

CITY OF LAWRENCE, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2012

CITY OF LAWRENCE, MASSACHUSETTS

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JUNE 30, 2012

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lawrence, Massachusetts, as of and for the fiscal year ended June 30, 2012 (except for the Lawrence Contributory Retirement System which is as of and for the year ended December 31, 2011), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lawrence, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the City of Lawrence, MA Contributory Retirement System Trust Funds at December 31, 2011 and for the year then ended (a component unit of the City of Lawrence). Those statements and required supplementary information were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the Contributory Retirement System Trust Fund, is based 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our report 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, 2012 (except for the Lawrence Contributory Retirement System which is as of and for the year ended December 31, 2011), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2013, on our consideration of the City of Lawrence, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, located on the following pages, and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the

required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

As discussed in Note 14 to the accompanying financial statements, 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 established a City of Lawrence Fiscal Stability Fund and a Capital Reserve fund. Amounts may be disbursed from this fund under conditions approved by the Commissioner of Revenue. The Act also provides that if the Fiscal Overseer concludes at any time after January 31, 2011 that the City is unable to achieve a balanced budget and fiscal stability, 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.

A handwritten signature in black ink that reads "Powers & Fullen, LLC". The signature is fluid and cursive, with "Powers & Fullen" on the first line and "LLC" on the second line to the right.

January 18, 2013

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 fiscal year ended June 30, 2012. 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 assets* presents information on all assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 fiscal 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 fiscal 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 40 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 operations. Effective July 1, 2012 the City voted to establish a Parking Enterprise Fund.

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. Now that the City has joined the GIC for its health insurance, this fund is anticipated to be closed out in fiscal 2013.

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 property 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 assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$114.5 million at the close of fiscal year 2012, an increase of \$493,000 from the prior year.

Net assets of \$182.8 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 are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, \$18.1 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets has a negative amount of \$86.4 million.

At the end of the current fiscal year the City is able to report positive balances in two of the three categories of net assets for the City as a whole. Unrestricted net assets are negative due primarily to the impact of the recognition of a postemployment liability of \$103.3 million.

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

Governmental Activities

As noted earlier net assets may serve, over time, as a useful indicator of a government's financial position. The assets of governmental activities exceeded liabilities by \$83.0 million at the close of the fiscal year 2012. Components of the City's governmental financial position are listed below.

	FY2012	FY2011
Assets:		
Current assets.....	\$ 54,720,331	\$ 43,786,037
Noncurrent assets (excluding capital).....	33,867,640	38,693,626
Capital assets.....	<u>239,413,699</u>	<u>246,480,223</u>
Total assets.....	<u>328,001,670</u>	<u>328,959,886</u>
Liabilities:		
Current liabilities (excluding debt).....	16,961,849	19,233,021
Noncurrent liabilities (excluding debt).....	111,586,356	97,248,318
Current debt.....	35,432,450	36,217,450
Noncurrent debt.....	81,000,000	90,170,000
Total liabilities.....	<u>244,980,655</u>	<u>242,868,789</u>
Net Assets:		
Capital assets net of related debt.....	164,128,496	162,572,472
Restricted.....	18,114,436	12,306,683
Unrestricted.....	<u>(99,221,917)</u>	<u>(88,788,058)</u>
Total net assets.....	<u>\$ 83,021,015</u>	<u>\$ 86,091,097</u>

A significant portion of the City's governmental activities net assets, \$164.1 million, reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding.

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

An additional portion of the net assets of \$18.1 million represents resources that are subject to external restrictions on how they may be used. The remaining deficit balance of unrestricted net assets in the amount of \$99.2 million is due primarily to the implementation of GASB 45. It indicates that the City does not have enough reserves to meet its ongoing, both short-term and long-term, obligations to citizens and creditors.

Included within the governmental activities assets, unrelated to capital assets, are \$36.4 million in future year school construction reimbursement grants.

Governmental activity liabilities include \$116.4 million in general obligation bonds and \$15.8 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:

	FY2012	FY2011
Program Revenues:		
Charges for services.....	\$ 4,021,809	\$ 4,711,925
Operating grants and contributions.....	223,521,210	211,857,288
Capital grants and contributions.....	<u>1,435,108</u>	<u>1,363,187</u>
Total program revenues.....	<u>228,978,127</u>	<u>217,932,400</u>
General Revenues:		
Real estate and personal property taxes.....	50,179,431	47,811,029
Tax liens.....	516,609	917,665
Motor vehicle and other excise taxes.....	4,440,251	4,267,951
Penalties and interest on taxes.....	985,736	1,201,111
Payments in lieu of taxes.....	502,451	580,891
Grants and contributions not restricted to specific programs.....	19,458,983	13,714,519
Unrestricted investment income.....	232,491	494,239
Gain on sale of capital assets.....	-	59,653
Other.....	<u>58,237</u>	<u>83,452</u>
Total general revenues.....	<u>76,374,189</u>	<u>69,130,510</u>
Transfers, net	<u>300,000</u>	<u>240,000</u>
Expenses:		
General government.....	23,354,837	27,771,304
Public safety.....	36,827,649	35,550,578
Education.....	227,403,879	225,940,924
Public works.....	12,245,449	13,459,502
Human services.....	1,453,480	1,546,522
Culture and recreation.....	1,794,233	1,868,689
Employee benefits.....	606,004	-
Interest.....	<u>5,036,867</u>	<u>5,379,061</u>
Total expenses.....	<u>308,722,398</u>	<u>311,516,580</u>
Change in net assets	<u>\$ (3,070,082)</u>	<u>\$ (24,213,670)</u>

The governmental activities net assets decreased in the current year by \$3.1 million. The reduction in net assets is due to the recognition of an expense of \$10.0 million for its portion of the other postemployment benefit liability that was not funded, offset by a \$6.2 million increase in General Fund carryforwards over the prior year.

Business-Type Activities

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

	FY2012	FY2011
Assets:		
Current assets.....	\$ 19,303,535	\$ 18,126,245
Capital assets.....	47,661,044	46,947,337
Total assets.....	<u>66,964,579</u>	<u>65,073,582</u>
Liabilities:		
Current liabilities (excluding debt).....	993,527	934,451
Noncurrent liabilities (excluding debt).....	2,645,098	2,374,967
Current debt.....	1,903,622	2,034,024
Noncurrent debt.....	29,923,163	31,793,596
Total liabilities.....	<u>35,465,410</u>	<u>37,137,038</u>
Net Assets:		
Capital assets net of related debt.....	18,628,103	17,033,784
Unrestricted.....	<u>12,871,066</u>	<u>10,902,760</u>
Total net assets.....	<u>\$ 31,499,169</u>	<u>\$ 27,936,544</u>
Program Revenues:		
Charges for services.....	\$ 14,897,379	\$ 13,272,315
Operating grants and contributions.....	227,479	-
Total program revenues.....	<u>15,124,858</u>	<u>13,272,315</u>
General Revenues:		
Tax liens.....	1,645,730	2,230,050
Penalties and interest on taxes.....	217,678	222,788
Total general revenues.....	<u>1,863,408</u>	<u>2,452,838</u>
Transfers, net.....	<u>(300,000)</u>	<u>(240,000)</u>
Expenses:		
Water & Sewer.....	13,125,641	12,900,148
Change in net assets.....	<u>\$ 3,562,625</u>	<u>\$ 2,585,005</u>

The Water & Sewer enterprise fund net assets increased by \$3.6 million during the current fiscal year. This change is attributable to an increase in user charge revenue due to the implementation of new meters, as well as the rates being designed to meet principal payments on outstanding long-term debt.

