |
| <u>Asset:</u> | | |
| Machinery and equipment..... | \$ 26,377 | |
| Less: accumulated depreciation..... | <u>(5,275)</u> | |
| Total..... | <u>\$ 21,102</u> | |

The following is a schedule of the future minimum lease payments under these capital leases, together with the present value of the net minimum lease payments, as of June 30, 2015:

| | | |
|--|---------------------------------|------------------------------------|
| | <u>Year Ending June 30,</u> | <u>Governmental Activities</u> |
| 2016..... | | \$ 110,840 |
| Less: amounts representing interest..... | | <u>(3,520)</u> |
| Present value of minimum lease payments..... | | <u>\$ 107,320</u> |

NOTE 8 - 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, 2015, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

| Project | Maturities Through | Original Loan Amount | Interest Rate (%) | Outstanding at June 30, 2014 | Issued | Redeemed | Outstanding at June 30, 2015 |
|--|-----------------------|----------------------------|-------------------------|------------------------------------|----------------------|----------------------|------------------------------------|
| Municipal Purpose Bonds of 1997..... | 2015 | \$ 5,150,000 | 4.5-5.6% | \$ 300,000 | - | \$ 300,000 | - |
| Municipal Purpose Bonds of 2004..... | 2019 | 6,000,000 | 2.5-5.0% | 2,000,000 | - | 400,000 | 1,600,000 |
| Municipal Purpose Bonds of 2006..... | 2026 | 9,000,000 | 3.5-5.0% | 6,295,000 | - | 400,000 | 5,895,000 |
| Municipal Purpose Bonds of 2007..... | 2026 | 56,355,000 | 4.0-5.0% | 46,475,000 | - | 5,455,000 | 41,020,000 |
| Municipal Purpose Bonds of 2008..... | 2017 | 18,000,000 | 4.0-5.0% | 14,900,000 | - | 1,000,000 | 13,900,000 |
| Municipal Purpose Bonds of 2009..... | 2029 | 2,305,460 | 3.25-5.0% | 1,550,000 | - | 150,000 | 1,400,000 |
| Municipal Purpose Bonds of 2015..... | 2045 | 8,050,000 | 3.0-4.0% | - | 8,050,000 | - | 8,050,000 |
| Deficit Borrowing Note..... | 2015 | 6,000,000 | 1.25% | 6,000,000 | - | 6,000,000 | - |
| Deficit Borrowing Note..... | 2015 | 6,000,000 | 1.00% | 6,000,000 | - | 6,000,000 | - |
| Deficit Borrowing Note..... | 2015 | 6,000,000 | 0.90% | 6,000,000 | - | 6,000,000 | - |
| Deficit Borrowing Note..... | 2015 | 6,002,450 | 1.00% | 6,002,450 | - | 6,002,450 | - |
| Deficit Borrowing Note..... | 2016 | 6,000,000 | 1.00% | - | 6,000,000 | - | 6,000,000 |
| Deficit Borrowing Note..... | 2016 | 6,000,000 | 1.00% | - | 6,000,000 | - | 6,000,000 |
| Deficit Borrowing Note..... | 2016 | 6,000,000 | 1.00% | - | 6,000,000 | - | 6,000,000 |
| Deficit Borrowing Note..... | 2016 | 3,000,000 | 0.75% | - | 3,000,000 | - | 3,000,000 |
| Deficit Borrowing Note..... | 2016 | 1,822,450 | 1.25% | - | 1,822,450 | - | 1,822,450 |
| Total governmental bonds payable..... | | | | <u>95,522,450</u> | <u>30,872,450</u> | <u>31,707,450</u> | <u>94,687,450</u> |
| Add: unamortized premium..... | | | | <u>382,859</u> | <u>-</u> | <u>40,624</u> | <u>342,235</u> |
| Total governmental bonds payable, net..... | | | | <u>\$ 95,905,309</u> | <u>\$ 30,872,450</u> | <u>\$ 31,748,074</u> | <u>\$ 95,029,685</u> |

