

CITY OF LAWRENCE, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2011

CITY OF LAWRENCE, MASSACHUSETTS

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JUNE 30, 2011

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Independent Auditors' Report

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

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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, 2011 (except for the Lawrence Contributory Retirement System which is as of and for the year ended December 31, 2010), 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, 2010 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, 2011 (except for the Lawrence Contributory Retirement System which is as of and for the year ended December 31, 2010), 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 February 8, 2012, 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.

Management's discussion and analysis, located on the following pages, and the schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, other postemployment benefit plan schedule of funding progress and, other postemployment benefit plan actuarial methods and assumptions located after the notes to the basic financial statements are not a required part of the basic financial statements

but are supplementary information required by the accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note 15 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 will be 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 establishes a City of Lawrence Fiscal Stability Fund, into which will be deposited up to \$35 million of borrowing, to maintain and operate the City for fiscal years beginning July 1, 2009, and July 1, 2010. 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 & Full - LLC". The signature is fluid and cursive, with "Powers & Full" on the top line and "- LLC" on the bottom line.

February 8, 2012

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, 2011. 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.

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

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

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

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$114 million at the close of fiscal year 2011, a decrease of \$21.6 million from the prior year.

Net assets of \$175.7 million reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that 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, \$12.3 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 \$74.0 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 \$88.6 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 \$86.1 million at the close of the fiscal year 2011. Components of the City's governmental financial position are listed below.

	FY2011	FY2010
Assets:		
Current assets.....	\$ 43,786,037	\$ 45,157,993
Noncurrent assets (excluding capital).....	38,693,626	44,972,953
Capital assets.....	<u>246,480,223</u>	<u>253,145,913</u>
Total assets.....	<u>328,959,886</u>	<u>343,276,859</u>
Liabilities:		
Current liabilities (excluding debt).....	19,233,021	17,663,046
Noncurrent liabilities (excluding debt).....	97,248,318	84,134,046
Current debt.....	36,217,450	32,150,000
Noncurrent debt.....	<u>90,170,000</u>	<u>99,025,000</u>
Total liabilties.....	<u>242,868,789</u>	<u>232,972,092</u>
Net Assets:		
Capital assets net of related debt.....	162,572,472	168,383,895
Restricted.....	12,306,683	19,858,953
Unrestricted.....	<u>(88,788,058)</u>	<u>(77,938,081)</u>
Total net assets.....	<u>\$ 86,091,097</u>	<u>\$ 110,304,767</u>

A significant portion of the City's governmental activities net assets, \$162.6 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 \$12.3 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 \$88.8 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 \$41.2 million in future year school construction reimbursement grants.

Governmental activity liabilities include \$126.4 million in general obligation bonds and \$15.9 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:

	FY2011	FY2010
Program Revenues:		
Charges for services.....	\$ 4,711,925	\$ 4,128,219
Operating grants and contributions.....	194,237,181	193,406,817
Capital grants and contributions.....	<u>1,363,187</u>	<u>4,403,267</u>
Total program revenues.....	<u>200,312,293</u>	<u>201,938,303</u>
General Revenues:		
Real estate and personal property taxes.....	47,811,029	46,001,954
Tax liens.....	917,665	1,429,348
Motor vehicle and other excise taxes.....	4,267,951	3,687,862
Penalties and interest on taxes.....	1,201,111	1,120,991
Payments in lieu of taxes.....	580,891	521,231
Grants and contributions not restricted		
to specific programs.....	31,334,626	36,284,239
Unrestricted investment income.....	494,239	367,143
Gain on sale of capital assets.....	59,653	-
Other.....	<u>83,452</u>	<u>6,715</u>
Total general revenues.....	<u>86,750,617</u>	<u>89,419,483</u>
Transfers, net	<u>240,000</u>	<u>(627,053)</u>
Expenses:		
General government.....	27,771,304	30,228,922
Public safety.....	35,550,578	41,999,969
Education.....	225,940,924	234,784,595
Public works.....	13,459,502	15,391,086
Human services.....	1,546,522	1,715,689
Culture and recreation.....	1,868,689	2,417,122
Interest.....	<u>5,379,061</u>	<u>5,398,050</u>
Total expenses.....	<u>311,516,580</u>	<u>331,935,434</u>
Change in net assets	<u>\$ (24,213,670)</u>	<u>\$ (41,204,701)</u>

The governmental activities net assets decreased in the current year by \$24.2 million. The reduction in net assets is due primarily to the recognition of an expense of \$13.0 million for its portion of the other postemployment benefit liability that was not funded. The decrease is also due to the City issuing \$3.4 million in new deficit bonds, as well as the use of \$6.8 million of reserves to fund current year operating budget.

Business-Type Activities

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

	FY2011	FY2010
Assets:		
Current assets.....	\$ 18,126,245	\$ 18,675,158
Capital assets.....	<u>46,947,337</u>	<u>46,029,296</u>
Total assets.....	<u>65,073,582</u>	<u>64,704,454</u>
Liabilities:		
Current liabilities (excluding debt).....	934,451	1,593,462
Noncurrent liabilities (excluding debt).....	2,374,967	2,027,702
Current debt.....	2,034,024	1,981,675
Noncurrent debt.....	<u>31,793,596</u>	<u>33,750,076</u>
Total liabilities.....	<u>37,137,038</u>	<u>39,352,915</u>
Net Assets:		
Capital assets net of related debt.....	13,119,717	10,297,545
Unrestricted.....	<u>14,816,827</u>	<u>15,053,994</u>
Total net assets.....	<u>\$ 27,936,544</u>	<u>\$ 25,351,539</u>
Program Revenues:		
Charges for services.....	\$ 13,272,315	\$ 15,007,554
Operating grants and contributions.....	- 645,665	
Total program revenues.....	<u>13,272,315</u>	<u>15,653,219</u>
General Revenues:		
Tax liens.....	2,230,050	1,755,296
Penalties and interest on taxes.....	222,788	359,219
Total general revenues.....	<u>2,452,838</u>	<u>2,114,515</u>
Transfers, net	<u>(240,000)</u>	<u>627,053</u>
Expenses:		
Water & Sewer.....	12,900,148	15,197,379
Change in net assets	<u>\$ 2,585,005</u>	<u>\$ 3,197,408</u>

The Water & Sewer enterprise fund net assets increased by \$2.6 million during the current fiscal year. Most of the change is attributable to rates designed to reflect the cost of providing services and increased consumption.

