

CITY OF LAWRENCE, MASSACHUSETTS

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

YEAR ENDED JUNE 30, 2014

CITY OF LAWRENCE, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

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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, 2014, 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, 2014, 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 November 12, 2014, 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.



November 12, 2014

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, 2014. 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 assets exceeded liabilities by \$88.8 million at the close of 2014, a decrease of \$13.4 million from the prior year.

Net position of \$209.7 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, \$18 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 \$138.9 million.

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 (\$138.9) million deficit balance in unrestricted net position is due to the impact of the \$139.9 million other postemployment liability at year end and the impact of the deficit borrowing notes.

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

Governmental Activities

As noted earlier net position may serve, over time, as a useful indicator of a government’s financial position. The assets of governmental activities exceeded liabilities by \$49.3 million at the close of 2014. Components of the City’s governmental financial position are listed below.

	<u>2014</u>	<u>2013</u>
Assets:		
Current assets.....	\$ 60,448,649	\$ 56,344,517
Noncurrent assets (excluding capital).....	23,291,606	28,896,057
Capital assets.....	<u>234,016,418</u>	<u>235,212,756</u>
Total assets.....	<u>317,756,673</u>	<u>320,453,330</u>
Liabilities:		
Current liabilities (excluding debt).....	18,426,141	18,105,491
Noncurrent liabilities (excluding debt).....	148,610,376	128,631,859
Current debt.....	35,248,077	34,627,450
Noncurrent debt.....	<u>64,157,232</u>	<u>71,520,000</u>
Total liabilities.....	<u>266,441,826</u>	<u>252,884,800</u>
Net Position:		
Net investment in capital assets.....	186,721,310	186,900,270
Restricted.....	17,987,671	17,050,928
Unrestricted.....	<u>(155,372,138)</u>	<u>(136,382,668)</u>
Total net position.....	<u>\$ 49,336,843</u>	<u>\$ 67,568,530</u>

A significant portion of the City’s governmental activities net position, \$186.7 million, reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending.

Although the City's investment in capital assets is reported net of related debt it should be noted that the resources to repay debt must be provided from other sources since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net position of \$18 million represents resources that are subject to external restrictions on how they may be used. The remaining deficit balance of unrestricted net position in the amount of \$155.4 million is due to the implementation of GASB 45 and the impact of the deficit borrowing notes. It indicates that the City does not have enough reserves to meet its ongoing obligations, both short-term and long-term, to citizens and creditors.

Included within the governmental activities assets, unrelated to capital assets, are \$26.8 million in future year school construction reimbursement grants. Liabilities include \$95.9 million in general obligation bonds and \$19.3 million in compensated absence liabilities for unused vacation, special leave, and enhanced longevity benefits payable.

The following summarizes the current and prior year governmental activities:

	<u>2014</u>	<u>2013</u>
Program Revenues:		
Charges for services.....	\$ 3,023,355	\$ 2,843,568
Operating grants and contributions.....	240,389,975	227,181,270
Capital grants and contributions.....	<u>1,739,691</u>	<u>1,046,004</u>
Total program revenues.....	<u>245,153,021</u>	<u>231,070,842</u>
General Revenues:		
Real estate and personal property taxes.....	55,901,349	52,898,341
Tax liens.....	1,580,298	1,299,692
Motor vehicle and other excise taxes.....	5,222,722	4,271,889
Penalties and interest on taxes.....	1,032,055	1,149,974
Payments in lieu of taxes.....	540,784	576,083
Grants and contributions not restricted to specific programs.....	19,580,783	18,521,421
Unrestricted investment income.....	279,156	245,618
Other.....	<u>60,675</u>	<u>39,315</u>
Total general revenues.....	<u>84,197,822</u>	<u>79,002,333</u>
Expenses:		
General government.....	25,265,632	23,274,210
Public safety.....	40,645,211	38,569,813
Education.....	261,008,433	243,321,330
Public works.....	12,785,217	11,874,769
Human services.....	2,027,705	1,938,014
Culture and recreation.....	1,905,643	1,777,249
Interest.....	<u>4,286,953</u>	<u>4,620,584</u>
Total expenses.....	<u>347,924,794</u>	<u>325,375,969</u>
Excess (deficiency) before transfers.....	(18,573,951)	(15,302,794)
Transfers, net.....	<u>342,264</u>	<u>(36,401)</u>
Change in net position.....	(18,231,687)	(15,339,195)
Net position, beginning of year.....	<u>67,568,530</u>	<u>82,907,725</u>
Net position, end of year.....	<u>\$ 49,336,843</u>	<u>\$ 67,568,530</u>

The governmental activities net position decreased in the current year by \$18.2 million. The decrease in net position is primarily due to the recognition of an expense of \$19.6 million for its portion of the other postemployment benefit liability that was not funded.

Business-Type Activities

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

	<u>2014</u>	<u>2013</u>
Assets:		
Current assets.....	\$ 37,286,522	\$ 19,689,191
Capital assets.....	<u>59,800,753</u>	<u>50,776,081</u>
Total assets.....	<u>97,087,275</u>	<u>70,465,272</u>
Liabilities:		
Current liabilities (excluding debt).....	1,827,897	2,137,953
Noncurrent liabilities (excluding debt).....	4,365,982	3,730,000
Current debt.....	6,058,261	2,157,235
Noncurrent debt.....	<u>45,270,368</u>	<u>27,765,929</u>
Total liabilities.....	<u>57,522,508</u>	<u>35,791,117</u>
Net Position:		
Net investment in capital assets.....	23,019,604	21,621,514
Unrestricted.....	<u>16,437,843</u>	<u>13,052,641</u>
Total net position.....	<u>\$ 39,457,447</u>	<u>\$ 34,674,155</u>
Program Revenues:		
Charges for services.....	\$ 17,814,228	\$ 16,463,735
Operating grants and contributions.....	190,209	201,968
Capital grants and contributions.....	<u>1,619,660</u>	<u>-</u>
Total program revenues.....	<u>19,624,097</u>	<u>16,665,703</u>
General Revenues:		
Tax liens.....	1,574,617	1,770,132
Penalties and interest on taxes.....	<u>255,940</u>	<u>216,346</u>
Total general revenues.....	<u>1,830,557</u>	<u>1,986,478</u>
Expenses:		
Water & Sewer.....	14,873,765	14,097,860
Airport.....	468,085	419,886
Parking.....	<u>987,248</u>	<u>1,109,140</u>
Total expenses.....	<u>16,329,098</u>	<u>15,626,886</u>
Excess (deficiency) before transfers.....	5,125,556	3,025,295
Transfers, net.....	<u>(342,264)</u>	<u>36,401</u>
Change in net position.....	4,783,292	3,061,696
Net position, beginning of year.....	<u>34,674,155</u>	<u>31,612,459</u>
Net position, end of year.....	<u>\$ 39,457,447</u>	<u>\$ 34,674,155</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 2014.

Business-type water and sewer net position of \$22.8 million (58%) represents the net investment in capital assets while \$16.5 million (42%) is unrestricted. Net position increased by \$4.8 million primarily due to \$2.7 million in positive budgetary results, \$1.6 million in capital grant revenues, as well as principal payments on long-term debt exceeding depreciation expense by \$1.2 million. These increases were offset by a \$400,000 increase in the other postemployment benefits liability.

Business-type airport net position of \$191,000 (22%) represents the net investment in capital assets while \$663,000 (88%) is unrestricted. Net position increased by \$118,000 primarily due to positive budgetary results.