Total business type activities assets exceeded liabilities by \$31.5 million at the close of fiscal year 2012.

Net assets of \$18.6 million reflect the investment in capital assets less any debt used to acquire those assets that are still outstanding. The remaining balance of unrestricted net assets, \$12.9 million, may be used to meet ongoing obligations.

Financial Analysis of the Government's Funds

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

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

As of the end of the fiscal year, governmental funds reported combined ending fund balances of \$37.2 million, an increase of \$14.0 million from the prior year.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund totaled \$8.9 million, while total fund balance totaled \$25.3 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 3.2% of general fund budgetary expenditures while total fund balance represents approximately 9.2%. The general fund increased by \$9.1 million during fiscal 2012. This increase is attributable to appropriation turn backs of \$3.3 million, as well as a \$6.2 million increase in carry forwards over the prior year. These increases in fund balance were offset by a revenue deficit of \$400,000.

General Fund Budgetary Highlights

The change between the original budget of \$239.9 million and the final amended budget of \$241.9 million was due to \$2.0 million in supplemental appropriations for various departments, of which \$1.4 million 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, 2012, amounts to \$239.4 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; and water systems. Additional information on the City's capital assets may be found in Note 4 to the basic financial statements.

The City's investment in capital assets for business type activities as of June 30, 2012 amounts to \$47.7 million, net of accumulated depreciation.

Long-term debt - At June 30, 2012, the City had total governmental bonded debt of \$116.4 million.

The water and sewer enterprise fund has \$31.8 million in long-term debt that is supported by the water rates and future MWPAT principal and interest subsidies totaling \$4.4 million.

Currently the City has \$44 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 established the City of Lawrence Fiscal Stability Fund. The Act also called for the establishment of a Capital Reserve Fund into which, beginning in Fiscal 2012, an amount equal to 1.5% of the amount of property taxes committed for the preceding fiscal year is to be deposited.

The Act also provides that if the Fiscal Overseer concludes at any time after January 31, 2011 that the City is unable to achieve a balanced budget and fiscal stability, 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 is on resolving the long-term financial condition of the City’s 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 ASSETS

JUNE 30, 2012

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 43,234,205	\$ 10,199,682	\$ 53,433,887
Investments.....	668,193	-	668,193
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	2,691,600	-	2,691,600
Water and sewer liens.....	-	488,827	488,827
Motor vehicle and other excise taxes.....	864,963	-	864,963
User fees.....	-	5,821,182	5,821,182
Departmental and other.....	100,255	-	100,255
Special assessments.....	14,770	-	14,770
Intergovernmental.....	6,815,945	2,793,844	9,609,789
Working capital deposit.....	169,900	-	169,900
Deferred loss on refunding.....	160,500	-	160,500
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	31,577,000	-	31,577,000
Loans.....	1,956,140	-	1,956,140
Deferred loss on refunding.....	334,500	-	334,500
Capital assets, not being depreciated.....	6,216,404	948,497	7,164,901
Capital assets, net of accumulated depreciation.....	233,197,295	46,712,547	279,909,842
TOTAL ASSETS.....	<u>328,001,670</u>	<u>66,964,579</u>	<u>394,966,249</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	6,090,803	466,748	6,557,551
Accrued payroll.....	1,291,732	-	1,291,732
Tax refunds payable.....	84,000	-	84,000
Accrued interest.....	1,721,873	381,599	2,103,472
Payroll withholdings.....	1,453,538	-	1,453,538
Other liabilities.....	629,857	147	630,004
Customer deposits payable.....	451,412	-	451,412
Compensated absences.....	5,198,007	145,033	5,343,040
Unamortized premium on bonds and notes payable.....	40,627	-	40,627
Bonds payable.....	35,432,450	1,903,622	37,336,072
NONCURRENT:			
Compensated absences.....	10,432,870	55,098	10,487,968
Other postemployment benefits.....	100,730,000	2,590,000	103,320,000
Bonds payable.....	81,000,000	29,923,163	110,923,163
Unamortized premium on bonds and notes payable.....	423,486	-	423,486
TOTAL LIABILITIES.....	<u>244,980,655</u>	<u>35,465,410</u>	<u>280,446,065</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	164,128,496	18,628,103	182,756,599
Restricted for:			
Loans.....	1,956,140	-	1,956,140
Fiscal stability.....	3,893,044	-	3,893,044
Capital reserve.....	1,546,058		1,546,058
Permanent funds:			
Expendable.....	288,237	-	288,237
Nonexpendable.....	1,571,930	-	1,571,930
Other specific purposes.....	8,859,027	-	8,859,027
Unrestricted.....	(99,221,917)	12,871,066	(86,350,851)
TOTAL NET ASSETS.....	<u>\$ 83,021,015</u>	<u>\$ 31,499,169</u>	<u>\$ 114,520,184</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues				Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Primary Government:						
<i>Governmental Activities:</i>						
General government.....	\$ 23,354,837	\$ 647,190	\$ 15,171,120	\$ 13,036	\$ (7,523,491)	
Public safety.....	36,827,649	1,374,485	5,105,109	-	(30,348,055)	
Education.....	227,403,879	429,696	198,972,655	-	(28,001,528)	
Public works.....	12,245,449	1,510,369	1,711,990	1,422,072	(7,601,018)	
Human services.....	1,453,480	-	248,233	-	(1,205,247)	
Culture and recreation.....	1,794,233	60,069	126,415	-	(1,607,749)	
Employee benefits.....	606,004	-	-	-	(606,004)	
Interest.....	5,036,867	-	2,185,688	-	(2,851,179)	
Total Governmental Activities.....	<u>308,722,398</u>	<u>4,021,809</u>	<u>223,521,210</u>	<u>1,435,108</u>	<u>(79,744,271)</u>	
<i>Business-Type Activities:</i>						
Water & Sewer.....	13,125,641	14,897,379	227,479	-	1,999,217	
Total Primary Government.....	<u>\$ 321,848,039</u>	<u>\$ 18,919,188</u>	<u>\$ 223,748,689</u>	<u>\$ 1,435,108</u>	<u>\$ (77,745,054)</u>	