Total business type activities assets exceeded liabilities by \$27.9 million at the close of fiscal year 2011.

Net assets of \$13.1 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 of \$14.8 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.

Fiscal year 2011 was the City's initial year of implementation of GASB #54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The implementation of this standard has changed the fund balance components into nonspendable, restricted, committed, assigned and unassigned. Additionally, under the new standard, the City's stabilization fund is reported within the general fund as unassigned.

As of the end of the fiscal year, governmental funds reported combined ending fund balances of \$23.1 million, a decrease of \$4.0 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 equaled \$6.0 million, while total fund balance equaled \$16.2 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents about 2.2% of general fund budgetary expenditures while total fund balance represents about 5.9%. The general fund decreased by \$583,000 during fiscal 2011. This is better than anticipated as revenues came in \$1.6 million (0.7%) higher than budgeted, and expenditure turn backs equaled \$1.9 million or 0.8% of budget

General Fund Budgetary Highlights

The difference between the original budget of \$233 million and the final amended budget of \$235.7 million was due to \$1.5 million in additional transfers to capital project and special revenue funds, \$826,000 additions to various salary line items, as well as an additional \$540,000 for Public Works line items.

Effective November 1, 2010, the City changed its health insurance coverage to the Commonwealth's Group Insurance Commission.

Capital Asset and Debt Administration

Capital Assets - The City's investment in capital assets for governmental activities as of June 30, 2011, amounts to \$246.5 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, 2011 amounts to \$46.9 million, net of accumulated depreciation. The investment in capital assets for the business type activities predominately relates to water and sewer infrastructure.

Long-term debt - At June 30, 2011, the City had total governmental bonded debt of \$126.4 million. The City reissued \$24 million of deficit bonds that came due in fiscal year 2011, as well as issued \$3.4 million of additional deficit bonds during fiscal year 2011.

The water enterprise fund has \$33.8 million in long-term debt that is supported by the water rates and future MWPAT principal and interest subsidies totaling \$5.0 million.

Currently the City has \$45.1 million in authorized and unissued long-term debt relating to future projects.

Fiscal Overseer

The City has been experiencing serious financial stress over the last several years and, by the end of FY2009, faced a financial crisis. Accordingly, it was determined that the City needed the Commonwealth to provide short and long-term financial resources in order to obtain fiscal stability.

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 will be 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 establishes a the City of Lawrence Fiscal Stability Fund, into what will be deposited up to \$35 million of borrowing, to maintain and operate the City for fiscal years beginning July 1, 2009, and July 1, 2010. Amounts may be disbursed from this fund under conditions approved by the Commissioner of Revenue.

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.

Financial Condition

The current focus on resolving the deteriorating financial condition is with the City's General Fund and Health Insurance Internal Service 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.

As previously noted, the City has issued \$27.4 million in State Qualified Deficit Notes. The proceeds from these notes were used to begin establishing long-term stability and to meet short-term budget issues in fiscal 2010 and fiscal 2011.

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

STATEMENT OF NET ASSETS

JUNE 30, 2011

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 31,685,132	\$ 8,399,326	\$ 40,084,458
Investments.....	595,059	-	595,059
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	3,306,181	-	3,306,181
Water and sewer liens.....	-	576,553	576,553
Motor vehicle and other excise taxes.....	845,149	-	845,149
User fees.....	-	5,236,299	5,236,299
Departmental and other.....	702,857	-	702,857
Special assessments.....	14,770	-	14,770
Intergovernmental.....	6,306,489	3,914,067	10,220,556
Working capital deposit.....	169,900	-	169,900
Deferred loss on refunding.....	160,500	-	160,500
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	36,392,000	-	36,392,000
Loans.....	1,806,626	-	1,806,626
Deferred loss on refunding.....	495,000	-	495,000
Capital assets, not being depreciated.....	6,216,404	9,335	6,225,739
Capital assets, net of accumulated depreciation.....	240,263,819	46,938,002	287,201,821
TOTAL ASSETS.....	<u>328,959,886</u>	<u>65,073,582</u>	<u>394,033,468</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	8,766,662	325,954	9,092,616
Accrued payroll.....	1,068,431	-	1,068,431
Tax refunds payable.....	75,000	-	75,000
Accrued interest.....	1,852,199	456,890	2,309,089
Payroll withholdings.....	1,473,770	-	1,473,770
Other liabilities.....	562,884	147	563,031
Compensated absences.....	5,393,448	151,460	5,544,908
Unamortized premium on bonds and notes payable.....	40,627	-	40,627
Bonds payable.....	36,217,450	2,034,024	38,251,474
NONCURRENT:			
Compensated absences.....	10,555,205	53,967	10,609,172
Other postemployment benefits.....	86,229,000	2,321,000	88,550,000
Bonds payable.....	90,170,000	31,793,596	121,963,596
Unamortized premium on bonds and notes payable.....	464,113	-	464,113
TOTAL LIABILITIES.....	<u>242,868,789</u>	<u>37,137,038</u>	<u>280,005,827</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	162,572,472	13,119,717	175,692,189
Restricted for:			
Loans.....	1,806,626	-	1,806,626
Fiscal stability.....	3,893,044	-	3,893,044
Permanent funds:			
Expendable.....	334,912	-	334,912
Nonexpendable.....	1,541,736	-	1,541,736
Other specific purposes.....	4,730,365	-	4,730,365
Unrestricted.....	(88,788,058)	14,816,827	(73,971,231)
TOTAL NET ASSETS.....	<u>\$ 86,091,097</u>	<u>\$ 27,936,544</u>	<u>\$ 114,027,641</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2011

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.....	\$ 27,771,304	\$ 678,352	\$ 12,945,969	\$ 50,018	\$ (14,096,965)	
Public safety.....	35,550,578	1,560,755	3,109,685	-	(30,880,138)	
Education.....	225,940,924	1,007,191	172,846,082	-	(52,087,651)	
Massachusetts School Building Authority.....	-	-	-	27,265	27,265	
Public works.....	13,459,502	1,412,487	2,725,261	1,285,904	(8,035,850)	
Human services.....	1,546,522	-	267,621	-	(1,278,901)	
Culture and recreation.....	1,868,689	53,140	155,875	-	(1,659,674)	
Interest.....	5,379,061	-	2,186,688	-	(3,192,373)	
Total Governmental Activities.....	<u>311,516,580</u>	<u>4,711,925</u>	<u>194,237,181</u>	<u>1,363,187</u>	<u>(111,204,287)</u>	
<i>Business-Type Activities:</i>						
Water & Sewer.....	<u>12,900,148</u>	<u>13,272,315</u>	<u>-</u>	<u>-</u>	<u>372,167</u>	
Total Primary Government.....	<u>\$ 324,416,728</u>	<u>\$ 17,984,240</u>	<u>\$ 194,237,181</u>	<u>\$ 1,363,187</u>	<u>\$ (110,832,120)</u>	