Business-type parking net position of \$67,000 represents the net investment in capital assets. The remaining deficit balance of unrestricted net position in the amount of (\$694,000) is due primarily to the implementation of GASB 45. It indicates that the enterprise fund does not have enough reserves to meet its ongoing, both short-term and long-term, obligations. Net position decreased by \$166,000 primarily due to \$61,000 of positive budgetary results, offset by a \$230,000 increase in the other postemployment benefits liability.

At the end of the current year, aside from the deficit unrestricted net assets reported in the business-type parking fund noted above, all remaining business-type activities were able to report positive balances in all categories of net position. The same situation held true for the prior year.

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 \$36.8 million, a decrease of \$1.1 million from the prior year.

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund totaled \$11.8 million, while total fund balance equaled \$26.7 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 4.5% of the general fund budget while total fund balance represents approximately 10.2%. The general fund essentially broke even in 2014, increasing by \$58,000. This is attributable to better than expected collections offset by the expenditure prior year encumbrances.

General Fund Budgetary Highlights

The change \$3.9 million change between the original budget and the final amended budget was due to \$3.9 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, 2014, amounts to \$234 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, 2014 amounts to \$59.8 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.

Long-term debt - At June 30, 2014, the City had total governmental bonded debt of \$150.7 million.

The water and sewer enterprise fund has \$47.9 million in long-term debt that is supported by the water rates and future MWPAT principal and interest subsidies totaling \$3.4 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 Fiscal 2012, to which an amount equal to 1.5% of the amount of property taxes committed for the preceding fiscal 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, 2014

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 50,662,279	\$ 17,808,620	\$ 68,470,899
Investments.....	776,697	-	776,697
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	2,359,178	-	2,359,178
Water and sewer liens.....	-	224,934	224,934
Motor vehicle and other excise taxes.....	971,924	-	971,924
User fees.....	-	5,953,080	5,953,080
Departmental and other.....	1,763	20,960	22,723
Special assessments.....	14,770	-	14,770
Intergovernmental.....	5,492,138	13,278,928	18,771,066
Working capital deposit.....	169,900	-	169,900
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	22,941,000	-	22,941,000
Loans.....	350,606	-	350,606
Capital assets, not being depreciated.....	9,968,906	11,273,489	21,242,395
Capital assets, net of accumulated depreciation.....	<u>224,047,512</u>	<u>48,527,264</u>	<u>272,574,776</u>
TOTAL ASSETS.....	<u>317,756,673</u>	<u>97,087,275</u>	<u>414,843,948</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	3,373,813	1,050,437	4,424,250
Accrued payroll.....	1,456,141	-	1,456,141
Accrued interest.....	1,373,969	483,401	1,857,370
Payroll withholdings.....	4,604,916	-	4,604,916
Other liabilities.....	626,643	147	626,790
Customer deposits payable.....	760,659	-	760,659
Capital lease obligations.....	-	103,912	103,912
Compensated absences.....	6,230,000	190,000	6,420,000
Notes payable.....	3,500,000	3,400,000	6,900,000
Bonds payable.....	31,748,077	2,658,261	34,406,338
NONCURRENT:			
Capital lease obligations.....	-	107,320	107,320
Due to Commonwealth.....	1,978,004	-	1,978,004
Compensated absences.....	13,034,000	42,000	13,076,000
Other postemployment benefits.....	135,576,376	4,323,982	139,900,358
Bonds payable.....	<u>64,157,232</u>	<u>45,270,368</u>	<u>109,427,600</u>
TOTAL LIABILITIES.....	<u>268,419,830</u>	<u>57,629,828</u>	<u>326,049,658</u>
NET POSITION			
Net investment in capital assets.....	186,721,310	23,019,604	209,740,914
Restricted for:			
Loans.....	350,606	-	350,606
Fiscal stability.....	3,997,278	-	3,997,278
Capital reserve.....	1,287,129	-	1,287,129
Permanent funds:			
Expendable.....	338,328	-	338,328
Nonexpendable.....	1,650,578	-	1,650,578
Other specific purposes.....	10,363,752	-	10,363,752
Unrestricted.....	<u>(155,372,138)</u>	<u>16,437,843</u>	<u>(138,934,295)</u>
TOTAL NET POSITION.....	<u>\$ 49,336,843</u>	<u>\$ 39,457,447</u>	<u>\$ 88,794,290</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 25,265,632	\$ 718,383	\$ 12,275,693	\$ 118,370	\$ (12,153,186)
Public safety.....	40,645,211	1,822,498	4,124,841	-	(34,697,872)
Education.....	261,008,433	263,086	221,459,138	-	(39,286,209)
Public works.....	12,785,217	157,693	53,546	1,621,321	(10,952,657)
Human services.....	2,027,705	-	178,862	-	(1,848,843)
Culture and recreation.....	1,905,643	61,695	111,207	-	(1,732,741)
Interest.....	4,286,953	-	2,186,688	-	(2,100,265)
Total Governmental Activities.....	347,924,794	3,023,355	240,389,975	1,739,691	(102,771,773)
<i>Business-Type Activities:</i>					
Water & Sewer.....	14,873,765	16,363,350	190,209	1,619,660	3,299,454
Airport.....	468,085	599,127	-	-	131,042
Parking.....	987,248	851,751	-	-	(135,497)
Total Business-Type Activities.....	16,329,098	17,814,228	190,209	1,619,660	3,294,999
Total Primary Government.....	\$ 364,253,892	\$ 20,837,583	\$ 240,580,184	\$ 3,359,351	\$ (99,476,774)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

YEAR ENDED JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ (102,771,773)	\$ 3,294,999	\$ (99,476,774)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	55,901,349	-	55,901,349
Tax liens.....	1,580,298	1,574,617	3,154,915
Motor vehicle and other excise taxes.....	5,222,722	-	5,222,722
Penalties and interest on taxes.....	1,032,055	255,940	1,287,995
Payments in lieu of taxes.....	540,784	-	540,784
Grants and contributions not restricted to specific programs.....	19,580,783	-	19,580,783
Unrestricted investment income.....	279,156	-	279,156
Other.....	60,675	-	60,675
<i>Transfers, net</i>	342,264	(342,264)	-
Total general revenues and transfers.....	<u>84,540,086</u>	<u>1,488,293</u>	<u>86,028,379</u>
Change in net position.....	(18,231,687)	4,783,292	(13,448,395)
<i>Net Position:</i>			
Beginning of year.....	<u>67,568,530</u>	<u>34,674,155</u>	<u>102,242,685</u>
End of year.....	<u>\$ 49,336,843</u>	<u>\$ 39,457,447</u>	<u>\$ 88,794,290</u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2014

	General	Capital Reserve Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents.....	\$ 35,734,686	\$ 1,296,682	\$ 12,431,784	\$ 49,463,152
Investments.....	-	-	776,697	776,697
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	2,359,178	-	-	2,359,178
Motor vehicle and other excise taxes.....	971,924	-	-	971,924
Departmental and other.....	1,763	-	-	1,763
Special assessments.....	14,770	-	-	14,770
Intergovernmental.....	26,764,000	-	1,669,138	28,433,138
Loans.....	-	-	350,606	350,606
TOTAL ASSETS.....	\$ 65,846,321	\$ 1,296,682	\$ 15,228,225	\$ 82,371,228
LIABILITIES:				
Warrants payable.....	\$ 2,593,103	\$ 9,553	\$ 771,157	\$ 3,373,813
Accrued payroll.....	1,456,141	-	-	1,456,141
Liabilities due depositors.....	-	-	760,659	760,659
Payroll withholdings.....	4,604,916	-	-	4,604,916
Other liabilities.....	626,643	-	-	626,643
Notes payable.....	-	-	3,500,000	3,500,000
TOTAL LIABILITIES.....	9,280,803	9,553	5,031,816	14,322,172
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenues.....	29,847,888	-	1,440,192	31,288,080
FUND BALANCES:				
Nonspendable.....	-	-	1,650,578	1,650,578
Restricted.....	3,997,278	1,287,129	9,261,888	14,546,295
Assigned.....	10,971,178	-	-	10,971,178
Unassigned.....	11,749,174	-	(2,156,249)	9,592,925
TOTAL FUND BALANCES.....	26,717,630	1,287,129	8,756,217	36,760,976
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....	\$ 65,846,321	\$ 1,296,682	\$ 15,228,225	\$ 82,371,228

See notes to basic financial statements.