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

| Year | Principal | Interest | Total |
|------------|----------------------|----------------------|-----------------------|
| 2016..... | \$ 30,432,450 | \$ 3,715,354 | \$ 34,147,804 |
| 2017..... | 8,150,000 | 3,074,358 | 11,224,358 |
| 2018..... | 8,805,000 | 2,671,158 | 11,476,158 |
| 2019..... | 9,130,000 | 2,235,208 | 11,365,208 |
| 2020..... | 8,815,000 | 1,772,508 | 10,587,508 |
| 2021..... | 9,175,000 | 1,345,556 | 10,520,556 |
| 2022..... | 2,525,000 | 894,718 | 3,419,718 |
| 2023..... | 2,600,000 | 775,906 | 3,375,906 |
| 2024..... | 2,650,000 | 654,524 | 3,304,524 |
| 2024..... | 2,700,000 | 530,712 | 3,230,712 |
| 2025..... | 2,760,000 | 405,024 | 3,165,024 |
| 2027..... | 1,780,000 | 277,862 | 2,057,862 |
| 2028..... | 380,000 | 194,437 | 574,437 |
| 2029..... | 380,000 | 180,562 | 560,562 |
| 2030..... | 280,000 | 166,287 | 446,287 |
| 2031..... | 275,000 | 156,406 | 431,406 |
| 2032..... | 275,000 | 146,094 | 421,094 |
| 2033..... | 275,000 | 135,782 | 410,782 |
| 2034..... | 275,000 | 125,469 | 400,469 |
| 2035..... | 275,000 | 115,156 | 390,156 |
| 2036..... | 275,000 | 104,500 | 379,500 |
| 2037..... | 275,000 | 93,500 | 368,500 |
| 2038..... | 275,000 | 82,500 | 357,500 |
| 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>94,687,450</u> | \$ <u>20,123,081</u> | \$ <u>114,810,531</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 2015, \$5,522,087 of such assistance was received. Approximately \$33,133,000 will be received in future years. Of this amount, approximately \$10,193,000 represents reimbursement of long-term interest costs, and \$22,940,000 represents reimbursement of approved construction costs. Accordingly, a \$22,940,000 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.

Bonds and Notes Payable Schedule – Enterprise Funds

| Project | Maturities Through | Loan Amount | Rate (%) | at June 30, 2014 | Issued | Redeemed | at June 30, 2015 |
|---|--------------------|--------------|----------|------------------|--------------|--------------|------------------|
| MCWT..... | 2021 | \$ 5,026,590 | 0.00 | \$ 2,530,000 | \$ - | \$ 325,000 | \$ 2,205,000 |
| MCWT..... | 2021 | 2,542,842 | 0.00 | 1,280,000 | - | 165,000 | 1,115,000 |
| MCWT..... | 2021 | 2,061,349 | 0.00 | 1,040,000 | - | 135,000 | 905,000 |
| MCWT..... | 2026 | 12,000,000 | 2.00 | 7,798,578 | - | 580,799 | 7,217,779 |
| MCWT..... | 2027 | 3,488,382 | 2.00 | 2,426,666 | - | 165,095 | 2,261,571 |
| MCWT..... | 2025 | 10,439,485 | 2.00 | 7,115,561 | - | 535,561 | 6,580,000 |
| MCWT..... | 2029 | 4,745,804 | 2.00 | 517,742 | - | 29,894 | 487,848 |
| MCWT..... | 2031 | 1,887,908 | 2.00 | 1,521,971 | - | 76,006 | 1,445,965 |
| MCWT..... | 2029 | 3,733,006 | 2.00 | 3,535,411 | - | 532,789 | 3,002,622 |
| MCWT..... | 2034 | 6,068,353 | 2.00 | 6,068,353 | - | - | 6,068,353 |
| MCWT..... | 2035 | 14,094,347 | 2.00 | 14,094,347 | - | - | 14,094,347 |
| MCWT..... | 2035 | 1,290,000 | 2.00 | - | 1,920,000 | - | 1,920,000 |
| Municipal Purpose Bonds of 2015..... | 2036 | 3,500,000 | 1.75 | - | 3,400,000 | - | 3,400,000 |
| Total water and sewer bonds payable.... | | | | \$ 47,928,629 | \$ 5,320,000 | \$ 2,545,144 | \$ 50,703,485 |

Debt service requirements for principal and interest for the water and sewer enterprise fund bonds payable include the debt issuance subsequent to year end in which all except \$3,400,000 of new funds were used to redeem bond anticipation notes (BANs). The future years are as follows:

| Year | Principal | Interest | Total |
|------------|---------------|---------------|---------------|
| 2016..... | \$ 3,313,061 | \$ 1,291,435 | \$ 4,604,496 |
| 2017..... | 3,399,060 | 1,260,834 | 4,659,894 |
| 2018..... | 3,495,919 | 1,142,482 | 4,638,401 |
| 2019..... | 3,583,665 | 1,025,684 | 4,609,349 |
| 2020..... | 3,677,309 | 909,747 | 4,587,056 |
| 2021..... | 3,756,874 | 787,617 | 4,544,491 |
| 2022..... | 3,072,378 | 681,290 | 3,753,668 |
| 2023..... | 3,143,840 | 592,334 | 3,736,174 |
| 2024..... | 3,216,280 | 501,180 | 3,717,460 |
| 2025..... | 3,279,723 | 408,052 | 3,687,775 |
| 2026..... | 2,569,187 | 332,564 | 2,901,751 |
| 2027..... | 1,881,344 | 286,693 | 2,168,037 |
| 2028..... | 1,703,880 | 248,623 | 1,952,503 |
| 2029..... | 1,736,991 | 211,978 | 1,948,969 |
| 2030..... | 1,479,410 | 177,844 | 1,657,254 |
| 2031..... | 1,507,698 | 146,275 | 1,653,973 |
| 2032..... | 1,430,040 | 114,772 | 1,544,812 |
| 2033..... | 1,457,425 | 83,774 | 1,541,199 |
| 2034..... | 1,485,406 | 52,012 | 1,537,418 |
| 2035..... | 1,513,995 | 19,472 | 1,533,467 |
| Total..... | \$ 50,703,485 | \$ 10,274,662 | \$ 60,978,147 |

The City is scheduled to be subsidized by the Massachusetts Clean Water Trust (MCWT) on a periodic basis for principal in the amount of \$1,450,308 and interest costs for \$1,419,591. Thus, net MCWT loan repayments, including interest, are scheduled to be \$58,108,248. 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 2015 principal and interest subsidies totaled approximately \$200,850 and \$303,977, 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, 2015, the City had the following authorized and unissued debt:

| Purpose | Amount |
|--------------------------|----------------------|
| Water..... | \$ 15,521,004 |
| Sewer..... | 1,920,000 |
| School Construction..... | 15,603,000 |
| Deficit Financing..... | <u>1,000,000</u> |
| Total..... | <u>\$ 34,044,004</u> |

Changes in Long-term Liabilities

During the year ended June 30, 2015, the following changes occurred in long-term liabilities:

Governmental Activities:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|-----------------------|----------------------|------------------------|-----------------------|----------------------|
| Bonds and notes payable..... | \$ 95,522,450 | \$ 30,872,450 | \$ (31,707,450) | \$ 94,687,450 | \$ 30,432,450 |
| Add: unamortized premium..... | 382,859 | - | (40,624) | 342,235 | 40,624 |
| Total bonds payable..... | 95,905,309 | 30,872,450 | (31,748,074) | 95,029,685 | 30,473,074 |
| Compensated absences..... | 19,264,000 | 7,384,000 | (6,230,000) | 20,418,000 | 6,482,000 |
| Other postemployment benefits..... | 116,015,000 | 46,654,594 | (9,629,488) | 153,040,106 | - |
| Net pension liability..... | 186,537,587 | 1,177,549 | - | 187,715,136 | - |
| Total governmental activity long-term liabilities..... | <u>\$ 417,721,896</u> | <u>\$ 86,088,593</u> | <u>\$ (47,607,562)</u> | <u>\$ 456,202,927</u> | <u>\$ 36,955,074</u> |

Business-Type Activities:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|--|----------------------|---------------------|-----------------------|----------------------|---------------------|
| Bonds and notes payable..... | \$ 47,928,629 | \$ 5,320,000 | \$ (2,545,144) | \$ 50,703,485 | \$ 3,313,061 |
| Compensated absences..... | 232,000 | 134,000 | (155,000) | 211,000 | 166,000 |
| Other postemployment benefits..... | 4,323,982 | (148,191) | - | 4,175,791 | - |
| Net pension liability..... | 11,164,418 | 70,483 | - | 11,234,901 | - |
| Capital lease obligations..... | 211,232 | - | (103,912) | 107,320 | 107,320 |
| Total business type activity long-term liabilities..... | <u>\$ 63,860,261</u> | <u>\$ 5,376,292</u> | <u>\$ (2,804,056)</u> | <u>\$ 66,432,497</u> | <u>\$ 3,586,381</u> |

NOTE 9 – 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.