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (111,204,287)	\$ 372,167	\$ (110,832,120)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	47,811,029	-	47,811,029
Tax liens.....	917,665	2,230,050	3,147,715
Motor vehicle and other excise taxes.....	4,267,951	-	4,267,951
Penalties and interest on taxes.....	1,201,111	222,788	1,423,899
Payments in lieu of taxes.....	580,891	-	580,891
Grants and contributions not restricted to specific programs.....	31,334,626	-	31,334,626
Unrestricted investment income.....	494,239	-	494,239
Gain on sale of capital assets.....	59,653	-	59,653
Other.....	83,452	-	83,452
<i>Transfers, net</i>	240,000	(240,000)	-
Total general revenues and transfers.....	86,990,617	2,212,838	89,203,455
Change in net assets.....	(24,213,670)	2,585,005	(21,628,665)
<i>Net Assets:</i>			
Beginning of year (as restated).....	110,304,767	25,351,539	135,656,306
End of year.....	\$ 86,091,097	\$ 27,936,544	\$ 114,027,641

(Concluded)

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2011

ASSETS	General	Nonmajor	Total
		Governmental	Governmental
Cash and cash equivalents.....	\$ 25,330,987	\$ 6,354,145	\$ 31,685,132
Investments.....	-	595,059	595,059
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	3,306,181	-	3,306,181
Motor vehicle and other excise taxes.....	845,149	-	845,149
Departmental and other.....	2,013	19,082	21,095
Special assessments.....	14,770	-	14,770
Intergovernmental.....	41,206,000	1,492,489	42,698,489
Loans.....	-	1,806,626	1,806,626
Due from other funds.....	267,025	-	267,025
TOTAL ASSETS	\$ 70,972,125	\$ 10,267,401	\$ 81,239,526
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 6,379,525	\$ 2,386,689	\$ 8,766,214
Accrued payroll.....	1,068,431	-	1,068,431
Tax refunds payable.....	75,000	-	75,000
Payroll withholdings.....	1,473,770	-	1,473,770
Other liabilities.....	562,884	-	562,884
Deferred revenues.....	45,244,110	930,103	46,174,213
TOTAL LIABILITIES	54,803,720	3,316,792	58,120,512
FUND BALANCES:			
Nonspendable.....	-	1,541,736	1,541,736
Restricted.....	3,893,044	5,606,041	9,499,085
Assigned.....	6,288,765	-	6,288,765
Unassigned.....	5,986,596	(197,168)	5,789,428
TOTAL FUND BALANCES	16,168,405	6,950,609	23,119,014
TOTAL LIABILITIES AND FUND BALANCES	\$ 70,972,125	\$ 10,267,401	\$ 81,239,526

See notes to basic financial statements.

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

JUNE 30, 2011

Total governmental fund balances.....	\$ 23,119,014
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	246,480,223
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....	46,174,213
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....	(1,852,199)
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.....	(126,387,450)
Unamortized premiums on bonds and notes payable.....	(504,740)
Other postemployment benefits liability.....	(86,229,000)
Compensated absences.....	<u>(15,948,653)</u>
Net effect of reporting long-term liabilities.....	(229,069,843)
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>655,500</u>
Net assets of governmental activities.....	<u>\$ 86,091,097</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Real estate and personal property taxes, net of tax refunds.....	\$ 48,926,846	\$ -	\$ 48,926,846
Tax liens.....	917,665	-	917,665
Motor vehicle and other excise taxes.....	3,876,572	-	3,876,572
Penalties and interest on taxes.....	1,201,111	-	1,201,111
Payments in lieu of taxes.....	580,891	-	580,891
Licenses and permits.....	1,418,844	-	1,418,844
Fines and forfeitures.....	1,055,377	-	1,055,377
Intergovernmental.....	181,145,768	47,622,461	228,768,229
Departmental and other.....	979,615	4,326,830	5,306,445
Contributions.....	-	451,986	451,986
Investment income.....	168,350	325,513	493,863
TOTAL REVENUES.....	240,271,039	52,726,790	292,997,829
EXPENDITURES:			
Current:			
General government.....	5,951,564	17,050,751	23,002,315
Public safety.....	21,482,532	3,027,489	24,510,021
Education.....	158,951,512	33,205,561	192,157,073
Public works.....	9,316,760	3,465,189	12,781,949
Human services.....	880,935	213,050	1,093,985
Culture and recreation.....	953,808	252,735	1,206,543
Pension benefits.....	13,225,274	-	13,225,274
Employee benefits.....	14,351,526	-	14,351,526
State and county charges.....	4,988,822	-	4,988,822
Debt service:			
Principal.....	38,150,000	-	38,150,000
Interest.....	5,261,314	-	5,261,314
TOTAL EXPENDITURES.....	273,514,047	57,214,775	330,728,822
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....			
	(33,243,008)	(4,487,985)	(37,730,993)
OTHER FINANCING SOURCES (USES):			
Proceeds from bonds and notes.....	33,362,450	-	33,362,450
Premium from issuance of bonds.....	83,452	-	83,452
Sale of capital assets.....	-	94,000	94,000
Transfers in.....	932,150	2,588,736	3,520,886
Transfers out.....	(1,718,454)	(1,562,432)	(3,280,886)
TOTAL OTHER FINANCING SOURCES (USES).....	32,659,598	1,120,304	33,779,902
NET CHANGE IN FUND BALANCES.....	(583,410)	(3,367,681)	(3,951,091)
FUND BALANCES AT BEGINNING OF YEAR.....	16,751,815	10,318,290	27,070,105
FUND BALANCES AT END OF YEAR.....	\$ 16,168,405	\$ 6,950,609	\$ 23,119,014