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

JUNE 30, 2014

Total governmental fund balances.....		\$ 36,760,976
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		234,016,418
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		31,288,080
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.....		1,369,027
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(1,373,969)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds payable.....	(95,522,450)	
Unamortized premiums on bonds and notes payable.....	(382,859)	
Other postemployment benefits liability.....	(135,576,376)	
Due to commonwealth.....	(1,978,004)	
Compensated absences.....	(19,264,000)	
Net effect of reporting long-term liabilities.....		<u>(252,723,689)</u>
Net position of governmental activities.....		<u>\$ 49,336,843</u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2014

	General	Capital Reserve Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 55,986,880	\$ -	\$ -	\$ 55,986,880
Tax liens.....	1,580,298	-	-	1,580,298
Motor vehicle and other excise taxes.....	4,993,248	-	-	4,993,248
Penalties and interest on taxes.....	1,032,055	-	-	1,032,055
Payments in lieu of taxes.....	540,784	-	-	540,784
Licenses and permits.....	1,421,937	-	-	1,421,937
Fines and forfeitures.....	1,037,174	-	-	1,037,174
Intergovernmental.....	212,259,234	-	49,102,123	261,361,357
Departmental and other.....	1,750,077	-	3,114,548	4,864,625
Contributions.....	-	-	494,245	494,245
Investment income.....	205,530	-	73,626	279,156
TOTAL REVENUES.....	280,807,217	-	52,784,542	333,591,759
EXPENDITURES:				
Current:				
General government.....	6,006,115	-	12,136,084	18,142,199
Public safety.....	23,889,927	-	3,398,205	27,288,132
Education.....	193,304,307	2,144,908	35,993,046	231,442,261
Public works.....	10,423,852	-	1,339,703	11,763,555
Human services.....	1,245,428	-	175,396	1,420,824
Culture and recreation.....	1,038,733	-	156,592	1,195,325
Pension benefits.....	13,544,471	-	-	13,544,471
Employee benefits.....	14,419,395	-	-	14,419,395
State and county charges.....	1,128,856	-	-	1,128,856
Debt service:				
Principal.....	34,627,450	-	-	34,627,450
Interest.....	4,143,991	-	-	4,143,991
TOTAL EXPENDITURES.....	303,772,525	2,144,908	53,199,026	359,116,459
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(22,965,308)	(2,144,908)	(414,484)	(25,524,700)
OTHER FINANCING SOURCES (USES):				
Proceeds from bonds and notes.....	24,002,450	-	-	24,002,450
Premium from issuance of bonds.....	60,675	-	-	60,675
Transfers in.....	342,000	979,885	730,523	2,052,408
Transfers out.....	(1,381,344)	-	(328,800)	(1,710,144)
TOTAL OTHER FINANCING SOURCES (USES)....	23,023,781	979,885	401,723	24,405,389
NET CHANGE IN FUND BALANCES.....	58,473	(1,165,023)	(12,761)	(1,119,311)
FUND BALANCES AT BEGINNING OF YEAR.....	26,659,157	2,452,152	8,768,978	37,880,287
FUND BALANCES AT END OF YEAR.....	\$ 26,717,630	\$ 1,287,129	\$ 8,756,217	\$ 36,760,976

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, 2014

Net change in fund balances - total governmental funds..... \$ (1,119,311)

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.

Capital outlay.....	6,916,269
Depreciation expense.....	<u>(8,112,607)</u>

Net effect of reporting capital assets..... (1,196,338)

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.....

(4,301,591)

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.

Proceeds from bonds.....	(24,002,450)
Premium from issuance of bonds.....	(60,675)
Debt service principal payments.....	<u>34,627,450</u>

Net effect of reporting long-term debt..... 10,564,325

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.

Net change in compensated absences accrual.....	(1,070,000)
Net change in other postemployment benefits accrual.....	(19,561,376)
Net change in intergovernmental COLA reimbursement.....	(1,978,004)
Net change in accrued interest on long-term debt.....	150,911
Amortization of bond premiums.....	101,302
Amortization of deferred charge on refunding.....	<u>(334,500)</u>

Net effect of recording long-term liabilities and amortizing deferred losses..... (22,691,667)

Internal service funds are used by management to account for health insurance and workers' compensation activities.

The net activity of internal service funds is reported with governmental activities.....	<u>512,895</u>
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Change in net position of governmental activities..... \$ (18,231,687)

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2014

	Water & Sewer Enterprise	Airport Enterprise	Parking Enterprise	Total	Governmental Activities - Internal Service Funds
ASSETS					
CURRENT:					
Cash and cash equivalents.....	\$ 16,800,641	\$ 710,369	\$ 297,610	\$ 17,808,620	\$ 1,199,127
Receivables, net of allowance for uncollectibles:					
User fees.....	5,953,080	-	-	5,953,080	-
Water and sewer liens.....	224,934	-	-	224,934	-
Departmental and other.....	-	20,960	-	20,960	-
Due from Blue Cross Blue Shield.....	-	-	-	-	-
Special assessments.....	-	-	-	-	-
Intergovernmental.....	13,278,928	-	-	13,278,928	-
Working capital deposit.....	-	-	-	-	169,900
Total current assets.....	<u>36,257,583</u>	<u>731,329</u>	<u>297,610</u>	<u>37,286,522</u>	<u>1,369,027</u>
NONCURRENT:					
Capital assets, not being depreciated.....	11,082,610	190,879	-	11,273,489	-
Capital assets, net of accumulated depreciation.....	<u>48,460,171</u>	<u>-</u>	<u>67,093</u>	<u>48,527,264</u>	<u>-</u>
Total noncurrent assets.....	<u>59,542,781</u>	<u>190,879</u>	<u>67,093</u>	<u>59,800,753</u>	<u>-</u>
TOTAL ASSETS.....	<u>95,800,364</u>	<u>922,208</u>	<u>364,703</u>	<u>97,087,275</u>	<u>1,369,027</u>
LIABILITIES					
CURRENT:					
Warrants payable.....	1,042,933	5,000	2,504	1,050,437	-
Accrued interest.....	483,401	-	-	483,401	-
Other liabilities.....	147	-	-	147	-
Capital lease obligations.....	103,912	-	-	103,912	-
Compensated absences.....	155,000	10,000	25,000	190,000	-
Notes payable.....	3,400,000	-	-	3,400,000	-
Bonds payable.....	<u>2,658,261</u>	<u>-</u>	<u>-</u>	<u>2,658,261</u>	<u>-</u>
Total current liabilities.....	<u>7,843,654</u>	<u>15,000</u>	<u>27,504</u>	<u>7,886,158</u>	<u>-</u>
NONCURRENT:					
Capital lease obligations.....	107,320	-	-	107,320	-
Compensated absences.....	36,000	1,000	5,000	42,000	-
Other postemployment benefits.....	3,313,796	51,549	958,637	4,323,982	-
Bonds payable.....	<u>45,270,368</u>	<u>-</u>	<u>-</u>	<u>45,270,368</u>	<u>-</u>
Total noncurrent liabilities.....	<u>48,727,484</u>	<u>52,549</u>	<u>963,637</u>	<u>49,743,670</u>	<u>-</u>
TOTAL LIABILITIES.....	<u>56,571,138</u>	<u>67,549</u>	<u>991,141</u>	<u>57,629,828</u>	<u>-</u>
NET POSITION					
Net investment in capital assets.....	22,761,632	190,879	67,093	23,019,604	-
Unrestricted.....	<u>16,467,594</u>	<u>663,780</u>	<u>(693,531)</u>	<u>16,437,843</u>	<u>1,369,027</u>
TOTAL NET POSITION.....	<u>\$ 39,229,226</u>	<u>\$ 854,659</u>	<u>\$ (626,438)</u>	<u>\$ 39,457,447</u>	<u>\$ 1,369,027</u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2014