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (79,744,271)	\$ 1,999,217	\$ (77,745,054)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	50,179,431	-	50,179,431
Tax liens.....	516,609	1,645,730	2,162,339
Motor vehicle and other excise taxes.....	4,440,251	-	4,440,251
Penalties and interest on taxes.....	985,736	217,678	1,203,414
Payments in lieu of taxes.....	502,451	-	502,451
Grants and contributions not restricted to specific programs.....	19,458,983	-	19,458,983
Unrestricted investment income.....	232,491	-	232,491
Other.....	58,237	-	58,237
<i>Transfers, net</i>	<u>300,000</u>	<u>(300,000)</u>	<u>-</u>
Total general revenues and transfers.....	<u>76,674,189</u>	<u>1,563,408</u>	<u>78,237,597</u>
Change in net assets.....	(3,070,082)	3,562,625	492,543
<i>Net Assets:</i>			
Beginning of year.....	<u>86,091,097</u>	<u>27,936,544</u>	<u>114,027,641</u>
End of year.....	<u>\$ 83,021,015</u>	<u>\$ 31,499,169</u>	<u>\$ 114,520,184</u>

(Concluded)

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2012

ASSETS	General	Capital Reserve Fund	Nonmajor Governmental Funds		Total Governmental Funds
Cash and cash equivalents.....	\$ 32,910,609	\$ 1,563,858	\$ 8,226,287	\$ 668,193	\$ 42,700,754
Investments.....	-	-			668,193
Receivables, net of uncollectibles:					
Real estate and personal property taxes.....	2,691,600	-	-	-	2,691,600
Motor vehicle and other excise taxes.....	864,963	-	-	-	864,963
Departmental and other.....	1,501	-	22,996		24,497
Special assessments.....	14,770	-	-	-	14,770
Intergovernmental.....	36,391,000	-	2,001,945		38,392,945
Loans.....	-	-	1,956,140		1,956,140
TOTAL ASSETS	\$ 72,874,443	\$ 1,563,858	\$ 12,875,561	\$ 87,313,862	
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ 4,784,393	\$ 17,800	\$ 1,288,610	\$ 6,090,803	
Accrued payroll.....	1,291,732	-	-	-	1,291,732
Tax refunds payable.....	84,000	-	-	-	84,000
Liabilities due depositors.....	-	-	451,412		451,412
Payroll withholdings.....	1,453,538	-	-	-	1,453,538
Other liabilities.....	629,857	-	-	-	629,857
Deferred revenues.....	39,365,832	-	796,266		40,162,098
TOTAL LIABILITIES	47,609,352	17,800	2,536,288	50,163,440	
FUND BALANCES:					
Nonspendable.....	-	-	1,571,930		1,571,930
Restricted.....	3,893,044	1,546,058	8,767,343		14,206,445
Assigned.....	12,514,815	-	-	-	12,514,815
Unassigned.....	8,857,232	-	-	-	8,857,232
TOTAL FUND BALANCES	25,265,091	1,546,058	10,339,273	37,150,422	
TOTAL LIABILITIES AND FUND BALANCES	\$ 72,874,443	\$ 1,563,858	\$ 12,875,561	\$ 87,313,862	

See notes to basic financial statements.

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

JUNE 30, 2012

Total governmental fund balances.....	\$ 37,150,422
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	239,413,699
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....	40,162,098
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....	779,109
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....	(1,721,873)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds and notes payable.....	(116,432,450)
Unamortized premiums on bonds and notes payable.....	(464,113)
Other postemployment benefits liability.....	(100,730,000)
Compensated absences.....	<u>(15,630,877)</u>
Net effect of reporting long-term liabilities.....	(233,257,440)
In the statement of activities, deferred losses are reported for refundings of debt, which are amortized over the shorter of the remaining life of the refunding bonds or refunded bonds. In governmental funds, defeasances of debt are expensed when the refunding bonds are issued.....	<u>495,000</u>
Net assets of governmental activities.....	<u>\$ 83,021,015</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

	General	Capital Reserve Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 51,262,011	\$ -	\$ -	\$ 51,262,011
Tax liens.....	516,609	-	-	516,609
Motor vehicle and other excise taxes.....	3,970,596	-	-	3,970,596
Penalties and interest on taxes.....	985,736	-	-	985,736
Payments in lieu of taxes.....	502,451	-	-	502,451
Licenses and permits.....	1,233,385	-	-	1,233,385
Fines and forfeitures.....	974,714	-	-	974,714
Intergovernmental.....	192,325,012	-	53,402,284	245,727,296
Departmental and other.....	1,196,898	-	4,256,387	5,453,285
Contributions.....	-	-	447,620	447,620
Investment income.....	151,126	-	81,365	232,491
TOTAL REVENUES.....	253,118,538	-	58,187,656	311,306,194
EXPENDITURES:				
Current:				
General government.....	5,592,839	17,800	12,908,701	18,519,340
Public safety.....	21,094,876	-	5,063,605	26,158,481
Education.....	164,105,864	-	33,137,270	197,243,134
Public works.....	8,453,818	-	2,796,771	11,250,589
Human services.....	852,595	-	205,793	1,058,388
Culture and recreation.....	901,798	-	203,977	1,105,775
Pension benefits.....	13,338,535	-	-	13,338,535
Employee benefits.....	12,930,485	-	-	12,930,485
State and county charges.....	1,025,976	-	-	1,025,976
Debt service:				
Principal.....	39,579,900	-	-	39,579,900
Interest.....	5,047,320	-	-	5,047,320
TOTAL EXPENDITURES.....	272,924,006	17,800	54,316,117	327,257,923
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....				
	(19,805,468)	(17,800)	3,871,539	(15,951,729)
OTHER FINANCING SOURCES (USES):				
Proceeds from bonds and notes.....	29,624,900	-	-	29,624,900
Premium from issuance of bonds.....	58,237	-	-	58,237
Transfers in.....	311,800	783,858	324,710	1,420,368
Transfers out.....	(1,092,783)	-	(27,585)	(1,120,368)
TOTAL OTHER FINANCING SOURCES (USES).....	28,902,154	783,858	297,125	29,983,137
NET CHANGE IN FUND BALANCES.....	9,096,686	766,058	4,168,664	14,031,408
FUND BALANCES AT BEGINNING OF YEAR.....	16,168,405	780,000	6,170,609	23,119,014
FUND BALANCES AT END OF YEAR.....	\$ 25,265,091	\$ 1,546,058	\$ 10,339,273	\$ 37,150,422