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, 2011

Net change in fund balances - total governmental funds.....	\$ (3,951,091)
<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.....	2,231,501
Depreciation expense.....	<u>(8,862,844)</u>
Net effect of reporting capital assets.....	(6,631,343)
<p>In the Statement of Activities, only the <i>gain</i> on the sale of capital assets is reported, whereas in the governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.....</p>	
	(34,347)
<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>	
	(6,078,400)
<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.....	(33,362,450)
Premium from issuance of bonds.....	(83,452)
Debt service principal payments.....	<u>38,150,000</u>
Net effect of reporting long-term debt.....	4,704,098
<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.....	269,976
Net change in other postemployment benefits accrual.....	(13,042,457)
Net change in accrued interest on long-term debt.....	2,126
Amortization of bond premiums.....	124,079
Amortization of deferred charge on refunding.....	<u>(160,500)</u>
Net effect of recording long-term liabilities and amortizing deferred losses.....	(12,806,776)
<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>584,189</u>
Change in net assets of governmental activities.....	\$ <u>(24,213,670)</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2011

	Water & Sewer Enterprise	Governmental Activities - Internal Service Funds
ASSETS		
CURRENT:		
Cash and cash equivalents.....	\$ 8,399,326	\$ -
Receivables, net of allowance for uncollectibles:		
User fees.....	5,236,299	-
Water and sewer liens.....	576,553	-
Due from Blue Cross Blue Shield.....	-	681,762
Intergovernmental.....	3,914,067	-
Working capital deposit.....	-	169,900
 Total current assets.....	 18,126,245	 851,662
NONCURRENT:		
Capital assets, not being depreciated.....	9,335	-
Capital assets, net of accumulated depreciation.....	46,938,002	-
 Total noncurrent assets.....	 46,947,337	 -
 TOTAL ASSETS.....	 65,073,582	 851,662
LIABILITIES		
CURRENT:		
Warrants payable.....	325,954	448
Accrued interest.....	456,890	-
Other liabilities.....	147	-
Due to other funds.....	-	267,025
Compensated absences.....	151,460	-
Bonds payable.....	2,034,024	-
 Total current liabilities.....	 2,968,475	 267,473
NONCURRENT:		
Compensated absences.....	53,967	-
Other postemployment benefits.....	2,321,000	-
Bonds payable.....	31,793,596	-
 Total noncurrent liabilities.....	 34,168,563	 -
 TOTAL LIABILITIES.....	 37,137,038	 267,473
NET ASSETS		
Invested in capital assets, net of related debt.....	13,119,717	-
Unrestricted.....	14,816,827	584,189
 TOTAL NET ASSETS.....	 \$ 27,936,544	 \$ 584,189

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

	Water & Sewer Enterprise	Governmental Activities - Internal Service Funds
OPERATING REVENUES:		
Employer and employee contributions	\$ -	\$ 16,472,948
Employer contributions	-	-
Charges for services	13,272,315	-
Utility liens.....	2,230,050	-
Penalties and interest.....	222,788	-
 TOTAL OPERATING REVENUES	 15,725,153	 16,472,948
OPERATING EXPENSES:		
Cost of services and administration	11,001,103	-
Intergovernmental assessments.....	20,332	-
Depreciation.....	871,752	-
Employee benefits	436,473	15,889,135
 TOTAL OPERATING EXPENSES	 12,329,660	 15,889,135
 OPERATING INCOME (LOSS).....	 3,395,493	 583,813
NONOPERATING REVENUES (EXPENSES):		
Investment income.....	-	376
Interest expense.....	(570,488)	-
 TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	 (570,488)	 376
 INCOME (LOSS) BEFORE TRANSFERS.....	 2,825,005	 584,189
TRANSFERS:		
Transfers out.....	(240,000)	-
 CHANGE IN NET ASSETS.....	 2,585,005	 584,189
 NET ASSETS AT BEGINNING OF YEAR (AS RESTATED).....	 25,351,539	 -
 NET ASSETS AT END OF YEAR.....	 \$ 27,936,544	 \$ 584,189

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2011

	Water & Sewer Enterprise	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users.....	\$ 17,629,742	\$ 15,791,186
Payments to other governments.....	(20,332)	-
Payments to vendors.....	(11,280,230)	(19,659,790)
Payments for interfund services used.....	(436,473)	-
NET CASH FROM OPERATING ACTIVITIES.....	<u>5,892,707</u>	<u>(3,868,604)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers out.....	(240,000)	-
Advances from other funds.....	-	<u>267,025</u>
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	<u>(240,000)</u>	<u>267,025</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets.....	(1,789,793)	-
Principal payments on bonds and notes.....	(1,904,131)	-
Interest expense.....	(603,107)	-
Intergovernmental revenue.....	1,520,878	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(2,776,153)</u>	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income.....	-	<u>376</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	<u>2,876,554</u>	<u>(3,601,203)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	<u>5,522,772</u>	<u>3,601,203</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 8,399,326</u>	<u>\$ -</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:		
Operating income (loss).....	\$ 3,395,493	\$ 583,813
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation.....	871,752	-
Changes in assets and liabilities:		
User fees.....	610,494	-
Water and sewer liens.....	1,294,095	-
Due from Blue Cross Blue Shield.....	-	(681,762)
Working capital deposit.....	-	(11,100)
Warrants payable.....	(532,087)	(581,935)
Health claims payable.....	-	(3,177,620)
Accrued compensated absences.....	(97,917)	-
Other postemployment benefits.....	350,877	-
Total adjustments.....	<u>2,497,214</u>	<u>(4,452,417)</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 5,892,707</u>	<u>\$ (3,868,604)</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

	Pension Trust Fund (as of December 31, 2010)	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 1,471,086	\$ 585,629	\$ 299,231
Investments.....	132,346,212	-	-
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	316,462	-	-
Prepaid expenses.....	6,300	-	-
TOTAL ASSETS.....	134,140,060	585,629	299,231
LIABILITIES			
Warrants payable.....	652,946	-	36,753
Liabilities due depositors.....	-	-	262,478
TOTAL LIABILITIES.....	652,946	-	299,231
NET ASSETS			
Held in trust for pension benefits and other purposes.....	\$ 133,487,114	\$ 585,629	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2011

	Pension Trust Fund (as of December 31, 2010)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 15,001,555	\$ -
Employee.....	5,355,142	-
Private donations.....	-	872
Total contributions.....	<u>20,356,697</u>	<u>872</u>
Net investment income (loss):		
Net change in fair value of investments.....	11,952,344	-
Interest.....	<u>3,301,138</u>	<u>2,441</u>
Total investment income (loss).....	15,253,482	2,441
Less: investment expense.....	<u>(919,518)</u>	<u>-</u>
Net investment income (loss).....	<u>14,333,964</u>	<u>2,441</u>
Intergovernmental.....	<u>1,222,001</u>	<u>-</u>
Transfers from other systems.....	<u>119,089</u>	<u>-</u>
TOTAL ADDITIONS.....	<u>36,031,751</u>	<u>3,313</u>
DEDUCTIONS:		
Transfers to other systems.....	1,773,655	-
Retirement benefits and refunds.....	21,063,078	-
Educational scholarships.....	<u>-</u>	<u>3,013</u>
TOTAL DEDUCTIONS.....	<u>22,836,733</u>	<u>3,013</u>
CHANGE IN NET ASSETS.....	13,195,018	300
NET ASSETS AT BEGINNING OF YEAR.....	<u>120,292,096</u>	<u>585,329</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 133,487,114</u>	<u>\$ 585,629</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 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 water 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 outstanding parking tickets 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 2011, 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.