As of June 30, 2015, the governmental fund balances consisted of the following:

| | General | Capital Reserve Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|-------------------------|-----------------------------------|--------------------------------|
| FUND BALANCES | | | | |
| Nonspendable: | | | | |
| Permanent fund principal..... | \$ - | \$ - | \$ 1,638,431 | \$ 1,638,431 |
| Restricted for: | | | | |
| City revolving funds..... | - | - | 704,305 | 704,305 |
| City federal grant funds..... | - | - | 2,637,792 | 2,637,792 |
| City other funds..... | - | - | 947,832 | 947,832 |
| School lunch..... | - | - | 5,876,811 | 5,876,811 |
| School other funds..... | - | - | 306,027 | 306,027 |
| City capital projects..... | - | - | 5,982,989 | 5,982,989 |
| Expendable permanent funds..... | - | - | 402,701 | 402,701 |
| Capital Reserve Chp. 58 of the Acts of 2010..... | - | 1,020,102 | - | 1,020,102 |
| Fiscal Stability Chp. 41 of the Acts of 1990..... | 3,997,278 | - | - | 3,997,278 |
| Assigned to: | | | | |
| General government..... | 1,026,436 | - | - | 1,026,436 |
| Public safety..... | 79,491 | - | - | 79,491 |
| Education..... | 7,882,959 | - | - | 7,882,959 |
| Public works..... | 890,525 | - | - | 890,525 |
| Human services..... | 10 | - | - | 10 |
| Culture and recreation..... | 56 | - | - | 56 |
| Employee benefits..... | 37,823 | - | - | 37,823 |
| Unassigned..... | 10,655,847 | - | - | 10,655,847 |
| TOTAL FUND BALANCES..... | \$ 24,570,425 | \$ 1,020,102 | \$ 18,496,888 | \$ 44,087,415 |

NOTE 10 - 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, 2015. At June 30, 2015 there was no liability to report.

NOTE 11 - 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, 2014. The City's portion of the collective pension expense, contributed by the Commonwealth, of \$13,266,657 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 \$224,979,881 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, 2014, the System's membership consists of the following:

| | |
|--|---------------------|
| Active members..... | 1,519 |
| Inactive members..... | 309 |
| Retirees and beneficiaries currently receiving benefits..... | <u>879</u> |
| Total..... | <u><u>2,707</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 LCERS 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, 2014, was \$17,323,139, 24.3% 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 \$15,540,500. Its actual contribution was \$16,134,074.

Pension Liabilities

The components of the net pension liability of the participating member units at June 30, 2015 were as follows:

| | |
|--|-----------------------|
| Total pension liability..... | \$ 399,310,255 |
| The pension plan's fiduciary net position..... | <u>180,578,743</u> |
| The net pension liability..... | \$ <u>218,731,512</u> |
| The pension plan's fiduciary net position as a percentage of the total pension liability..... | 45.22% |

At June 30, 2015, the City reported a liability of \$198,950,037 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. Accordingly, update procedures were used to roll forward the total pension liability to the measurement date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members. At December 31, 2014, the City's proportion was 90.78%, which did not change from its proportion measured at December 31, 2013.

Pension Expense

For the year ended June 30, 2015, the City recognized pension expense of \$17,002,715. At June 30, 2015, the City reported deferred outflows of resources related to pensions of \$380,026, from the net difference between projected and actual investment earnings on pension plan investments. Since the System performs an actuarial valuation bi-annually, there are no reported differences between expected and actual experience or changes of assumptions as of December 31, 2014.

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

| | |
|---------------------|-------------------|
| Year ended June 30: | |
| 2016..... | \$ 95,006 |
| 2017..... | 95,006 |
| 2018..... | 95,007 |
| 2019..... | <u>95,007</u> |
| Total..... | \$ <u>380,026</u> |

Actuarial Assumptions - The total pension liability in the January 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2014:

| | |
|--|--|
| Valuation date..... | January 1, 2014 |
| Actuarial cost method..... | Entry Age Normal Cost Method. |
| Amortization method..... | Payments increase at 4.0%, except for 2010 Early Retirement Incentive, which is a level payment. |
| Remaining amortization period..... | 22 years from July 1, 2014 for 2002 and 2003 Early Retirement Incentives, retiree sheriffs liability and remaining unfunded liability, and 8 years from July 1, 2014 for 2010 Early Retirement Incentive. |
| Asset valuation method..... | Sum of actuarial value at beginning of the year, contributions and investment earnings based on the actuarial interest assumption less benefit payments and operating expenses plus 20% of the market value at the end of the year in excess of that sum, plus additional adjustment toward market value as necessary so that the final actuarial value is within 20% of market value. |
| Inflation rate..... | 4.00% |
| Projected salary increases..... | Varies by length of service with ultimate rates of 4.25% for Group 1, 4.50% for Group 2 and 4.75% for Group 4. |
| Cost of living adjustments..... | 3.0% of the first \$15,000 of retirement income. |
| Rates of retirement..... | Varies based upon age for general employees, police and fire employees. |
| Rates of disability..... | For general employees, it was assumed that 45% of all disabilities are ordinary (55% are service connected). For police and fire employees, 10% of all disabilities are assumed to be ordinary (90% are service connected). |
| Mortality Rates: | |
| Pre-Retirement..... | The RP-2000 Employee Mortality Table projected generationally with a Scale AA from 2010. |
| Healthy Retiree..... | The RP-2000 Healthy Annuitant Mortality Table projected generationally with a Scale AA from 2010. |
| Disabled Retiree..... | The RP-2000 Healthy Annuitant Mortality Table set forward three years for males only projected generationally with Scale AA from 2010. |
| Investment rate of return/Discount rate..... | 7.75%, net of pension plan investment expense, including inflation previously 7.875% |