	Water & Sewer Enterprise	Airport Enterprise	Parking Enterprise	Total	Governmental Activities - Internal Service Funds
OPERATING REVENUES:					
Employer and employee contributions	\$ -	\$ -	\$ -	\$ -	\$ 2,446,786
Charges for services	16,363,350	599,127	851,751	17,814,228	-
Utility liens.....	1,574,617	-	-	1,574,617	-
Penalties and interest.....	255,940	-	-	255,940	-
Intergovernmental.....	1,809,869	-	-	1,809,869	-
TOTAL OPERATING REVENUES	20,003,776	599,127	851,751	21,454,654	2,446,786
OPERATING EXPENSES:					
Cost of services and administration	12,873,979	411,631	976,205	14,261,815	-
Intergovernmental assessments.....	19,193	-	-	19,193	-
Depreciation.....	988,899	-	11,043	999,942	-
Employee benefits	310,498	56,454	-	366,952	1,933,891
TOTAL OPERATING EXPENSES	14,192,569	468,085	987,248	15,647,902	1,933,891
OPERATING INCOME.....	5,811,207	131,042	(135,497)	5,806,752	512,895
NONOPERATING REVENUES (EXPENSES):					
Interest expense.....	(681,196)	-	-	(681,196)	-
INCOME (LOSS) BEFORE TRANSFERS.....	5,130,011	131,042	(135,497)	5,125,556	512,895
TRANSFERS:					
Transfers out.....	(300,000)	(12,264)	(30,000)	(342,264)	-
CHANGE IN NET POSITION.....	4,830,011	118,778	(165,497)	4,783,292	512,895
NET POSITION AT BEGINNING OF YEAR.....	34,399,215	735,881	(460,941)	34,674,155	856,132
NET POSITION AT END OF YEAR.....	\$ 39,229,226	\$ 854,659	(626,438)	\$ 39,457,447	\$ 1,369,027

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

YEAR ENDED JUNE 30, 2014

	Water & Sewer Enterprise	Airport Enterprise	Parking Enterprise	Total	Governmental Activities - Internal Service Funds
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>					
Receipts from customers and users.....	\$ 19,527,457	\$ 585,420	\$ 851,751	\$ 20,964,628	\$ 2,446,786
Payments to other governments.....	(19,193)	-	-	(19,193)	-
Payments to vendors.....	(10,614,420)	(163,133)	(89,674)	(10,867,227)	(1,844,407)
Payments to employees.....	(2,327,825)	(241,274)	(676,178)	(3,245,277)	-
Payments for interfund services used.....	(310,498)	(56,454)	-	(366,952)	-
NET CASH FROM OPERATING ACTIVITIES.....	6,255,521	124,559	85,899	6,465,979	602,379
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>					
Transfers out.....	(300,000)	(12,264)	(30,000)	(342,264)	-
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Proceeds from the issuance of bonds and notes.....	23,562,700	-	-	23,562,700	-
Proceeds from capital lease financing.....	321,194	-	-	321,194	-
Acquisition and construction of capital assets.....	(10,024,614)	-	-	(10,024,614)	-
Principal payments on bonds and notes.....	(2,157,235)	-	-	(2,157,235)	-
Principal payments on capital lease obligations.....	(109,962)	-	-	(109,962)	-
Interest expense.....	(608,493)	-	-	(608,493)	-
Intergovernmental revenue.....	(12,510,331)	-	-	(12,510,331)	-
NET CASH FROM CAPITAL AND FINANCING RELATED ACTIVITIES.....	(1,526,741)	-	-	(1,526,741)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	4,428,780	112,295	55,899	4,596,974	602,379
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR....	12,371,861	598,074	241,711	13,211,646	596,748
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 16,800,641	\$ 710,369	\$ 297,610	\$ 17,808,620	\$ 1,199,127
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO TO NET CASH FROM OPERATING ACTIVITIES:</u>					
Operating income (loss).....	\$ 5,811,207	\$ 131,042	\$ (135,497)	\$ 5,806,752	\$ 512,895
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation.....	988,899	-	11,043	999,942	-
Changes in assets and liabilities:					
User fees.....	(487,799)	-	-	(487,799)	-
Water and sewer liens.....	11,480	-	-	11,480	-
Departmental and other.....	-	(13,707)	-	(13,707)	89,484
Warrants payable.....	(464,062)	(2,325)	(5,284)	(471,671)	-
Compensated absences.....	(3,000)	1,000	(14,000)	(16,000)	-
Other postemployment benefits.....	398,796	8,549	229,637	636,982	-
Total adjustments.....	444,314	(6,483)	221,396	659,227	89,484
NET CASH FROM OPERATING ACTIVITIES.....	\$ 6,255,521	\$ 124,559	\$ 85,899	\$ 6,465,979	\$ 602,379

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

	Pension Trust Fund (as of December 31, 2013)	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 2,222,419	\$ 586,393	\$ 331,923
Investments.....	167,338,666	-	-
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	266,762	-	-
Prepaid expenses.....	6,947	-	-
TOTAL ASSETS.....	169,834,794	586,393	331,923
LIABILITIES			
Warrants payable.....	855,327	-	-
Liabilities due depositors.....	-	-	331,923
TOTAL LIABILITIES.....	855,327	-	331,923
NET POSITION			
Held in trust for pension benefits and other purposes.....	\$ 168,979,467	\$ 586,393	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2014

	Pension Trust Fund (as of December 31, 2013)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 15,471,333	\$ -
Employee.....	6,249,857	-
Total contributions.....	21,721,190	-
Net investment income (loss):		
Net change in fair value of investments.....	17,881,308	-
Interest.....	4,547,055	1,933
Total investment income (loss).....	22,428,363	1,933
Less: investment expense.....	(1,281,733)	-
Net investment income (loss).....	21,146,630	1,933
Intergovernmental.....	1,347,725	-
Transfers from other systems.....	519,797	-
TOTAL ADDITIONS.....	44,735,342	1,933
DEDUCTIONS:		
Transfers to other systems.....	1,237,700	-
Retirement benefits and refunds.....	22,697,055	-
Educational scholarships.....	-	1,760
TOTAL DEDUCTIONS.....	23,934,755	1,760
CHANGE IN NET POSITION.....	20,800,587	173
NET POSITION AT BEGINNING OF YEAR.....	148,178,880	586,220
NET POSITION AT END OF YEAR.....	\$ 168,979,467	\$ 586,393

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.