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**

FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds.....	\$ 14,031,408
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlay.....	1,568,127
Depreciation expense.....	<u>(8,634,651)</u>
Net effect of reporting capital assets.....	(7,066,524)
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred 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 deferred revenue.....</p>	
	(6,012,115)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>	
Proceeds from bonds and notes.....	(29,624,900)
Premium from issuance of bonds.....	(58,237)
Debt service principal payments.....	<u>39,579,900</u>
Net effect of reporting long-term debt.....	9,896,763
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>	
Net change in compensated absences accrual.....	317,776
Net change in other postemployment benefits accrual.....	(14,501,000)
Net change in accrued interest on long-term debt.....	130,326
Amortization of bond premiums.....	98,864
Amortization of deferred charge on refunding.....	<u>(160,500)</u>
Net effect of recording long-term liabilities and amortizing deferred losses.....	(14,114,534)
<p>Internal service funds are used by management to account for health insurance and workers' compensation activities.</p>	
The net activity of internal service funds is reported with Governmental Activities.....	<u>194,920</u>
Change in net assets of governmental activities.....	<u>\$ (3,070,082)</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2012

	Water & Sewer Enterprise	Governmental Activities - Internal Service Funds
ASSETS		
CURRENT:		
Cash and cash equivalents.....	\$ 10,199,682	\$ 533,451
Receivables, net of allowance for uncollectibles:		
User fees.....	5,821,182	-
Water and sewer liens.....	488,827	-
Due from Blue Cross Blue Shield.....	-	75,758
Intergovernmental.....	2,793,844	-
Working capital deposit.....	-	169,900
Total current assets.....	<u>19,303,535</u>	<u>779,109</u>
NONCURRENT:		
Capital assets, not being depreciated.....	948,497	-
Capital assets, net of accumulated depreciation.....	<u>46,712,547</u>	<u>-</u>
Total noncurrent assets.....	<u>47,661,044</u>	<u>-</u>
TOTAL ASSETS	<u>66,964,579</u>	<u>779,109</u>
LIABILITIES		
CURRENT:		
Warrants payable.....	466,748	-
Accrued interest.....	381,599	-
Other liabilities.....	147	-
Compensated absences.....	145,033	-
Bonds payable.....	<u>1,903,622</u>	<u>-</u>
Total current liabilities.....	<u>2,897,149</u>	<u>-</u>
NONCURRENT:		
Compensated absences.....	55,098	-
Other postemployment benefits.....	2,590,000	-
Bonds payable.....	<u>29,923,163</u>	<u>-</u>
Total noncurrent liabilities.....	<u>32,568,261</u>	<u>-</u>
TOTAL LIABILITIES	<u>35,465,410</u>	<u>-</u>
NET ASSETS		
Invested in capital assets, net of related debt.....	15,834,259	-
Unrestricted.....	<u>15,664,910</u>	<u>779,109</u>
TOTAL NET ASSETS	<u>\$ 31,499,169</u>	<u>\$ 779,109</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2012

	Water & Sewer Enterprise	Governmental Activities - Internal Service Funds
OPERATING REVENUES:		
Employer and employee contributions	\$ -	\$ 2,702,909
Charges for services	14,897,379	-
Utility liens.....	1,645,730	-
Penalties and interest.....	217,678	-
Intergovernmental.....	<u>227,479</u>	-
 TOTAL OPERATING REVENUES	 <u>16,988,266</u>	 <u>2,702,909</u>
OPERATING EXPENSES:		
Cost of services and administration	11,268,994	-
Intergovernmental assessments.....	18,362	-
Depreciation.....	899,182	-
Employee benefits	<u>357,717</u>	<u>2,507,989</u>
 TOTAL OPERATING EXPENSES	 <u>12,544,255</u>	 <u>2,507,989</u>
 OPERATING INCOME.....	 <u>4,444,011</u>	 <u>194,920</u>
NONOPERATING REVENUES (EXPENSES):		
Interest expense.....	<u>(581,386)</u>	-
 INCOME (LOSS) BEFORE TRANSFERS.....	 <u>3,862,625</u>	 <u>194,920</u>
TRANSFERS:		
Transfers out.....	<u>(300,000)</u>	-
 CHANGE IN NET ASSETS.....	 <u>3,562,625</u>	 <u>194,920</u>
 NET ASSETS AT BEGINNING OF YEAR.....	 <u>27,936,544</u>	 <u>584,189</u>
 NET ASSETS AT END OF YEAR.....	 <u>\$ 31,499,169</u>	 <u>\$ 779,109</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2012

	Water & Sewer Enterprise	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users.....	\$ 16,491,109	\$ 2,627,151
Payments to other governments.....	(18,362)	-
Payments to vendors.....	(10,864,496)	(2,508,437)
Payments for interfund services used.....	(357,717)	-
 NET CASH FROM OPERATING ACTIVITIES.....	 5,250,534	 118,714
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers out.....	(300,000)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the issuance of bonds and notes.....	3,733,006	-
Acquisition and construction of capital assets.....	(1,612,889)	-
Principal payments on bonds and notes.....	(5,733,841)	-
Interest expense.....	(656,677)	-
Intergovernmental revenue.....	1,120,223	-
 NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	 (3,150,178)	 -
 NET CHANGE IN CASH AND CASH EQUIVALENTS.....	 1,800,356	 118,714
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	 8,399,326	 -
 CASH AND CASH EQUIVALENTS AT END OF YEAR.....	 \$ 10,199,682	 \$ 118,714
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:		
Operating income (loss).....	\$ 4,444,011	\$ 194,920
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation.....	899,182	-
Changes in assets and liabilities:		
User fees.....	(584,883)	-
Water and sewer liens.....	87,726	-
Due from Blue Cross Blue Shield.....	-	(75,758)
Warrants payable.....	140,794	(448)
Accrued compensated absences.....	(5,296)	-
Other postemployment benefits.....	269,000	-
 Total adjustments.....	 806,523	 (76,206)
 NET CASH FROM OPERATING ACTIVITIES.....	 \$ 5,250,534	 \$ 118,714

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Pension Trust Fund (as of December 31, 2011)	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 5,335,678	\$ 585,904	\$ 301,109
Investments.....	126,570,231	-	-
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	1,333,800	-	-
Prepaid expenses.....	6,617	-	-
TOTAL ASSETS	133,246,326	585,904	301,109
LIABILITIES			
Warrants payable.....	671,579	-	33,830
Liabilities due depositors.....	-	-	267,279
TOTAL LIABILITIES	671,579	-	301,109
NET ASSETS			
Held in trust for pension benefits and other purposes.....	\$ 132,574,747	\$ 585,904	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2012