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, 2014, are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|--------------------------------|-------------------|--|
| Core Bonds..... | 13.00% | 0.97% |
| Value-Added Bonds..... | 10.00% | 3.80% |
| Large Cap Equities..... | 14.50% | 4.61% |
| Mid/Small Cap Equities | 3.50% | 4.85% |
| International Equities..... | 16.00% | 5.10% |
| Emerging Market Equities..... | 6.00% | 6.31% |
| Private equity..... | 10.00% | 6.55% |
| Real estate..... | 10.00% | 3.40% |
| Timber/Natural Resources..... | 4.00% | 3.64% |
| Hedge Funds..... | 9.00% | 3.64% |
| Cash/Portfolio Completion..... | 4.00% | 0.00% |

Rate of return

For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.39%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the 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 7.75%, as well as what the net position liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

| | 1% Decrease (6.75%) | Current Discount (7.75%) | 1% Increase (8.75%) |
|--|------------------------|--------------------------------|------------------------|
| The City's proportionate share of the net pension liability..... | \$ 240,382,419 | \$ 198,564,467 | \$ 164,703,553 |

NOTE 12 – 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.

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

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

| | |
|--|------------------------------|
| Annual required contribution..... | \$ 28,568,826 |
| Interest on existing net OPEB obligation..... | 5,596,014 |
| Adjustments to annual required contribution..... | <u>(7,219,813)</u> |
| Annual OPEB cost (expense)..... | 26,945,027 |
| Contributions made..... | <u>(9,629,488)</u> |
| Increase/Decrease in net OPEB obligation..... | 17,315,539 |
| Net OPEB obligation - beginning of year..... | <u>139,900,358</u> |
| Net OPEB obligation - end of year..... | <u><u>\$ 157,215,897</u></u> |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 and prior years is as follows:

| <u>Year Ended</u> | | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|-------------------|----|-------------------------|---|----------------------------|
| 6/30/15 | \$ | 26,945,027 | 34.6% | \$ 157,215,897 |
| 6/30/14 | | 28,218,393 | 32.2% | 139,900,358 |
| 6/30/13 | | 27,430,000 | 38.7% | 121,270,000 |

Funded Status and Funding Progress - As of July 1, 2014, the most recent actuarial valuation date, the actuarial liability for benefits was \$327,148,952 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was not available at year end.

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

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

In the July 1, 2014, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 4.0 percent investment rate of return net of investment expenses, and an annual healthcare cost trend rate of 9.5 percent initially, graded to 5 percent over ten years. Both rates included a 3 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2015, was Thirty years.

NOTE 13 - CONTINGENCIES

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2015, 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, 2015, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2015.

NOTE 14 – DUE TO COMMONWEALTH

During 2015 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 \$1,978,004. 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, 2015 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 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 10, 2015, which is the date the financial statements were available to be issued.

NOTE 16 – REVISION OF NET POSITION PREVIOUSLY REPORTED

The beginning net position of governmental and business-type activities has been revised to reflect the implementation of GASB Statements #67, #68, and #71. To reflect this change, the City has recorded a net pension liability, which has resulted in the revision of the June 30, 2014 balance of the governmental activities and business type activities by \$186,537,493 and \$11,164,418, respectively. Previously reported governmental activities net position of \$49,336,843 has been revised to (\$137,200,650). Previously reported business-type activities net position of \$39,457,447 has been revised to \$28,293,029.

NOTE 17 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2015, the following GASB pronouncements were implemented:

- GASB Statement #67, *Financial Reporting for Pension Plans*; GASB Statement #68, *Accounting and Financial Reporting for Pensions*; and GASB Statement #71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Financial statement changes include the recognition of a net pension liability, pension expense and deferred outflows/inflows of resources depending on the nature of the change each year. The financial statements also recognized a restatement of the beginning net position to reflect the net pension liability at the beginning of the year. The notes to the basic financial statements and the required supplementary information were expanded to include additional required schedules and disclosures.