Blended Component Units – Blended component units are entities that are legally separate from the City, but are so related that they are, in substance, the same as the City or entities providing services entirely or almost entirely for the benefit of the City. The following component unit is blended within the primary government:

The Lawrence Contributory Retirement System (System) was established to provide retirement benefits to City employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at Retirement Board, 354 Merrimack Street, Lawrence, Massachusetts, 01840.

Availability of Financial Information for Component Units

The System issues a separate audited financial statement. That report may be obtained by contacting the System located at 354 Merrimack Street, Lawrence, Massachusetts, 01840.

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 fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

Fund Financial Statements

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

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

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

The following major governmental 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 fiscal year 2012, at least 1.5% of the amount of property taxes committed for the preceding fiscal 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 fiscal year and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

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

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

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

Motor Vehicle Excise

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

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

Water

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

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

Sewer

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

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

Departmental and Other

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

Intergovernmental

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

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

Loans

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

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

F. Inventories

Government-Wide and Fund Financial Statements

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

G. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which include land, land improvements, buildings, 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 fiscal year of the purchase.

H. Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements (Net Position)

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The City had no items that qualify for reporting in this category as of June 30, 2014.

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 items that qualify for reporting in this category as of June 30, 2014.

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 fiscal 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 FY2012. 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 fiscal 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. 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.

N. 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).

O. 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.

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

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

Q. 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.

R. 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 fiscal year-end, the carrying amount of deposits totaled \$69,108,850 and the bank balance totaled \$78,450,846. Of the bank balance, \$13,376,712 was covered by Federal Depository Insurance, \$64,522,701 is collateralized, and \$551,433 is uncollateralized and subject to custodial credit risk.

At December 31, 2013, carrying amount of deposits for the System totaled \$2,222,419 and the bank balance totaled \$2,462,762. 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, 2014, 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.....	\$ 776,697	\$ <u>158,191</u>	\$ <u>26,020</u>	\$ <u>592,486</u>
<u>Other Investments</u>				
Money Market Mutual Funds.....	242,273			
MMDT.....	<u>38,092</u>			
Total Investments.....	<u>\$ 1,057,062</u>			

As of December 31, 2013, the System had the following investments:

Investment Type	<u>Fair Value</u>
<u>Other Investments</u>	
Pension Reserve Investment Trust (PRIT)	\$ <u>167,338,666</u>

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .25 to 10.78 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 \$776,697 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, 2014, 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>776,697</u>	\$ <u>124,056</u>	\$ <u>174,200</u>	\$ <u>196,738</u>	\$ <u>248,418</u>	\$ <u>33,285</u>

The System has not adopted a formal policy related to credit risk. At December 31, 2013 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, 2014, 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, 2013, the System's investment in any one issuer did not exceed 5% of the total amount invested.

NOTE 3 - RECEIVABLES

At June 30, 2014, 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.....	\$ 3,044,178	\$ (685,000)	\$ 2,359,178
Motor vehicle and other excise taxes.....	2,066,924	(1,095,000)	971,924
Departmental and other.....	1,763	-	1,763
Special assessments.....	14,770	-	14,770
Intergovernmental.....	28,433,138	-	28,433,138
Loans.....	350,606	-	350,606
Total	<u>\$ 33,911,379</u>	<u>\$ (1,780,000)</u>	<u>\$ 32,131,379</u>

At June 30, 2014, receivables for the business type enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
User fees.....	\$ 5,953,080	\$ -	\$ 5,953,080
Departmental and other.....	20,960	-	20,960
Liens.....	224,934	-	224,934
Intergovernmental.....	13,278,928	-	13,278,928
Total	<u>\$ 19,477,902</u>	<u>\$ -</u>	<u>\$ 19,477,902</u>

Governmental funds report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal 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.....	\$ 2,095,431	\$ -	\$ 2,095,431
Motor vehicle and other excise taxes.....	971,924	-	971,924
Departmental and other.....	1,763	-	1,763
Special assessments.....	14,770	-	14,770
Intergovernmental.....	26,764,000	1,440,192	28,204,192
Total.....	<u>\$ 29,847,888</u>	<u>\$ 1,440,192</u>	<u>\$ 31,288,080</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, 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.....	443,381	3,500,000	-	3,943,381
Total capital assets not being depreciated.....	<u>6,468,906</u>	<u>3,500,000</u>	<u>-</u>	<u>9,968,906</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	264,370,219	1,710,061	-	266,080,280
Machinery, Equipment, and Furnishings.....	24,007,953	215,676	-	24,223,629
Vehicles.....	3,080,680	140,453	-	3,221,133
Infrastructure.....	21,305,322	1,350,079	-	22,655,401
Total capital assets being depreciated.....	<u>312,764,174</u>	<u>3,416,269</u>	<u>-</u>	<u>316,180,443</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(56,409,722)	(6,494,131)	-	(62,903,853)
Machinery, Equipment, and Furnishings.....	(20,450,011)	(799,699)	-	(21,249,710)
Vehicles.....	(2,085,201)	(269,268)	-	(2,354,469)
Infrastructure.....	(5,075,390)	(549,509)	-	(5,624,899)
Total accumulated depreciation.....	<u>(84,020,324)</u>	<u>(8,112,607)</u>	<u>-</u>	<u>(92,132,931)</u>
Total capital assets being depreciated, net.....	<u>228,743,850</u>	<u>(4,696,338)</u>	<u>-</u>	<u>224,047,512</u>
Total governmental activities capital assets, net.....	<u>\$ 235,212,756</u>	<u>\$ (1,196,338)</u>	<u>\$ -</u>	<u>\$ 234,016,418</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.....	4,007,977	7,065,298	-	11,073,275
Total capital assets not being depreciated.....	<u>4,017,312</u>	<u>7,065,298</u>	<u>-</u>	<u>11,082,610</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	4,656,182	-	-	4,656,182
Machinery, Equipment, and Furnishings.....	905,172	481,719	-	1,386,891
Vehicles.....	908,469	373,598	-	1,282,067
Infrastructure.....	54,033,534	2,103,999	-	56,137,533
Total capital assets being depreciated.....	<u>60,503,357</u>	<u>2,959,316</u>	<u>-</u>	<u>63,462,673</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(2,433,448)	(89,006)	-	(2,522,454)
Machinery, Equipment, and Furnishings.....	(626,531)	(46,941)	-	(673,472)
Vehicles.....	(576,479)	(115,215)	-	(691,694)
Infrastructure.....	(10,377,145)	(737,737)	-	(11,114,882)
Total accumulated depreciation.....	<u>(14,013,603)</u>	<u>(988,899)</u>	<u>-</u>	<u>(15,002,502)</u>
Total capital assets being depreciated, net.....	<u>46,489,754</u>	<u>1,970,417</u>	<u>-</u>	<u>48,460,171</u>
Total water and sewer activities capital assets, net.....	<u>\$ 50,507,066</u>	<u>\$ 9,035,715</u>	<u>\$ -</u>	<u>\$ 59,542,781</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Airport Activity				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 190,879	\$ -	\$ -	\$ 190,879
Parking Activity				
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	\$ 220,864	\$ -	\$ -	\$ 220,864
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(142,728)	(11,043)	-	(153,771)
Total parking activities capital assets, net.....	\$ 78,136	\$ (11,043)	\$ -	\$ 67,093

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

Governmental Activities:

General government.....	\$ 1,049,500
Public safety.....	375,446
Education.....	5,777,968
Public works.....	792,261
Human services.....	4,683
Culture and recreation.....	112,749