	Pension Trust Fund (as of December 31, 2011)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 15,425,745	\$ -
Employee.....	5,300,640	-
Private donations.....	-	49
Total contributions.....	<u>20,726,385</u>	<u>49</u>
Net investment income (loss):		
Net change in fair value of investments.....	(3,385,850)	-
Interest.....	<u>3,905,052</u>	<u>2,143</u>
Total investment income (loss).....	519,202	2,143
Less: investment expense.....	<u>(1,015,347)</u>	<u>-</u>
Net investment income (loss).....	<u>(496,145)</u>	<u>2,143</u>
Intergovernmental.....	<u>1,213,694</u>	<u>-</u>
Transfers from other systems.....	<u>642,930</u>	<u>-</u>
TOTAL ADDITIONS.....	<u>22,086,864</u>	<u>2,192</u>
DEDUCTIONS:		
Transfers to other systems.....	1,399,866	-
Retirement benefits and refunds.....	21,599,365	-
Educational scholarships.....	-	1,917
TOTAL DEDUCTIONS.....	<u>22,999,231</u>	<u>1,917</u>
CHANGE IN NET ASSETS.....	<u>(912,367)</u>	<u>275</u>
NET ASSETS AT BEGINNING OF YEAR.....	<u>133,487,114</u>	<u>585,629</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 132,574,747</u>	<u>\$ 585,904</u>

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, 599 Canal 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 assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

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

Major Fund Criteria

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

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, 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 Chp. 41* is a fund required to be established under the 2009 Act Providing for the Financial Stability of the City of Lawrence. Effective beginning Fiscal 2012, an amount equal to 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 major proprietary fund reported is the *water and sewer enterprise fund*, which is used to account for water and sewer activities.

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 Assessor's 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:

Capital Asset Type	Estimated Useful Life (in years)
Buildings.....	40
Building Improvements.....	20
Infrastructure.....	30-75
Vehicles.....	5
Office Equipment.....	5
Computer Equipment.....	5

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. 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 assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets 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.

I. 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 assets. 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.

J. Deferred Revenue

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

K. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)*

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

Net assets reported as "invested in capital assets, net of related debt" 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 assets have 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. In 2012, the City received approval from the State to freeze this calculation using the fiscal 2009 amount.

"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.

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.

L. 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 assets. 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.

M. 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).

N. 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.

O. 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.

P. 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.

Q. 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 Short-term Investments". 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 \$54,044,656 and the bank balance totaled \$60,711,380. Of the bank balance, \$10,698,082 was covered by Federal Depository Insurance, \$49,308,316 is collateralized and \$704,982 is uncollateralized and subject to custodial credit risk.

At December 31, 2011, carrying amount of deposits for the System totaled \$5,335,678 and the bank balance totaled \$5,519,012. 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, 2012, the City had the following investments:

Investment Type	Fair Value	Maturity
		Over 10 Years
Debt Securities		
Corporate Bonds.....	\$ 668,193	\$ <u>668,193</u>
Other Investments		
Money Market Mutual Funds.....	238,307	
MMDT.....	<u>37,937</u>	
Total Investments.....	\$ <u>944,437</u>	

As of December 31, 2011, the System had the following investments:

Investment Type	Fair Value
Other Investments	
Pension Reserve Investment Trust (PRIT)	\$ <u>126,570,231</u>

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .08 to 9.69 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, \$668,193 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, 2012, 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>	Fair Value	Ratings					
		A1	A2	A3	BA2	BAA1	BAA2
Corporate Bonds.....	\$ 668,193	\$ 77,100	\$ 73,950	\$ 172,653	\$ 285,490	\$ 32,610	\$ 26,390

The System has not adopted a formal policy related to credit risk. At December 31, 2011 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, 2012 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, 2011 the System's investment in any one issuer did not exceed 5% of the total amount invested.

NOTE 3 - RECEIVABLES

At June 30, 2012, 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.....	\$ 3,315,600	\$ (624,000)	\$ 2,691,600
Motor vehicle and other excise taxes.....	1,823,963	(959,000)	864,963
Departmental and other.....	24,497	-	24,497
Special assessments.....	14,770	-	14,770
Intergovernmental.....	38,392,945	-	38,392,945
Loans.....	1,956,140	-	1,956,140
Total	\$ 45,527,915	\$ (1,583,000)	\$ 43,944,915

At June 30, 2012, receivables for the water and sewer enterprise consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
User fees.....	\$ 5,821,182	\$ -	\$ 5,821,182
Liens.....	488,827	-	488,827
Intergovernmental.....	2,793,844	-	2,793,844
Total	\$ 9,103,853	\$ -	\$ 9,103,853

Governmental funds report *deferred 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 *deferred revenue* reported in the governmental funds were as follows:

<u>Receivable type:</u>	<u>General Fund</u>	<u>Non Major Funds</u>	<u>Total</u>
Real estate and personal property taxes.....	\$ 2,093,598	\$ -	\$ 2,093,598
Motor vehicle and other excise taxes.....	864,963	-	864,963
Departmental and other.....	1,501	22,996	24,497
Special assessments.....	14,770	-	14,770
Intergovernmental.....	36,391,000	773,270	37,164,270
Total.....	\$ 39,365,832	\$ 796,266	\$ 40,162,098

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 6,216,404	\$ -	\$ -	\$ 6,216,404
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	264,140,023	188,354	-	264,328,377
Machinery, Equipment, and Furnishings.....	23,686,794	-	-	23,686,794
Vehicles.....	2,118,932	183,945	-	2,302,877
Infrastructure.....	17,783,741	1,195,828	-	18,979,569
Total capital assets being depreciated.....	307,729,490	1,568,127	-	309,297,617
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(43,553,445)	(6,551,125)	-	(50,104,570)
Machinery, Equipment, and Furnishings.....	(17,917,654)	(1,425,791)	-	(19,343,445)
Vehicles.....	(1,897,232)	(183,246)	-	(2,080,478)
Infrastructure.....	(4,097,340)	(474,489)	-	(4,571,829)
Total accumulated depreciation.....	(67,465,671)	(8,634,651)	-	(76,100,322)
Total capital assets being depreciated, net.....	240,263,819	(7,066,524)	-	233,197,295
Total governmental activities capital assets, net.....	\$ 246,480,223	\$ (7,066,524)	\$ -	\$ 239,413,699

Enterprise Activity	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 9,335	\$ -	\$ -	\$ 9,335
Construction in progress.....	-	939,162	-	939,162
Total capital assets not being depreciated....	<u>9,335</u>	<u>939,162</u>	<u>-</u>	<u>948,497</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	4,656,182	-	-	4,656,182
Machinery, Equipment, and Furnishings.....	778,461	95,711	-	874,172
Vehicles.....	580,540	276,439	-	856,979
Infrastructure.....	<u>53,134,715</u>	<u>301,577</u>	<u>-</u>	<u>53,436,292</u>
Total capital assets being depreciated.....	<u>59,149,898</u>	<u>673,727</u>	<u>-</u>	<u>59,823,625</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(2,255,436)	(89,006)	-	(2,344,442)
Machinery, Equipment, and Furnishings.....	(504,384)	(78,918)	-	(583,302)
Vehicles.....	(453,562)	(45,062)	-	(498,624)
Infrastructure.....	<u>(8,998,514)</u>	<u>(686,196)</u>	<u>-</u>	<u>(9,684,710)</u>
Total accumulated depreciation.....	<u>(12,211,896)</u>	<u>(899,182)</u>	<u>-</u>	<u>(13,111,078)</u>
Total capital assets being depreciated, net.....	<u>46,938,002</u>	<u>(225,455)</u>	<u>-</u>	<u>46,712,547</u>
Total water activities capital assets, net.....	<u>\$ 46,947,337</u>	<u>\$ 713,707</u>	<u>\$ -</u>	<u>\$ 47,661,044</u>