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.

R. Prior Period Restatement

During the current fiscal year the City had a new other postemployment benefit actuarial valuation which now made it possible to separately identify the OPEB liability for the Water & Sewer enterprise fund. As a result, \$1,970,123 of beginning net assets previously reported in Governmental funds has now been reported in the Water & Sewer enterprise fund.

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 \$40,656,932 and the bank balance totaled \$47,986,151. Of the bank balance, \$806,454 was covered by Federal Depository Insurance, \$46,497,269 is collateralized and \$682,428 is uncollateralized and subject to custodial credit risk.

At December 31, 2010, carrying amount of deposits for the system totaled \$1,471,086 and the bank balance totaled \$4,047,192. 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, 2011, the City had the following investments:

Investment Type	Fair Value	Maturity Over 10 Years
<u>Debt Securities</u>		
Corporate Bonds.....	\$ 595,059	\$ <u>595,059</u>
Total Debt Securities.....	595,059	<u>595,059</u>
<u>Other Investments</u>		
Money Market Mutual Funds.....	251,053	
MMDT.....	61,333	
Total Investments.....	\$ <u>907,445</u>	

As of December 31, 2010, the System had the following investments:

	Fair Value
Investment Type	
<u>Other Investments</u>	
Pension Reserve Investment Trust (PRIT)	\$ <u>132,346,212</u>

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, \$595,059 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, 2011, all of the City's investments were rated by Moody's Investment Services (Moody's) and/or an equivalent national rating organization and the ratings are presented below using the Moody's rating scale.

<u>Rated Debt Investments</u>	<u>Fair Value</u>	<u>Ratings</u>				
		<u>A2</u>	<u>A3</u>	<u>BA1</u>	<u>BAA1</u>	<u>BAA2</u>
Corporate Bonds.....	\$ <u>595,059</u>	\$ <u>120,870</u>	\$ <u>126,727</u>	\$ <u>33,195</u>	\$ <u>135,600</u>	\$ <u>178,667</u>

The System has not adopted a formal policy related to credit risk. At December 31, 2010 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, 2011 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, 2010 the System's investment in any one issuer did not exceed 5% of the total amount invested.

NOTE 3 - RECEIVABLES

At June 30, 2011, 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:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
Real estate and personal property taxes.....	\$ 3,920,181	\$ (614,000)	\$ 3,306,181
Motor vehicle and other excise taxes.....	1,733,149	(888,000)	845,149
Departmental and other.....	21,095	-	21,095
Special assessments.....	14,770	-	14,770
Intergovernmental.....	42,698,489	-	42,698,489
Loans.....	<u>1,806,626</u>	<u>-</u>	<u>1,806,626</u>
Total	\$ 50,194,310	\$ (1,502,000)	\$ 48,692,310

At June 30, 2011, receivables for the water and sewer enterprise consist of the following:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
User fees.....	\$ 5,236,299	\$ -	\$ 5,236,299
Liens.....	576,553	-	576,553
Intergovernmental.....	<u>3,914,067</u>	<u>-</u>	<u>3,914,067</u>
Total	\$ 9,726,919	\$ -	\$ 9,726,919

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:

	General Fund	Non Major Funds	Total
Receivable type:			
Real estate and personal property taxes.....	\$ 3,176,179	\$ -	\$ 3,176,179
Motor vehicle and other excise taxes.....	845,148	-	845,148
Departmental and other.....	16,783	-	16,783
Intergovernmental.....	<u>41,206,000</u>	<u>930,103</u>	<u>42,136,103</u>
Total.....	\$ 45,244,110	\$ 930,103	\$ 46,174,213

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

Governmental Activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 6,250,751	\$ -	\$ (34,347)	\$ 6,216,404
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	263,663,198	476,825	-	264,140,023
Machinery, Equipment, and Furnishings.....	23,346,348	340,446	-	23,686,794
Vehicles.....	2,049,902	69,030	-	2,118,932
Infrastructure.....	<u>16,438,541</u>	<u>1,345,200</u>	<u>-</u>	<u>17,783,741</u>
Total capital assets being depreciated.....	<u>305,497,989</u>	<u>2,231,501</u>	<u>-</u>	<u>307,729,490</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(37,012,989)	(6,540,456)	-	(43,553,445)
Machinery, Equipment, and Furnishings.....	(16,244,999)	(1,672,655)	-	(17,917,654)
Vehicles.....	(1,675,278)	(221,954)	-	(1,897,232)
Infrastructure.....	<u>(3,669,561)</u>	<u>(427,779)</u>	<u>-</u>	<u>(4,097,340)</u>
Total accumulated depreciation.....	<u>(58,602,827)</u>	<u>(8,862,844)</u>	<u>-</u>	<u>(67,465,671)</u>
Total capital assets being depreciated, net.....	<u>246,895,162</u>	<u>(6,631,343)</u>	<u>-</u>	<u>240,263,819</u>
Total governmental activities capital assets, net.....	<u>\$ 253,145,913</u>	<u>\$ (6,631,343)</u>	<u>\$ (34,347)</u>	<u>\$ 246,480,223</u>