Total depreciation expense - governmental activities..... \$ 8,112,607

Business-Type Activities:

Water & sewer.....	\$ 988,899
Parking.....	11,043

Total depreciation expense - business-type activities..... \$ 999,942

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2014, are summarized as follows:

Operating Transfers Out:	General Fund	Capital Reserve Fund	Nonmajor Governmental Funds	Parking Enterprise Fund	Total
General Fund.....	\$ -	\$ 979,885	\$ 401,459	\$ -	\$ 1,381,344 (1)
Nonmajor Governmental Funds.....	-	-	328,800	-	328,800 (2)
Water & Sewer Enterprise Fund.....	300,000	-	-	-	300,000 (3)
Airport Enterprise Fund.....	12,000	-	264	-	12,264 (3)
Parking Enterprise Fund.....	30,000	-	-	-	30,000 (3)
Total.....	\$ 342,000	\$ 979,885	\$ 730,523	\$ -	\$ 2,052,408

(1) Budgeted transfers to the Capital Reserve Fund. Also, \$206,459 from the General Fund to grant funds for grant matching purposes, as well as \$195,000 to capital project funds to finance construction projects.

(2) Transfer to and from various nonmajor governmental funds.

(3) Budgeted transfer from the Water & Sewer, Airport, and Parking Enterprise funds to the General Fund for indirect costs.

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, 2014, the City has the following outstanding short-term debt:

Type	Description	Issue Date	Maturity Date	Rate %	Balance at June 30 2013	Renewed/ Issued	Retired/ Redeemed	Balance at June 30 2014
Governmental Funds								
BAN	Bond anticipation note.....	10/30/13	9/2/14	1.00	\$ -	\$ 3,500,000	\$ -	\$ 3,500,000
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
Subtotal Business-Type Short-Term Debt.....					-	3,400,000	-	3,400,000
Total Short Term Debt.....					\$ -	\$ 6,900,000	\$ -	\$ 6,900,000

At maturity, the \$6.9 million of bond anticipation notes outstanding at year-end were renewed on September 2, 2014 at interest rates ranging from 0.55% to 1.00%.

NOTE 7 – CAPITAL LEASE OBLIGATIONS

In 2014 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:

Asset:	Governmental Activities
Machinery and equipment.....	321,194
Less: accumulated depreciation.....	(32,119)
Total.....	\$ 289,075

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, 2014:

Year Ending June 30,	Governmental Activities
2015.....	\$ 110,840
2016.....	110,840
Total minimum lease payments.....	221,680
Less: amounts representing interest.....	(10,448)
Present value of minimum lease payments.....	<u>\$ 211,232</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, 2014, 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, 2013	Issued	Redeemed	Outstanding at June 30, 2014
Municipal Purpose Bonds of 1997.....	2015	\$ 5,150,000	4.5-5.6%	\$ 600,000	-	\$ 300,000	\$ 300,000
Municipal Purpose Bonds of 2002.....	2014	43,430,000	4.1-5.0%	2,430,000	-	2,430,000	-
Municipal Purpose Bonds of 2004.....	2019	6,000,000	2.5-5.0%	2,400,000	-	400,000	2,000,000
Refunding Bonds of 2004.....	2014	22,605,000	3.0-5.0%	2,275,000	-	2,275,000	-
Municipal Purpose Bonds of 2006.....	2026	9,000,000	3.5-5.0%	6,680,000	-	385,000	6,295,000
Municipal Purpose Bonds of 2007.....	2026	56,355,000	4.0-5.0%	49,265,000	-	2,790,000	46,475,000
Municipal Purpose Bonds of 2008.....	2017	18,000,000	4.0-5.0%	15,650,000	-	750,000	14,900,000
Municipal Purpose Bonds of 2009.....	2029	2,305,460	3.25-5.0%	1,700,000	-	150,000	1,550,000
Deficit Borrowing Note.....	2014	6,000,000	1.50%	6,000,000	-	6,000,000	-
Deficit Borrowing Note.....	2014	2,000,000	1.50%	2,000,000	-	2,000,000	-
Deficit Borrowing Note.....	2014	4,000,000	2.00%	4,000,000	-	4,000,000	-
Deficit Borrowing Note.....	2014	6,000,000	1.50%	6,000,000	-	6,000,000	-
Deficit Borrowing Note.....	2014	7,147,450	1.50%	7,147,450	-	7,147,450	-
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	7,147,450	1.00%	-	6,002,450	-	6,002,450
Total governmental bonds payable.....				106,147,450	24,002,450	34,627,450	95,522,450
Add: unamortized premium.....				423,486	-	40,627	382,859
Total governmental bonds payable, net.....				<u>\$ 106,570,936</u>	<u>\$ 24,002,450</u>	<u>\$ 34,668,077</u>	<u>\$ 95,905,309</u>

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

Year	Principal	Interest	Total
2015.....	\$ 31,707,450	\$ 3,719,169	\$ 35,426,619
2016.....	7,605,000	3,125,620	10,730,620
2017.....	7,870,000	2,773,496	10,643,496
2018.....	8,525,000	2,381,496	10,906,496
2019.....	8,850,000	1,956,746	10,806,746
2020.....	8,535,000	1,505,246	10,040,246
2021.....	8,895,000	1,089,494	9,984,494
2022.....	2,245,000	649,856	2,894,856
2023.....	2,320,000	542,244	2,862,244
2024.....	2,370,000	432,062	2,802,062
2024.....	2,420,000	319,450	2,739,450
2025.....	2,480,000	203,562	2,683,562
2027.....	1,500,000	84,800	1,584,800
2028.....	100,000	9,950	109,950
2029.....	100,000	5,000	105,000
Total.....	<u>\$ 95,522,450</u>	<u>\$ 18,798,191</u>	<u>\$ 114,320,641</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 2014, \$7,000,688 of such assistance was received. Approximately \$38,655,000 will be received in future years. Of this amount, approximately \$11,891,000 represents reimbursement of long-term interest costs, and \$26,764,000 represents reimbursement of approved construction costs. Accordingly, a \$26,764,000 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	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2013	Issued	Redeemed	Outstanding at June 30, 2014
MCWT.....	2021	\$ 5,026,590	0.00	\$ 2,845,000	\$ -	\$ 315,000	\$ 2,530,000
MCWT.....	2021	2,542,842	0.00	1,440,000	-	160,000	1,280,000
MCWT.....	2021	2,061,349	0.00	1,170,000	-	130,000	1,040,000
MCWT.....	2026	12,000,000	2.00	8,367,876	-	569,298	7,798,578
MCWT.....	2027	3,488,382	2.00	2,588,492	-	161,826	2,426,666
MCWT.....	2025	10,439,485	2.00	7,635,263	-	519,702	7,115,561
MCWT.....	2029	4,745,804	2.00	547,045	-	29,303	517,742
MCWT.....	2031	1,887,908	2.00	1,596,482	-	74,511	1,521,971
MCWT.....	2029	3,733,006	2.00	3,733,006	-	197,595	3,535,411
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
Total water and sewer bonds payable....				<u>\$ 29,923,164</u>	<u>\$ 20,162,700</u>	<u>\$ 2,157,235</u>	<u>\$ 47,928,629</u>