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

Governmental Activities:

General government.....	\$ 1,563,123
Public safety.....	249,203
Education.....	5,744,388
Public works.....	861,630
Human services.....	4,683
Culture and recreation.....	<u>211,624</u>
Total depreciation expense - governmental activities.....	<u>\$ 8,634,651</u>

Business-Type Activities:

Water & sewer.....	<u>\$ 899,182</u>
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NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2012, are summarized as follows:

Operating Transfers Out:	Operating Transfers In:				Total	
	General Fund	Capital Reserve Fund	Nonmajor Governmental Funds	Total		
		Chp. 41				
General Fund.....	\$ -	\$ 783,858	\$ 308,925	\$ 1,092,783	(1)	
Nonmajor Governmental Funds.....	11,800	-	15,785	27,585	(2)	
Water & Sewer Enterprise Fund.....	300,000	-	-	300,000	(3)	
Total.....	\$ 311,800	\$ 783,858	\$ 324,710	\$ 1,420,368		

(1) Budgeted transfers to the Capital Reserve Fund per Chapter 41 of the Acts of 1990. Also, \$308,925 from the General Fund to the City Grant fund for grant matching purposes.

(2) Budgeted transfers of \$11,800 from the Airport Fund for indirect costs, and transfers of \$15,785 between various nonmajor governmental funds.

(3) Budgeted transfer from the Water & Sewer Enterprise fund 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, 2012, the City does not have any outstanding short-term debt.

NOTE 7 - LONG-TERM DEBT

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

Details related to the outstanding indebtedness as of June 30, 2012, 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, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Municipal Purpose Bonds of 1997.....	2015	\$ 5,150,000	4.5-5.6%	\$ 1,200,000	- \$ 300,000	\$ 900,000	
Municipal Purpose Bonds of 2002.....	2021	43,430,000	4.1-5.0%	6,965,000	-	2,215,000	4,750,000
Municipal Purpose Bonds of 2004.....	2018	6,000,000	2.5-5.0%	3,200,000	-	400,000	2,800,000
Refunding Bonds of 2004.....	2014	22,605,000	3.0-5.0%	6,565,000	-	2,100,000	4,465,000
Municipal Purpose Bonds of 2006.....	2026	9,000,000	3.5-5.0%	7,405,000	-	355,000	7,050,000
Municipal Purpose Bonds of 2007.....	2026	56,355,000	4.0-5.0%	54,540,000	-	2,585,000	51,955,000
Municipal Purpose Bonds of 2008.....	2017	18,000,000	4.0-5.0%	17,150,000	-	750,000	16,400,000
Municipal Purpose Bonds of 2009.....	2029	2,305,460	3.25-5.0%	2,000,000	-	150,000	1,850,000
Deficit Borrowing Note.....	2012	6,000,000	1.50%	6,000,000	-	6,000,000	-
Deficit Borrowing Note.....	2012	6,000,000	1.25%	6,000,000	-	6,000,000	-
Deficit Borrowing Note.....	2012	3,362,450	1.50%	3,362,450	-	3,362,450	-
Deficit Borrowing Note.....	2012	6,000,000	1.75%	6,000,000	-	6,000,000	-
Deficit Borrowing Note.....	2012	6,000,000	1.50%	6,000,000	-	6,000,000	-
Deficit Borrowing Note.....	2013	6,000,000	1.50%	-	6,000,000	-	6,000,000
Deficit Borrowing Note.....	2013	6,000,000	1.50%	-	6,000,000	-	6,000,000
Deficit Borrowing Note.....	2012	2,862,450	1.75%	-	2,862,450	2,862,450	-
Deficit Borrowing Note.....	2012	500,000	1.65%	-	500,000	500,000	-
Deficit Borrowing Note.....	2013	6,000,000	2.00%	-	6,000,000	-	6,000,000
Deficit Borrowing Note.....	2013	6,000,000	1.50%	-	4,900,000	-	4,900,000
Deficit Borrowing Note.....	2013	3,362,450	1.50%	-	3,362,450	-	3,362,450
Total governmental bonds payable.....				\$ 126,387,450	\$ 29,624,900	\$ 39,579,900	\$ 116,432,450

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

Fiscal Year	Principal	Interest	Total
2013.....	35,432,450	4,602,939	40,035,389
2014.....	9,480,000	3,880,862	13,360,862
2015.....	7,705,000	3,479,144	11,184,144
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
2025.....	2,420,000	319,450	2,739,450
2026.....	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.....	\$ 116,432,450	\$ 27,041,967	\$ 143,474,417

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 fiscal year 2012, \$7,000,688 of such

assistance was received. Approximately \$52,656,000 will be received in future fiscal years. Of this amount, approximately \$16,265,000 represents reimbursement of long-term interest costs, and \$36,391,000 represents reimbursement of approved construction costs. Accordingly, a \$36,391,000 intergovernmental receivable and corresponding deferred 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, 2011	Issued	Redeemed	Outstanding at June 30, 2012
MWPAT.....	2021	\$ 5,026,590	0.00	\$ 3,445,000	-	\$ 295,000	\$ 3,150,000
MWPAT.....	2021	2,542,842	0.00	1,745,000	-	150,000	1,595,000
MWPAT.....	2021	2,061,349	0.00	1,415,000	-	120,000	1,295,000
MWPAT.....	2026	12,000,000	2.00	8,622,318	-	546,974	8,075,344
MWPAT.....	2027	3,488,382	2.00	9,472,874	-	155,480	9,317,394
MWPAT.....	2025	10,439,485	2.00	2,902,593	-	486,845	2,415,748
MWPAT.....	2029	4,745,804	2.00	4,336,927	-	3,761,160	575,767
MWPAT.....	2031	1,887,908	2.00	1,887,908	-	218,382	1,669,526
MWPAT.....	2029	3,733,006	2.00	-	3,733,006	-	3,733,006
Total enterprise bonds payable.....				\$ 33,827,620	\$ 3,733,006	\$ 5,733,841	\$ 31,826,785