Enterprise Activity	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 9,335	\$ -	\$ -	\$ 9,335
Construction in progress.....	<u>29,419,210</u>	<u>-</u>	<u>(29,419,210)</u>	<u>-</u>
Total capital assets not being depreciated.....	<u>29,428,545</u>	<u>-</u>	<u>(29,419,210)</u>	<u>9,335</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	4,656,182	-	-	4,656,182
Machinery, Equipment, and Furnishings.....	725,086	53,375	-	778,461
Vehicles.....	472,540	108,000	-	580,540
Infrastructure.....	<u>22,087,087</u>	<u>31,047,628</u>	<u>-</u>	<u>53,134,715</u>
Total capital assets being depreciated.....	<u>27,940,895</u>	<u>31,209,003</u>	<u>-</u>	<u>59,149,898</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(2,165,680)	(89,756)	-	(2,255,436)
Machinery, Equipment, and Furnishings.....	(428,658)	(75,726)	-	(504,384)
Vehicles.....	(430,473)	(23,089)	-	(453,562)
Infrastructure.....	<u>(8,315,333)</u>	<u>(683,181)</u>	<u>-</u>	<u>(8,998,514)</u>
Total accumulated depreciation.....	<u>(11,340,144)</u>	<u>(871,752)</u>	<u>-</u>	<u>(12,211,896)</u>
Total capital assets being depreciated, net.....	<u>16,600,751</u>	<u>30,337,251</u>	<u>-</u>	<u>46,938,002</u>
Total water activities capital assets, net.....	<u>\$ 46,029,296</u>	<u>\$ 30,337,251</u>	<u>\$ (29,419,210)</u>	<u>\$ 46,947,337</u>

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

Governmental Activities:

General government.....	\$ 1,739,434
Public safety.....	272,474
Education.....	5,733,720
Public works.....	879,556
Human services.....	4,683
Culture and recreation.....	<u>232,977</u>
Total depreciation expense - governmental activities.....	<u>\$ 8,862,844</u>

Business-Type Activities:

Water & sewer.....	<u>\$ 871,752</u>
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NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2011, are summarized as follows:

Operating Transfers Out:	Operating Transfers In:		
	General Fund	Nonmajor Governmental Funds	
		Total	
General Fund.....	\$ -	\$ 1,718,454	\$ 1,718,454 (1)
Nonmajor Governmental Funds.....	692,150	870,282	1,562,432 (2)
Water & Sewer Enterprise Fund.....	240,000	-	240,000 (3)
Total.....	\$ 932,150	\$ 2,588,736	\$ 3,520,886

- (1) Budgeted transfers to the capital project funds for work to be completed at the Guilmette School and Lawrence High School. Also, \$189,339 from the General Fund to the City Grant fund for grant matching purposes.
- (2) Budgeted transfers of \$451,000 from the Reserve Fund, and \$241,150 from the Planning Fund to reduce debt service costs. Also, transfers of \$870,282 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.

In fiscal 2011 the City issued BANS that have been classified as long-term debt because they meet the criteria of Financial Accounting Standards Board (FASB) Statement No. 6, *Classification of Short-Term Obligations Expected to be Refinanced*. The Deficit Borrowing Notes reported in Note 7 met the criteria of the FASB statement.

As of June 30, 2011, 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".

In previous fiscal years, certain general obligation bonds and enterprise fund bonds were defeased by placing the proceeds of bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2011, \$27,525,000 of bonds outstanding from these advance refundings are considered defeased in relation to the enterprise funds.

Details related to the outstanding indebtedness as of June 30, 2011, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2010	Issued	Redeemed	Outstanding at June 30, 2011
Elementary School Bonds.....	4.00 - 5.00	\$ 2,015,000	-	2,015,000	\$ -
School Construction.....	4.10 - 5.10	9,080,000	-	2,115,000	6,965,000
New High School Loan.....	4.00 - 5.00	10,700,000	-	210,000	10,490,000
Land Acquisition.....	4.50 - 5.60	1,500,000	-	300,000	1,200,000
New Refunding Loan.....	2.50 - 5.00	8,600,000	-	2,035,000	6,565,000
Capital Improvement Bonds.....	3.00 - 5.00	3,600,000	-	400,000	3,200,000
Capital Improvement Bonds.....	3.50 - 5.00	7,750,000	-	345,000	7,405,000
Capital Improvement Bonds.....	4.50 - 5.00	6,770,000	-	290,000	6,480,000
Capital Improvement Bonds.....	4.00 - 5.00	6,800,000	-	140,000	6,660,000
New High School Refunding.....	4.00 - 5.00	48,210,000	-	150,000	48,060,000
State Qualified Bonds.....	3.25 - 5.00	2,150,000	-	150,000	2,000,000
Deficit Borrowing Note.....	1.75	12,000,000	-	12,000,000	-
Deficit Borrowing Note.....	1.50	6,000,000	-	6,000,000	-
Deficit Borrowing Note.....	1.50	6,000,000	-	6,000,000	-
Deficit Borrowing Note.....	1.50	-	6,000,000	6,000,000	-
Deficit Borrowing Note.....	1.50	-	6,000,000	-	6,000,000
Deficit Borrowing Note.....	1.25	-	6,000,000	-	6,000,000
Deficit Borrowing Note.....	1.50	-	3,362,450	-	3,362,450
Deficit Borrowing Note.....	1.75	-	6,000,000	-	6,000,000
Deficit Borrowing Note.....	1.50	-	6,000,000	-	6,000,000
Total.....		\$ 131,175,000	\$ 33,362,450	\$ 38,150,000	\$ 126,387,450

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

Fiscal Year	Principal	Interest	Total
2012.....	\$ 36,217,450	\$ 5,046,902	\$ 41,264,352
2013.....	9,170,000	4,273,768	13,443,768
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.....	\$ 126,387,450	\$ 31,759,698	\$ 158,147,148

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 2011, \$7,000,688 of such assistance was received. Approximately \$59,656,000 will be received in future fiscal years. Of this amount, approximately \$18,450,000 represents reimbursement of long-term interest costs, and \$41,206,000 represents reimbursement of approved construction costs. Accordingly, a \$41,206,000 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	Interest Rate (%)	Outstanding at June 30, 2010	Issued	Redeemed	Outstanding at June 30, 2011
MWPAT.....	0.00	\$ 3,729,048	\$	-	\$ 284,048
MWPAT.....	0.00	1,888,319		-	143,319
MWPAT.....	0.00	1,531,077		-	116,077
MWPAT.....	2.00	9,096,283		-	473,965
MWPAT.....	2.00	10,009,017		-	536,143
MWPAT.....	2.00	3,054,994		-	152,401
MWPAT.....	2.00	4,535,105		-	198,178
MWPAT.....	2.00	1,887,908		-	-
Total.....		\$ 35,731,751	\$	-	\$ 1,904,131
					\$ 33,827,620