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

Year	Principal	Interest	Total
2015.....	\$ 2,658,261	\$ 1,109,088	\$ 3,767,349
2016.....	3,095,521	1,129,098	4,224,619
2017.....	3,180,487	1,093,700	4,274,187
2018.....	3,276,291	985,884	4,262,175
2019.....	3,362,958	879,208	4,242,166
2020.....	3,455,499	773,427	4,228,926
2021.....	3,533,938	661,491	4,195,429
2022.....	2,848,293	565,394	3,413,687
2023.....	2,918,577	486,704	3,405,281
2024.....	2,989,818	405,856	3,395,674
2025.....	3,052,033	323,072	3,375,105
2026.....	2,340,242	257,970	2,598,212
2027.....	1,651,120	218,275	1,869,395
2028.....	1,472,346	187,273	1,659,619
2029.....	1,504,121	157,738	1,661,859
2030.....	1,217,505	130,758	1,348,263
2031.....	1,243,796	106,389	1,350,185
2032.....	1,164,097	82,556	1,246,653
2033.....	1,189,397	59,274	1,248,671
2034.....	1,215,248	35,488	1,250,736
2035.....	559,081	11,182	570,263
Total.....	\$ <u>47,928,629</u>	\$ <u>9,659,825</u>	\$ <u>57,588,454</u>

The City is scheduled to be subsidized by the Massachusetts Clean Water Trust (MCWT) on a periodic basis for principal in the amount of \$1,651,158 and interest costs for \$1,723,568. Thus, net MCWT loan repayments, including interest, are scheduled to be \$29,589,207. 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 2014 principal and interest subsidies totaled approximately \$190,000 and \$336,000, respectively.

Authorized and Unissued Debt

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2014, 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, 2014, the following changes occurred in long-term liabilities:

Governmental Activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and notes payable.....	\$ 106,147,450	\$ 24,002,450	\$ (34,627,450)	\$ 95,522,450	\$ 31,707,450
Add: unamortized premium.....	423,486	-	(40,627)	382,859	40,627
Total bonds payable.....	106,570,936	24,002,450	(34,668,077)	95,905,309	31,748,077
Compensated absences.....	18,194,000	7,030,000	(5,960,000)	19,264,000	6,230,000
Other postemployment benefits.....	116,015,000	29,570,376	(10,009,000)	135,576,376	-
Total governmental activity long-term liabilities.....	<u>\$ 240,779,936</u>	<u>\$ 60,602,826</u>	<u>\$ (50,637,077)</u>	<u>\$ 250,745,685</u>	<u>\$ 37,978,077</u>

Business-Type Activities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and notes payable.....	\$ 29,923,164	\$ 20,162,700	\$ (2,157,235)	\$ 47,928,629	\$ 2,658,261
Compensated absences.....	248,000	143,000	(159,000)	232,000	190,000
Other postemployment benefits.....	3,687,000	955,982	(319,000)	4,323,982	-
Capital lease obligations.....	-	321,194	(109,962)	211,232	103,912
Total business type activity long-term liabilities.....	<u>\$ 33,858,164</u>	<u>\$ 21,582,876</u>	<u>\$ (2,745,197)</u>	<u>\$ 52,695,843</u>	<u>\$ 2,952,173</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, 2014, the governmental fund balances consisted of the following:

	GOVERNMENTAL FUNDS			
	General	Capital Reserve Fund	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES				
Nonspendable:				
Permanent fund principal.....	\$ -	\$ -	\$ 1,650,578	\$ 1,650,578
Restricted for:				
City revolving funds.....	-	-	782,185	782,185
City federal grant funds.....	-	-	2,038,698	2,038,698
City other funds.....	-	-	1,467,776	1,467,776
School lunch.....	-	-	4,437,134	4,437,134
School other funds.....	-	-	197,767	197,767
Expendable permanent funds.....	-	-	338,328	338,328
Capital Reserve Chp. 58 of the Acts of 2010.....	-	1,287,129	-	1,287,129
Fiscal Stability Chp. 41 of the Acts of 1990.....	3,997,278	-	-	3,997,278
Assigned to:				
General government.....	734,483	-	-	734,483
Public safety.....	95,404	-	-	95,404
Education.....	9,790,599	-	-	9,790,599
Public works.....	308,994	-	-	308,994
Human services.....	2,631	-	-	2,631
Culture and recreation.....	23,056	-	-	23,056
Employee benefits.....	16,011	-	-	16,011
Unassigned.....	11,749,174	-	(2,156,249)	9,592,925
TOTAL FUND BALANCES.....	\$ 26,717,630	\$ 1,287,129	\$ 8,756,217	\$ 36,760,976

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, 2014. At June 30, 2014 there was no liability to report.

NOTE 11 - PENSION PLAN

Plan Description - The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Lawrence Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$21,631,393 for the year ended June 30, 2014, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Lawrence Contributory Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 375 Merrimack Street, Lawrence, Massachusetts, 01852. At December 31, 2013, the System's membership consists of the following:

Active members.....	1,304
Inactive members.....	314
Retirees and beneficiaries currently receiving benefits.....	<u>880</u>
Total.....	<u><u>2,498</u></u>

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding years apportionment of the annual pension cost between the four employers required the City to contribute 90% of the total. Chapter 32 of the MGL governs the contributions of plan members and the City.

Annual Pension Cost - The City's contributions to the System for the years ended June 30, 2014, 2013, and 2012 were \$14,061,432, \$14,220,404, and \$13,769,420, respectively, which equaled its required contribution for each year. At June 30, 2014, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2012 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a 7.75% investment rate of return and projected salary increases of 3.75%.

The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2012, was 25 years.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/12	\$ 132,575,000	\$ 336,057,000	\$ 203,482,000	\$ 39.5%	\$ 55,767,000	364.9%
01/01/10	120,292,000	307,626,000	187,334,000	39.1%	57,831,000	323.9%
01/01/08	139,749,000	285,982,000	146,233,000	48.9%	59,578,000	245.4%
01/01/07	128,728,000	272,947,000	144,219,000	47.2%	59,178,000	243.7%
01/01/04	103,202,000	236,420,000	133,218,000	43.7%	50,355,000	264.6%
01/01/03	86,299,000	222,640,000	136,341,000	38.8%	53,621,000	254.3%
01/01/00	107,953,000	183,229,000	75,276,000	58.9%	46,092,000	163.3%

Non-contributory Retirement Allowance – City employees with military veteran status and at least 30 years of service to the City, who began work prior to July 1, 1939, and others meeting eligibility criteria are entitled to a non-contributory pension benefit equal to 72% of their highest rate of pay. Employees covered by this section of the plan are not included in the actuarial valuation and there is no available estimate of the related actuarial liability. The City funds these benefits from an annual general fund appropriation. The general fund expenditure for 2014 was \$94,156.

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.....	\$	30,066,487
Interest on existing net OPEB obligation.....		4,850,670
Adjustments to annual required contribution.....		<u>(5,134,017)</u>
Annual OPEB cost (expense).....		29,783,140
Contributions made.....		<u>(9,584,782)</u>
Increase/Decrease in net OPEB obligation.....		20,198,358
Net OPEB obligation - beginning of year.....		<u>119,702,000</u>
Net OPEB obligation - end of year.....	\$	<u><u>139,900,358</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 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>
6/30/14	\$	29,783,140	32.2%	\$	139,900,358
6/30/13		26,710,000	38.7%		119,702,000
6/30/12		24,775,000	40.4%		103,320,000

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date, the actuarial liability for benefits was \$333 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, 2012, 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 closed basis. The remaining amortization period at June 30, 2014, was twenty-six years.

NOTE 13 – DUE TO COMMONWEALTH

During 2014 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 14 - CONTINGENCIES

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2014, 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, 2014, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2014.