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

Fiscal Year	Principal	Interest	Total
2013.....	1,903,622	984,784	2,888,406
2014.....	2,157,235	960,142	3,117,377
2015.....	2,214,245	880,408	3,094,653
2016.....	2,270,270	803,620	3,073,890
2017.....	2,337,299	715,830	3,053,129
2018.....	2,414,778	624,880	3,039,658
2019.....	2,482,720	535,432	3,018,152
2020.....	2,556,131	447,255	3,003,386
2021.....	2,615,024	353,309	2,968,333
2022.....	1,909,407	275,590	2,184,997
2023.....	1,959,287	215,678	2,174,965
2024.....	2,009,678	154,014	2,163,692
2025.....	2,050,592	90,836	2,141,428
2026.....	1,317,037	45,760	1,362,797
2027.....	605,675	26,533	632,208
2028.....	404,181	16,435	420,616
2029.....	412,740	8,266	421,006
2030.....	102,404	3,114	105,518
2031.....	104,460	1,045	105,505
Total.....	\$ 31,826,785	\$ 7,142,931	\$ 38,969,716

The City is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for principal in the amount of \$2,043,335 and interest costs for \$2,392,017. Thus, net MWPAT loan repayments, including interest, are scheduled to be \$34,534,364. 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 fiscal year 2012 principal and interest subsidies totaled approximately \$189,000 and \$378,000, 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, 2012, the City had the following authorized and unissued debt:

Purpose	Amount
Water.....	\$ 1,089,968
School Construction.....	15,603,000
Deficit Financing.....	<u>27,262,450</u>
 Total.....	 <u>\$ 43,955,418</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2012, the following changes occurred in long-term liabilities:

Governmental Activities:	FY 2011			FY 2012			Current Portion
	Beginning Balance	Additions	Reductions	Ending Balance			
Bonds and notes payable.....	\$ 126,387,450	\$ 29,624,900	\$ (39,579,900)	\$ 116,432,450	\$ 35,432,450		
Compensated absences.....	15,948,653	5,075,672	(5,393,448)	15,630,877	5,198,007		
Other postemployment benefits.....	86,229,000	24,255,000	(9,754,000)	100,730,000	-		
Unamortized premium.....	504,740	-	(40,627)	464,113	40,627		
 Total governmental activity long-term liabilities.....	 <u>\$ 229,069,843</u>	<u>\$ 58,955,572</u>	<u>\$ (54,767,975)</u>	<u>\$ 233,257,440</u>	<u>\$ 40,671,084</u>		

Business-Type Activities:	FY 2011			FY 2012			Current Portion
	Beginning Balance	Additions	Reductions	Ending Balance			
Bonds and notes payable.....	\$ 33,827,620	\$ 3,733,006	\$ (5,733,841)	\$ 31,826,785	\$ 1,903,622		
Compensated absences.....	205,427	146,164	(151,460)	200,131	145,033		
Other postemployment benefits.....	2,321,000	520,000	(251,000)	2,590,000	-		
 Total business type activity long-term liabilities.....	 <u>\$ 36,354,047</u>	<u>\$ 4,399,170</u>	<u>\$ (6,136,301)</u>	<u>\$ 34,616,916</u>	<u>\$ 2,048,655</u>		

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

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

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

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

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

As of June 30, 2012, the governmental fund balances consisted of the following:

GOVERNMENTAL FUNDS					
	General	Capital Reserve Fund Chp.41	Nonmajor Governmental Funds	Total Governmental Funds	
FUND BALANCES					
Nonspendable:					
Permanent fund principal.....	\$ -	\$ -	\$ 1,571,930	\$ 1,571,930	
Restricted for:					
City revolving funds.....	-	-	1,023,424	1,023,424	
City federal grant funds.....	-	-	1,819,065	1,819,065	
City other funds.....	-	-	3,162,676	3,162,676	
School lunch.....	-	-	1,723,985	1,723,985	
School state grant funds.....	-	-	4,359	4,359	
School other funds.....	-	-	329,252	329,252	
City capital projects.....	-	-	416,345	416,345	
Expendable permanent funds.....	-	-	288,237	288,237	
Capital Reserve Chp. 41 of the Acts of 1990.....	-	1,546,058	-	1,546,058	
Fiscal Stability Chp. 41 of the Acts of 1990.....	3,893,044	-	-	3,893,044	
Assigned to:					
General government.....	213,433	-	-	213,433	
Public safety.....	163,586	-	-	163,586	
Education.....	11,857,282	-	-	11,857,282	
Public works.....	243,503	-	-	243,503	
Human services.....	60	-	-	60	
Employee benefits.....	36,951	-	-	36,951	
Unassigned.....	8,857,232	-	-	8,857,232	
TOTAL FUND BALANCES.....	\$ 25,265,091	\$ 1,546,058	\$ 10,339,273	\$ 37,150,422	

NOTE 9 - RISK FINANCING

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

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

Health Insurance - In fiscal year 2011, 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, 2012. At June 30, 2012 there was no liability to report.

NOTE 10 - 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 \$18,712,000 for the fiscal year ended June 30, 2012, 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, 2011, the System's membership consists of the following:

Active members.....	1,388
Inactive members.....	337
Retirees and beneficiaries currently receiving benefits.....	<u>867</u>
 Total.....	 <u>2,592</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 fiscal years apportionment of the annual pension cost between the two employers required the City to contribute 89% 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 fiscal years ended June 30, 2012, 2011, and 2010 were \$13,769,420, \$13,612,815, and \$13,211,184, respectively, which equaled its required contribution for each fiscal year. At June 30, 2012, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2010 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8.00% investment rate of return and projected salary increases of 4.50%. 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 10 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)
01/01/10	\$ 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 fiscal year 2012 was \$163,135.

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

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

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

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

Annual required contribution.....	\$ 28,858,000
Interest on existing net OPEB obligation.....	3,542,000
Adjustments to annual required contribution.....	<u>(7,625,000)</u>
Annual OPEB cost (expense).....	24,775,000
Contributions made.....	<u>(10,005,000)</u>
Increase/Decrease in net OPEB obligation.....	14,770,000
Net OPEB obligation - beginning of year.....	<u>88,550,000</u>
Net OPEB obligation - end of year.....	<u>\$ 103,320,000</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 and prior years is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/12	\$ 24,775,000	40.4%	\$ 103,320,000
6/30/11	22,819,000	41.0%	88,550,000
6/30/10	32,750,666	26.4%	75,156,666
6/30/09	33,661,000	23.3%	51,056,000
6/30/08	32,405,000	22.1%	25,238,000

Funded Status and Funding Progress - As of July 1, 2010, the most recent actuarial valuation date, the actuarial liability for benefits was \$289 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, 2010, 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 8 percent initially, graded to 5 percent over five years. Both rates included a 2.5 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, 2012, was twenty-seven years.

NOTE 12 - 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, 2012, 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, 2012, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2012.

NOTE 13 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2012, the following GASB pronouncements were implemented:

- GASB Statement #64, Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53. The implementation of this pronouncement did not impact the basic financial statements.
- The GASB issued Statement #62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future fiscal years. Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

- The GASB issued Statement #60, Accounting and Financial Reporting for Service Concession Arrangements, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #61, The Financial Reporting Entity: Omnibus, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #65, Items Previously Reported as Assets and Liabilities, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #66, Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #67, Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25, which is required to be implemented in fiscal year 2014.