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
2012.....	\$ 2,034,024	\$ 1,110,107	\$ 3,144,131
2013.....	2,087,231	1,011,876	3,099,107
2014.....	2,146,968	955,910	3,102,878
2015.....	2,203,478	876,385	3,079,863
2016.....	2,258,986	799,819	3,058,805
2017.....	2,325,481	712,260	3,037,741
2018.....	2,402,409	621,551	3,023,960
2019.....	2,469,781	532,356	3,002,137
2020.....	2,542,605	444,444	2,987,049
2021.....	2,600,891	350,774	2,951,665
2022.....	1,894,646	273,343	2,167,989
2023.....	1,943,881	213,733	2,157,614
2024.....	1,993,605	152,384	2,145,989
2025.....	2,033,831	89,534	2,123,365
2026.....	1,299,565	44,800	1,344,365
2027.....	587,472	25,930	613,402
2028.....	385,222	16,204	401,426
2029.....	393,004	8,421	401,425
2030.....	111,147	3,379	114,526
2031.....	113,393	1,134	114,527
Total.....	<u>\$ 33,827,620</u>	<u>\$ 8,244,344</u>	<u>\$ 42,071,964</u>

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 \$2,232,315 and interest costs for \$2,769,819. Thus, net MWPAT loan repayments, including interest, are scheduled to be \$37,204,343. 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 2011 principal and interest subsidies totaled approximately \$180,000 and \$407,000, 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, 2011, the City had the following authorized and unissued debt:

Purpose	Amount
Water.....	\$ 1,089,968
School Construction.....	15,603,000
Deficit Financing.....	<u>28,362,450</u>
Total.....	<u>\$ 45,055,418</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2011, the following changes occurred in long-term liabilities:

Governmental Activities:	FY 2010			FY 2011		
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	
Bonds and notes payable.....	\$ 131,175,000	\$ 33,362,450	\$ (38,150,000)	\$ 126,387,450	\$ 36,217,450	
Compensated absences.....	16,218,629	5,505,890	(5,775,866)	15,948,653	5,393,448	
Other postemployment benefits.....	73,187,000	22,221,000	(9,179,000)	86,229,000	-	
Unamortized premium.....	545,367	-	(40,627)	504,740	40,627	
 Total governmental activity long-term liabilities.....	 \$ 221,125,996	 \$ 61,089,340	 \$ (53,145,493)	 \$ 229,069,843	 \$ 41,651,525	
Business-Type Activities:	FY 2010			FY 2011		
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	
Bonds and notes payable.....	\$ 35,731,751	\$ -	\$ (1,904,131)	\$ 33,827,620	\$ 2,034,024	
Compensated absences.....	303,344	147,848	(245,765)	205,427	151,460	
Other postemployment benefits.....	1,970,000	598,000	(247,000)	2,321,000	-	
 Total business type activity long-term liabilities.....	 \$ 38,005,095	 \$ 745,848	 \$ (2,396,896)	 \$ 36,354,047	 \$ 2,185,484	

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

In fiscal year 2011, the City 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, 2011, the governmental fund balances consisted of the following:

<u>GOVERNMENTAL FUNDS</u>				
	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>	
FUND BALANCES				
Nonspendable:				
Permanent fund principal.....	\$ -	\$ 1,541,736	\$ 1,541,736	
Restricted for:				
City revolving funds.....	-	1,008,628	1,008,628	
City federal grant funds.....	-	1,452,407	1,452,407	
City other funds.....	-	353,772	353,772	
School lunch.....	-	964,517	964,517	
School state grant funds.....	-	29,017	29,017	
School other funds.....	-	189,089	189,089	
City capital projects.....	-	1,273,699	1,273,699	
Expendable permanent funds.....	-	334,912	334,912	
Fiscal Stability Chp 41 of the Acts of 1990....	3,893,044	-	3,893,044	
Assigned to:				
General government.....	278,053	-	278,053	
Public safety.....	143,741	-	143,741	
Education.....	5,540,113	-	5,540,113	
Public works.....	168,617	-	168,617	
Human services.....	3,000	-	3,000	
Culture and recreation.....	4,905	-	4,905	
Employee benefits.....	150,336	-	150,336	
Unassigned.....	<u>5,986,596</u>	<u>(197,168)</u>	<u>5,789,428</u>	
TOTAL FUND BALANCES.....	\$ <u>16,168,405</u>	\$ <u>6,950,609</u>	\$ <u>23,119,014</u>	

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.

(a) *Health Insurance* - The City estimates its' Incurred But Not Reported (IBNR) claims based on an average of 1.5 month claims paid average. The City purchases individual stop loss insurance for claims in excess of the \$200,000 coverage provided by the City. At June 30, 2011, the amount of the liability for health insurance claims was zero. The City joined, in fiscal year 2011, the Commonwealth of Massachusetts' group insurance plan which is a premium based health insurance plan. In fiscal year 2011 the internal service fund accounted for health insurance activity through the date of the switch to the group insurance plan, as well as existing claims and stop loss reimbursements subsequent to the switch. Changes in the reported liability since July 1, 2009, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2010.....\$	2,502,524	43,582,168	(42,907,072)	3,177,620
Fiscal Year 2011.....	3,177,620	(3,177,620)	-	-

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 \$17,620,000 for the fiscal year ended June 30, 2011, 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, 2010, the System's membership consists of the following:

Active members.....	1,388
Inactive members.....	337
Retirees and beneficiaries currently receiving benefits.....	867
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 91% 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, 2011, 2010, and 2009 were \$13,612,815, \$13,211,184, and \$12,586,552, respectively, which equaled its required contribution for each fiscal year. At June 30, 2011, 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, 2011, was 11 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 2011 was \$194,423.

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.....	\$ 27,438,000
Interest on existing net OPEB obligation.....	3,006,000
Adjustments to annual required contribution.....	<u>(7,625,000)</u>
Annual OPEB cost (expense).....	22,819,000
Contributions made.....	<u>(9,426,000)</u>
Increase/Decrease in net OPEB obligation.....	13,393,000
Net OPEB obligation - beginning of year.....	<u>75,157,000</u>
Net OPEB obligation - end of year.....	<u>\$ 88,550,000</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 2011 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>
6/30/11	\$ 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

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 was used. The actuarial assumptions included a 4.0 percent investment rate of return net of investment expenses, and an annual healthcare cost trend rate of 10 percent initially, graded to 5 percent after five years. Both rates included a 4.5 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, 2011, was twenty-eight 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, 2011, 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, 2011, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2011.