NOTE 15 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2014, the following GASB pronouncements were implemented:

- GASB Statement #65, *Items Previously Reported as Assets and Liabilities*. Financial statement changes include deferred outflows and inflows being presented in the Statement of Net Position. Notes to the basic financial statements were changed to provide additional disclosure on deferred outflows of resources and deferred inflows of resources.
- GASB Statement #67, *Financial Reporting for Pension Plans*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future years:

- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions*, which is required to be implemented in 2015.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in 2015.
- The GASB issued Statement #71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which is required to be implemented simultaneously with GASB Statement #68 in 2015.

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

NOTE 16 – 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
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2014

	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.....	\$ -	\$ 56,958,736	\$ 56,958,736	\$ 56,958,736
Tax liens.....	-	-	-	-
Motor vehicle and other excise taxes.....	-	4,310,000	4,310,000	4,310,000
Penalties and interest on taxes.....	-	1,110,000	1,110,000	1,110,000
Payments in lieu of taxes.....	-	575,000	575,000	575,000
Licenses and permits.....	-	1,072,500	1,072,500	1,072,500
Fines and forfeitures.....	-	920,000	920,000	920,000
Intergovernmental.....	-	188,124,892	188,124,892	188,124,892
Departmental and other.....	-	1,406,500	1,406,500	1,406,500
Investment income.....	-	165,000	165,000	165,000
TOTAL REVENUES.....	-	254,642,628	254,642,628	254,642,628
EXPENDITURES:				
Current:				
General government.....	497,995	6,119,755	6,617,750	7,301,622
Public safety.....	248,928	23,933,579	24,182,507	24,210,905
Education.....	13,213,639	169,300,635	182,514,274	182,514,274
Public works.....	301,675	9,312,915	9,614,590	11,189,853
Human services.....	4,316	1,180,668	1,184,984	1,257,583
Culture and recreation.....	16,210	1,117,917	1,134,127	1,142,997
Pension benefits.....	-	13,247,206	13,247,206	13,631,364
Employee benefits.....	87,021	14,682,910	14,769,931	14,723,905
State and county charges.....	-	1,046,807	1,046,807	1,047,421
Debt service:				
Principal.....	-	10,625,000	10,625,000	10,625,000
Interest.....	-	4,167,728	4,167,728	4,143,991
TOTAL EXPENDITURES.....	14,369,784	254,735,120	269,104,904	271,788,915
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(14,369,784)	(92,492)	(14,462,276)	(17,146,287)
OTHER FINANCING SOURCES (USES):				
Premium from issuance of bonds.....	-	-	-	-
Transfers.....	-	342,000	342,000	342,000
Transfers out.....	-	(249,508)	(249,508)	(1,423,393)
TOTAL OTHER FINANCING SOURCES (USES).....	-	92,492	92,492	(1,081,393)
NET CHANGE IN FUND BALANCE.....	(14,369,784)	-	(14,369,784)	(18,227,680)
BUDGETARY FUND BALANCE, Beginning of year.....	26,399,157	26,399,157	26,399,157	26,399,157
BUDGETARY FUND BALANCE, End of year.....	\$ 12,029,373	\$ 26,399,157	\$ 12,029,373	\$ 8,171,477

See notes to required supplementary information.

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance Over/(Under)
\$ 55,983,214	\$ -	\$ (975,522)
1,580,298	-	1,580,298
4,993,248	-	683,248
1,032,055	-	(77,945)
540,784	-	(34,216)
1,421,937	-	349,437
1,037,174	-	117,174
190,627,841	-	2,502,949
1,750,077	-	343,577
205,530	-	40,530
<u>259,172,158</u>	<u>-</u>	<u>4,529,530</u>
6,006,115	734,483	561,024
23,889,927	95,404	225,574
171,672,914	9,790,599	1,050,761
10,423,852	308,994	457,007
1,245,428	2,631	9,524
1,038,733	23,056	81,208
13,544,471	-	86,893
14,419,395	16,011	288,499
1,128,856	-	(81,435)
10,625,000	-	-
4,143,991	-	-
<u>258,138,682</u>	<u>10,971,178</u>	<u>2,679,055</u>
<u>1,033,476</u>	<u>(10,971,178)</u>	<u>7,208,585</u>
60,675	-	60,675
342,000	-	-
(1,381,344)	-	42,049
<u>(978,669)</u>	<u>-</u>	<u>102,724</u>
54,807	(10,971,178)	7,311,309
<u>26,399,157</u>	<u>-</u>	<u>-</u>
<u>\$ 26,453,964</u>	<u>\$ (10,971,178)</u>	<u>\$ 7,311,309</u>

Retirement System Schedules of Funding Progress and Employer Contributions

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

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

LAWRENCE CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/2012	\$ 132,575	\$ 336,057	\$ 203,482	39.5%	\$ 55,767	364.9%
1/1/2010	120,292	307,626	187,334	39.1%	57,831	323.9%
1/1/2008	139,749	285,982	146,233	48.9%	59,578	245.4%

See notes to required supplementary information.

LAWRENCE CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	System Wide			City of Lawrence	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) City's Percentage of System Wide Actual Contributions
2014	\$ 16,969,496	\$ 16,969,496	100%	\$ 15,289,596	90.10%
2013	15,849,195	15,849,195	100%	14,220,404	89.72%
2012	15,415,745	15,415,745	100%	14,220,404	92.25%
2011	15,001,555	15,001,555	100%	13,612,815	90.74%

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

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, 2014

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2012	\$ -	\$ 333,043,929	\$ 333,043,929	0%	\$ N/A	N/A
7/1/2010	-	289,139,000	289,139,000	0%	N/A	N/A
7/1/2008	-	323,977,000	323,977,000	0%	N/A	N/A

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2014	\$ 30,066,487	\$ 9,584,782	32%
6/30/2013	26,710,000	10,328,000	39%
6/30/2012	24,775,000	10,005,000	40%
6/30/2011	22,819,000	9,426,000	41%
6/30/2010	32,750,666	8,650,000	26%
6/30/2009	33,661,000	7,843,000	23%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

YEAR ENDED JUNE 30, 2014

Actuarial Methods:

Valuation date.....	July 1, 2012
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Amortization payments increasing at 3.45%
Remaining amortization period.....	30 years as of July 1, 2012

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...	1,243
Current active members.....	<u>1,926</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 2014 approved budget authorizing approximately \$255 million in current year appropriations, other financing uses, and other amounts to be raised and approximately \$14.4 million in encumbrances and appropriations carried over from previous years. During 2014, the Council approved supplemental appropriations totaling \$3.9 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, 2014, is presented below:

Net change in fund balance - budgetary basis.....	\$	54,807
<u>Basis of accounting differences:</u>		
Net change in recording 60-day receipts accrual.....		3,666
Increase in revenues due to on-behalf payments.....		21,631,393
Increase in expenditures due to on-behalf payments.....		<u>(21,631,393)</u>
Net change in fund balance - GAAP basis.....	\$	<u>58,473</u>

NOTE B – PENSION PLAN

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

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

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

Valuation Date.....	January 1, 2012
Actuarial Cost Method.....	Individual Entry Age Normal Cost Method
Amortization Method.....	Level percentage of projected payroll
Remaining Amortization Period.....	24 years remaining as of January 1, 2013, open
Asset Valuation Method.....	Market value adjusted by payables and receivables

Actuarial Assumptions:

Investment rate of return.....	7.75%
Projected salary increases.....	3.75%
Cost of living adjustments.....	3.00% of the lesser of the pension amount and \$13,000 per year.

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

The City of 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.