- The GASB issued Statement #68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27, which is required to be implemented in fiscal year 2015.

NOTE 14 – 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). The Act resulted in a Fiscal Overseer appointed by the Secretary of Administration and Finance (Secretary) who was vested with comprehensive authority over all of the City’s finances, including appropriations, borrowings, transfers of funds, and municipal spending authorizations. The Act established the City of Lawrence Fiscal Stability Fund, into what was deposited deficit borrowings sufficient to maintain and operate the City for fiscal years beginning July 1, 2009, and July 1, 2010. The Act also established the City of Lawrence Capital Reserve Fund which, beginning in Fiscal 2012, an amount equal to 1.5% of the previous year’s property tax commitment is to be deposited annually.

The Act provides that if the Fiscal Overseer concludes at any time after January 31, 2011 that the City is unable to achieve a balanced budget and fiscal stability, 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

FISCAL YEAR ENDED JUNE 30, 2012

		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.....	\$ -	\$ 51,569,602	\$ 51,569,602	\$ 51,569,602	\$ 51,569,602
Tax liens.....	-	4,275,000	4,275,000	4,275,000	4,275,000
Motor vehicle and other excise taxes.....	-	1,188,000	1,188,000	1,188,000	1,188,000
Payments in lieu of taxes.....	-	472,900	472,900	472,900	472,900
Licenses and permits.....	-	1,444,487	1,444,487	1,444,487	1,444,487
Fines and forfeitures.....	-	1,191,000	1,191,000	1,191,000	1,191,000
Intergovernmental.....	-	173,174,058	173,174,058	173,174,058	173,174,058
Departmental and other.....	-	888,894	888,894	888,894	888,894
Investment income.....	-	145,000	145,000	145,000	145,000
TOTAL REVENUES	-	234,348,941	234,348,941	234,348,941	234,348,941
EXPENDITURES:					
Current:					
General government.....	278,053	6,679,536	6,957,589	7,315,188	
Public safety.....	143,741	21,256,813	21,400,554	21,703,491	
Education.....	5,540,113	152,560,879	158,100,992	158,383,200	
Public works.....	168,617	8,361,364	8,529,981	8,708,747	
Human services.....	3,000	962,546	965,546	975,160	
Culture and recreation.....	4,905	984,222	989,127	989,127	
Pension benefits.....	-	13,335,400	13,335,400	13,339,200	
Employee benefits.....	150,336	13,156,638	13,306,974	13,306,974	
State and county charges.....	-	1,053,075	1,053,075	1,053,075	
Debt service:					
Principal.....	-	9,955,000	9,955,000	9,955,000	
Interest.....	-	5,077,320	5,077,320	5,047,510	
TOTAL EXPENDITURES	6,288,765	233,382,793	239,671,558	240,776,672	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(6,288,765)	966,148	(5,322,617)	(6,427,731)	
OTHER FINANCING SOURCES (USES):					
Premium from issuance of bonds.....	-	-	-	-	
Transfers in - other.....	-	311,800	311,800	311,800	
Transfers out - other.....	-	(190,000)	(190,000)	(1,135,858)	
TOTAL OTHER FINANCING SOURCES (USES)	-	121,800	121,800	(824,058)	
NET CHANGE IN FUND BALANCE	(6,288,765)	1,087,948	(5,200,817)	(7,251,789)	
BUDGETARY FUND BALANCE, Beginning of year	16,531,974	16,531,974	16,531,974	16,531,974	
BUDGETARY FUND BALANCE, End of year	\$ 10,243,209	\$ 17,619,922	\$ 11,331,157	\$ 9,280,185	

See notes to required supplementary information.

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance Over/(Under)
\$ 50,803,011	\$ -	\$ (766,591)
516,609	-	516,609
3,970,596	-	(304,404)
985,736	-	(202,264)
502,451	-	29,551
1,233,385	-	(211,102)
974,714	-	(216,286)
173,612,796	-	438,738
1,196,898	-	308,004
151,126	-	6,126
<u>233,947,322</u>	<u>-</u>	<u>(401,619)</u>
5,990,839	213,433	1,110,916
21,120,016	163,586	419,889
145,393,648	11,857,282	1,132,270
8,453,818	243,503	11,426
852,595	60	122,505
901,798	-	87,329
13,338,535	-	665
12,930,485	36,951	339,538
1,025,976	-	27,099
9,955,000	-	-
5,047,320	-	190
<u>225,010,030</u>	<u>12,514,815</u>	<u>3,251,827</u>
<u>8,937,292</u>	<u>(12,514,815)</u>	<u>2,850,208</u>
58,237	-	58,237
311,800	-	-
<u>(1,092,783)</u>	<u>-</u>	<u>43,075</u>
<u>(722,746)</u>	<u>-</u>	<u>101,312</u>
8,214,546	(12,514,815)	2,951,520
<u>16,536,545</u>	<u>-</u>	<u>-</u>
<u>\$ 24,751,091</u>	<u>\$ (12,514,815)</u>	<u>\$ 2,951,520</u>

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, 2012

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)
7/1/2010	\$ -	\$ 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

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
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%
6/30/2008	32,405,000	7,167,000	22%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

FISCAL YEAR ENDED JUNE 30, 2012

Actuarial Methods:

Valuation date.....	July 1, 2010
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Amortization payments increasing at 4.0%
Remaining amortization period.....	28 years as of July 1, 2010

Actuarial Assumptions:

Investment rate of return.....	4.00%, pay-as-you-go scenario
Medical/drug cost trend rate.....	8% grading down to 5% over 5 years

Plan Membership:

Current retirees, beneficiaries, and dependents...	2,389
Current active members.....	<u>1,142</u>
Total.....	<u><u>3,531</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 fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal 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 fiscal year 2012 approved budget authorizing approximately \$239.9 million in current year appropriations, other financing uses, and other amounts to be raised and approximately \$6.3 million in encumbrances and appropriations carried over from previous fiscal years. During fiscal year 2012, the Council approved supplemental appropriations totaling approximately \$2 million.

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 fiscal year ended June 30, 2012, is presented below:

Net change in fund balance - budgetary basis.....	\$ 8,214,546
<u>Basis of accounting differences:</u>	
Net change in recording 60-day receipts accrual.....	468,000
Net change in recording tax refunds payable.....	(9,000)
Net change in expenditures due to unrecorded liabilities.....	423,140
Increase in other financing sources due to deficit borrowing.....	29,624,900
Increase in expenditures due to deficit borrowing.....	(29,624,900)
Increase in revenues due to on-behalf payments.....	18,712,216
Increase in expenditures due to on-behalf payments.....	(18,712,216)
Net change in fund balance - GAAP basis.....	\$ <u>9,096,686</u>

NOTE B – 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.