NOTE 13 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2011, the following GASB pronouncements were implemented:

- GASB Statement #54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented in fiscal year 2011. Financial statement changes include new fund balance designations and the reclassification of stabilization funds from the special revenue fund to the general fund. Notes to the basic financial statements were changed to provide additional disclosure on the new designations of fund balance.
- GASB Statement #59, Financial Instruments Omnibus, was implemented in fiscal year 2011 and did not impact the financial statements.

Future implementation of GASB pronouncements:

- The GASB issued Statement #60, Accounting and Financial Reporting for Service Concession Arrangements, which is required to be implemented in fiscal year 2013. Management expects that the implementation of this pronouncement will have an impact on the basic financial statements.
- The GASB issued Statement #61, The Financial Reporting Entity: Omnibus, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will not have a significant impact on 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, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will not have a significant impact on the basic financial statements.
- 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. Management's current assessment is that this pronouncement will have a significant impact on the basic financial statements.

- The GASB issued Statement #64, Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53, which is required to be implemented in fiscal year 2012. Management does not believe that this pronouncement will require additional disclosure or impact the basic financial statements.

NOTE 15 – 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 will be 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 establishes a the City of Lawrence Fiscal Stability Fund, into what will be deposited up to \$35 million of borrowing, to maintain and operate the City for fiscal years beginning July 1, 2009, and July 1, 2010. Amounts may be disbursed from this fund under conditions approved by the Commissioner of Revenue.

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

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

FISCAL YEAR ENDED JUNE 30, 2011

	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.....	\$ -	\$ 49,104,171	\$ 49,104,171	\$ 49,104,171	
Tax liens.....	-				
Motor vehicle and other excise taxes.....	-	3,957,000	3,957,000	3,957,000	
Penalties and interest on taxes.....	-	1,023,000	1,023,000	1,023,000	
Payments in lieu of taxes.....	-	500,000	500,000	500,000	
Licenses and permits.....	-	1,333,003	1,333,003	1,333,003	
Fines and forfeitures.....	-	1,132,557	1,132,557	1,132,557	
Intergovernmental.....	-	163,278,497	163,278,497	163,278,497	
Departmental and other.....	-	1,344,502	1,344,502	1,344,502	
Investment income.....	-	135,000	135,000	135,000	
TOTAL REVENUES.....	-	221,807,730	221,807,730	221,807,730	
EXPENDITURES:					
Current:					
General government.....	397,359	6,020,517	6,417,876	6,594,757	
Public safety.....	240,192	21,278,139	21,518,331	21,978,606	
Education.....	3,183,597	144,057,786	147,241,383	147,241,383	
Public works.....	619,599	8,180,360	8,799,959	9,443,796	
Human services.....	19,410	917,780	937,190	981,744	
Culture and recreation.....	219	1,021,423	1,021,642	973,818	
Pension benefits.....	-	13,301,644	13,301,644	13,301,644	
Employee benefits.....	138,370	14,958,120	15,096,490	15,096,490	
State and county charges.....	-	4,978,151	4,978,151	4,978,151	
Debt service:					
Principal.....	-	8,150,000	8,150,000	8,150,000	
Interest.....	-	5,274,381	5,274,381	5,274,381	
TOTAL EXPENDITURES.....	4,598,746	228,138,301	232,737,047	234,014,770	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(4,598,746)	(6,330,571)	(10,929,317)	(12,207,040)	
OTHER FINANCING SOURCES (USES):					
Proceeds from bonds and notes.....	-	3,362,450	3,362,450	3,362,450	
Premium from issuance of bonds.....	-				
Transfers in - other.....	-	932,150	932,150	932,150	
Transfers out - other.....	-	(213,093)	(213,093)	(1,718,454)	
TOTAL OTHER FINANCING SOURCES (USES).....	-	4,081,507	4,081,507	2,576,146	
NET CHANGE IN FUND BALANCE.....	(4,598,746)	(2,249,064)	(6,847,810)	(9,630,894)	
BUDGETARY FUND BALANCE, Beginning of year.....	16,215,526	16,215,526	16,215,526	16,215,526	
BUDGETARY FUND BALANCE, End of year.....	\$ 11,616,780	\$ 13,966,462	\$ 9,367,716	\$ 6,584,632	

See notes to required supplementary information.

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance Over/(Under)
\$ 49,656,846	\$ -	\$ 552,675
917,665	-	917,665
3,876,572	-	(80,428)
1,201,111	-	178,111
580,891	-	80,891
1,418,844	-	85,841
1,055,377	-	(77,180)
163,525,661	-	247,164
979,615	-	(364,887)
168,350	-	33,350
223,380,932	-	1,573,202
5,585,564	278,053	731,140
21,457,392	143,741	377,473
141,467,430	5,540,113	233,840
9,531,878	168,617	(256,699)
880,935	3,000	97,809
953,808	4,905	15,105
13,225,274	-	76,370
14,351,526	150,336	594,628
4,988,822	-	(10,671)
8,150,000	-	-
5,261,314	-	13,067
225,853,943	6,288,765	1,872,062
(2,473,011)	(6,288,765)	3,445,264
3,362,450	-	-
83,452	-	83,452
932,150	-	-
(1,718,454)	-	-
2,659,598	-	83,452
186,587	(6,288,765)	3,528,716
16,349,958	-	-
\$ 16,536,545	\$ (6,288,765)	\$ 3,528,716

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, 2011

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
6/30/2011	\$ 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, 2011

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.....	10% grading down to 5% over 10 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 2011 approved budget authorizing approximately \$228.4 million in current year appropriations, other financing uses, and other amounts to be raised and approximately \$4.6 million in encumbrances and appropriations carried over from previous fiscal years. During fiscal year 2011, the Council approved supplemental appropriations totaling approximately \$2.8 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, 2011, is presented below:

Net change in fund balance - budgetary basis.....	\$ 186,587
<u>Basis of accounting differences:</u>	
Net change in recording 60-day receipts accrual.....	(757,000)
Net change in recording tax refunds payable.....	27,000
Increase in other financing sources due to deficit borrowing.....	30,000,000
Increase in expenditures due to deficit borrowing.....	(30,000,000)
Increase in expenditures due to unrecorded liabilities.....	(39,997)
Increase in revenues due to on-behalf payments.....	17,620,107
Increase in expenditures due to on-behalf payments.....	<u>(17,620,107)</u>
Net change in fund balance - GAAP basis.....	\$ <u>(583,410)</u>

C. Appropriation Deficits

The City had expenditures in excess of appropriations for Public Works relating to snow and ice. This deficit will be funded in Fiscal 2012 through the tax rate.

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.