- GASB Statement #69, *Governmental Combinations and Disposals of Government Operations*. This pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #72, *Fair Value Measurement and Application*, which is required to be implemented in 2016.
- The GASB issued Statement #73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions of this Statement are effective for 2016—except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which is required to be implemented in 2017.
- The GASB issued Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in 2017.
- The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.
- The GASB issued Statement #76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is required to be implemented in 2016.
- The GASB issued Statement #77, *Tax Abatement Disclosures*, which is required to be implemented in 2017.

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, 2015

| | Budgeted Amounts | | | |
|--|---|-----------------------------------|----------------------|---------------------|
| | Amounts Carried forward From Prior Year | Current Year Initial Budget | Original Budget | Final Budget |
| REVENUES: | | | | |
| Real estate and personal property taxes, net of tax refunds..... | \$ - | \$ 58,381,753 | \$ 58,381,753 | \$ 58,381,753 |
| Tax liens..... | - | - | - | - |
| Motor vehicle and other excise taxes..... | - | 4,387,758 | 4,387,758 | 4,387,758 |
| Penalties and interest on taxes..... | - | 1,000,000 | 1,000,000 | 1,000,000 |
| Payments in lieu of taxes..... | - | 530,000 | 530,000 | 530,000 |
| Licenses and permits..... | - | 1,332,930 | 1,332,930 | 1,332,930 |
| Fines and forfeitures..... | - | 1,014,000 | 1,014,000 | 1,014,000 |
| Intergovernmental..... | - | 198,248,040 | 198,248,040 | 198,248,040 |
| Departmental and other..... | - | 1,486,250 | 1,486,250 | 1,486,250 |
| Investment income..... | - | 195,000 | 195,000 | 195,000 |
| TOTAL REVENUES..... | - | 266,575,731 | 266,575,731 | 266,575,731 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government..... | 734,483 | 6,029,343 | 6,763,826 | 8,009,007 |
| Public safety..... | 95,404 | 25,264,805 | 25,360,209 | 25,510,209 |
| Education..... | 9,790,599 | 180,831,852 | 190,622,451 | 190,622,451 |
| Public works..... | 308,994 | 8,759,372 | 9,068,366 | 12,168,366 |
| Human services..... | 2,631 | 1,152,011 | 1,154,642 | 1,220,553 |
| Culture and recreation..... | 23,056 | 1,072,043 | 1,095,099 | 1,095,099 |
| Pension benefits..... | - | 14,830,604 | 14,830,604 | 14,830,604 |
| Employee benefits..... | 16,011 | 14,815,439 | 14,831,450 | 14,831,450 |
| State and county charges..... | - | 1,209,321 | 1,209,321 | 1,209,321 |
| Debt service: | | | | |
| Principal..... | - | 8,885,000 | 8,885,000 | 8,885,000 |
| Interest..... | - | 3,777,458 | 3,777,458 | 3,777,458 |
| TOTAL EXPENDITURES..... | 10,971,178 | 266,627,248 | 277,598,426 | 282,159,518 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (10,971,178) | (51,517) | (11,022,695) | (15,583,787) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Premium from issuance of bonds..... | - | - | - | - |
| Transfers in..... | - | 342,000 | 342,000 | 1,442,000 |
| Transfers out..... | - | (290,483) | (290,483) | (3,451,726) |
| TOTAL OTHER FINANCING SOURCES (USES)..... | - | 51,517 | 51,517 | (2,009,726) |
| NET CHANGE IN FUND BALANCE..... | (10,971,178) | - | (10,971,178) | (17,593,513) |
| BUDGETARY FUND BALANCE, Beginning of year..... | 26,453,964 | 26,453,964 | 26,453,964 | 26,453,964 |
| BUDGETARY FUND BALANCE, End of year..... | \$ 15,482,786 | \$ 26,453,964 | \$ 15,482,786 | \$ 8,860,451 |

See notes to required supplementary information.

| Actual Budgetary Amounts | Amounts Carried Forward To Next Year | Variance Over/(Under) |
|--------------------------------|--|--------------------------|
| \$ 57,877,809 | \$ - | \$ (503,944) |
| 1,452,522 | - | 1,452,522 |
| 5,327,565 | - | 939,807 |
| 1,368,138 | - | 368,138 |
| 547,701 | - | 17,701 |
| 1,882,270 | - | 549,340 |
| 923,471 | - | (90,529) |
| 197,764,534 | - | (483,506) |
| 1,553,008 | - | 66,758 |
| 221,822 | - | 26,822 |
| <u>268,918,840</u> | <u>-</u> | <u>2,343,109</u> |
| 6,585,665 | 1,026,436 | 396,906 |
| 24,817,562 | 79,491 | 613,156 |
| 181,670,768 | 7,882,959 | 1,068,724 |
| 11,516,914 | 890,525 | (239,073) |
| 1,194,621 | 10 | 25,922 |
| 982,853 | 56 | 112,190 |
| 14,375,558 | - | 455,046 |
| 14,756,278 | 37,823 | 37,349 |
| 1,250,061 | - | (40,740) |
| 8,885,000 | - | - |
| <u>3,747,529</u> | <u>-</u> | <u>29,929</u> |
| <u>269,782,809</u> | <u>9,917,300</u> | <u>2,459,409</u> |
| <u>(863,969)</u> | <u>(9,917,300)</u> | <u>4,802,518</u> |
| 88,575 | - | 88,575 |
| 1,456,134 | - | 14,134 |
| <u>(3,443,189)</u> | <u>-</u> | <u>8,537</u> |
| <u>(1,898,480)</u> | <u>-</u> | <u>111,246</u> |
| (2,762,449) | (9,917,300) | 4,913,764 |
| <u>26,453,964</u> | <u>-</u> | <u>-</u> |
| \$ <u>23,691,515</u> | \$ <u>(9,917,300)</u> | \$ <u>4,913,764</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**

| | 2014 |
|--|-----------------------|
| Total pension liability: | |
| Service cost..... | \$ 8,469,461 |
| Interest..... | 29,607,284 |
| Changes in benefit terms..... | - |
| Differences between expected and actual experience..... | - |
| Changes in assumptions..... | - |
| Benefit payments, including refunds of employee contributions..... | <u>(24,653,000)</u> |
| Net change in total pension liability..... | 13,423,745 |
| Total pension liability, beginning..... | <u>385,886,510</u> |
| Total pension liability, ending (a) | <u>\$ 399,310,255</u> |
| Plan fiduciary net position: | |
| Employer contributions..... | \$ 17,323,139 |
| Employee contributions..... | 6,950,852 |
| Net investment income (loss)..... | 12,432,924 |
| Retirement benefits and refunds..... | (24,653,000) |
| Administrative expenses..... | <u>(454,640)</u> |
| Net increase (decrease) in fiduciary net position..... | 11,599,275 |
| Fiduciary net position at beginning of year..... | <u>168,979,467</u> |
| Fiduciary net position at end of year (b) | <u>\$ 180,578,742</u> |
| Net pension liability - ending (a) - (b) | <u>\$ 218,731,513</u> |
| Plan fiduciary net position as a percentage of the total pension liability..... | 45.22% |
| Covered-employee payroll (*)..... | \$ 71,253,430 |
| Net pension liability as a percentage of covered-employee payroll..... | 306.98% |

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

*Covered employee payroll as reported in the January 1, 2014 funding
valuation report.

See notes to required supplementary information.

SCHEDULE OF CONTRIBUTIONS

| | 2014 |
|--|---------------|
| Actuarially determined contribution (a)..... | \$ 17,323,139 |
| Contributions in relation to the actuarially determined contribution..... | 17,323,139 |
| Contribution deficiency (excess)..... | \$ - |
| Covered-employee payroll (*)..... | \$ 71,253,430 |
| Contributions as a percentage of covered- employee payroll..... | 24.31% |

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.

(a) Based on the results of the January 1, 2012 actuarial valuation (including assumptions and methods) which determined budgeted appropriations for fiscal 2015.

*Covered employee payroll as reported in the January 1, 2014 in the January 1, 2014 funding valuation report.

See notes to required supplementary information.

SCHEDULE OF INVESTMENT RETURN

2014

| | |
|---|-------|
| Annual money-weighted rate of return, net of investment expense..... | 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.

The annual money-weighted rate of return has been calculated by
the Pension Reserves Investment Management Board (PRIM).

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 ASSOCIATION**

| | December 31, 2014 |
|--|----------------------|
| City's proportion of the net pension liability (asset)..... | 90.78% |
| City's proportionate share of the net pension liability (asset)..... | \$ 198,564,467 |
| City's covered employee payroll (*)..... | \$ 65,339,569 |
| Net pension liability as a percentage of covered-employee payroll..... | 303.90% |
| Plan fiduciary net position as a percentage of the total pension liability..... | 45.20% |

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.

*Covered employee payroll as reported in the January 1, 2014, funding
valuation report.

See notes to required supplementary information.

SCHEDULE OF CITY'S CONTRIBUTIONS
LAWRENCE CONTRIBUTORY RETIREMENT SYSTEM

| | December 31, 2014 |
|--|----------------------|
| Actuarially determined contribution (a)..... | \$ 15,540,500 |
| Contributions in relation to the actuarially determined contribution..... | 16,134,074 |
| Contribution deficiency (excess)..... | \$ (593,574) |
| Covered-employee payroll (*)..... | \$ 65,339,569 |
| Contributions as a percentage of covered- employee payroll..... | 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.

(a) Based on the results of the January 1, 2014, actuarial
valuation (including assumptions and methods) which
determined budgeted appropriations for fiscal 2015.

*Covered employee payroll as reported in the January 1, 2014,
funding valuation report.

See notes to required supplementary information.

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

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the Town 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 Town; the portion of the collective pension expense as both a revenue and pension expense recognized by the Town; and the Plan's fiduciary net position as a percentage of the total liability.

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

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

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

**OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**

JUNE 30, 2015

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Projected Unit Credit (B) | Unfunded AAL (UAAL) (B-A) | Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|--------------------------------|--|---|------------------------------------|----------------|---------------------------|---|
| 7/1/2014 | \$ - | \$ 327,150,000 | \$ 327,150,000 | 0% | \$ 60,000,000 | 545.3% |
| 7/1/2012 | - | 333,043,929 | 333,043,929 | 0% | 55,700,000 | 597.9% |
| 7/1/2010 | - | 289,139,000 | 289,139,000 | 0% | 55,700,000 | 519.1% |

Schedule of Employer Contributions

| Year Ended | Annual Required Contribution | Actual Contributions Made | Percentage Contributed |
|---------------|------------------------------------|---------------------------------|---------------------------|
| 6/30/2015 | \$ 28,568,826 | \$ 9,629,488 | 34% |
| 6/30/2014 | 30,066,487 | 9,584,782 | 32% |
| 6/30/2013 | 26,710,000 | 10,328,000 | 39% |

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

YEAR ENDED JUNE 30, 2015

Actuarial Methods:

| | |
|------------------------------------|---|
| Valuation date..... | July 1, 2014 |
| Actuarial cost method..... | Projected Unit Credit |
| Amortization method..... | Amortization payments increasing at 3.45% |
| Remaining amortization period..... | 30 years as of July 1, 2014 |

Actuarial Assumptions:

| | |
|-----------------------------------|---------------------------------------|
| Investment rate of return..... | 4.00%, pay-as-you-go scenario |
| Medical/drug cost trend rate..... | 9.5% grading down to 5% over 10 years |

Plan Membership:

| | |
|---|---------------------|
| Current retirees, beneficiaries, and dependents | 1,336 |
| Current active members..... | <u>1,833</u> |
| Total..... | <u><u>3,169</u></u> |

See notes to required supplementary information.

NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Municipal Law requires the City to adopt a balanced budget that is approved by the City Council (the "Council"). The 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 2015 approved budget authorizing approximately \$266.9 million in current year appropriations, other financing uses, and other amounts to be raised and approximately \$11 million in encumbrances and appropriations carried over from previous years. During 2015, the Council approved supplemental appropriations totaling \$7.7 million for snow and ice, litigation and settlements, 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, 2015, is presented below:

| | |
|--|-----------------------|
| Net change in fund balance - budgetary basis..... | \$ (2,762,449) |
| <u>Perspective difference:</u> | |
| Activity of the stabilization fund recorded in the general fund for GAAP..... | \$ 465,000 |
| <u>Basis of accounting differences:</u> | |
| Net change in recording 60-day receipts accrual..... | 150,244 |
| Increase in revenues due to on-behalf payments..... | 15,630,432 |
| Increase in expenditures due to on-behalf payments..... | <u>(15,630,432)</u> |
| Net change in fund balance - GAAP basis..... | <u>\$ (2,147,205)</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.

Since the retirement system performs an actuarial valuation bi-annually, there are no reported amounts for the changes in benefit terms, differences between expected and actual experience and changes in assumptions as of December 31, 2014.

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.

There were no changes in assumptions during the plan year.

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

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

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.

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

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

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

The Schedule of Employer Contributions presents multi-year trend information for required and actual contributions relating to the plan. The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.