

CITY OF LYNN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2015

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS:	
Governmental-wide Financial Statements:	
Statement of Net Position	19
Statement of Activities	20
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	21
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities in the Statement of Net Position	22
Statement of Revenues, Expenditures, and Changes in Fund Balances	23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	24
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	25
Proprietary Funds:	
Statement of Net Position	26
Statement of Revenues, Expenses, and Changes in Fund Net Position	27
Statement of Cash Flows	28
Fiduciary Funds:	
Statement of Fiduciary Net Position	29
Statement of Changes in Fiduciary Net Position	30
Notes to Financial Statements	31

SUPPLEMENTARY INFORMATION:

Schedule of Funding Progress	69
Schedule of Proportionate Share of the Net Pension Liability	70
Schedule of Contributions	71
Schedule of Changes in Net Pension Liability	72
Schedules of Net Pension Liability, Contributions, and Investment Returns	73

INDEPENDENT AUDITORS' REPORT

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

Additional Offices:
Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

Report on the Financial Statements

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 Lynn, Massachusetts, as of and for the year ended June 30, 2015 (except for the Lynn Contributory Retirement System which is as of and for the year ended December 31, 2014), and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and

fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, 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 Lynn, Massachusetts, as of June 30, 2015, (except for the Lynn Contributory Retirement System, which is as of and for the year ending December 31, 2014) and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 21 to the combined financial statements, the City of Lynn adopted Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Schedule of Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, the Schedule of Contributions, the Schedule of Changes in Net Pension Liability, and the Schedules of Net Pension Liability, Contributions, and Investment Returns be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods

of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Melanson Heath

March 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Lynn, we offer readers this narrative overview and analysis of the financial activities of the City of Lynn for the fiscal year ended June 30, 2015. All amounts are expressed in thousands of dollars.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other 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 our finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all assets and deferred outflows and liabilities and deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future 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 and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, culture and recreation, employee benefits, interest, and intergovernmental. The business-type activities include the marina activities.

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 three categories: governmental funds, proprietary 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 financial 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.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for the marina operations.

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

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the marina operations, which is considered to be a major fund.

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 statements 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 proprietary funds.

Notes to 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.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets and deferred outflows were less than liabilities by \$(217,241) (i.e., net position), a change of \$(8,111) in comparison to the restated prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$53,612, a change of \$(22,416) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$8,988, a change of \$(8,526) in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$77,154 (including unamortized bond premiums), a change of \$(9,384) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years. All amounts are presented in thousands:

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 100,680	\$ 120,200	\$ 111	\$ 101	\$ 100,791	\$ 120,301
Capital assets	241,997	196,853	2,570	2,490	244,567	199,343
Other noncurrent assets	4,663	8,006	-	-	4,663	8,006
Deferred outflows	413	-	-	-	413	-
Total assets	347,753	325,059	2,681	2,591	350,434	327,650
Long-term liabilities	534,092	254,506	1,101	1,113	535,193	255,619
Other liabilities	31,946	23,998	536	470	32,482	24,468
Total liabilities	566,038	278,504	1,637	1,583	567,675	280,087
Net position:						
Net investment in capital assets	186,642	148,848	1,640	1,560	188,282	150,408
Restricted	26,718	50,139	-	-	26,718	50,139
Unrestricted	(431,645)	(152,432)	(596)	(552)	(432,241)	(152,984)
Total net position	\$ (218,285)	\$ 46,555	\$ 1,044	\$ 1,008	\$ (217,241)	\$ 47,563

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues:						
Program revenues:						
Charges for services	\$ 11,009	\$ 9,568	\$ 238	\$ 210	\$ 11,247	\$ 9,778
Operating grants and contributions	196,875	209,724	-	-	196,875	209,724
Capital grants and contributions	2,349	1,367	278	221	2,627	1,588
General revenues:						
Property taxes	111,784	107,163	-	-	111,784	107,163
Excises	7,056	5,519	-	-	7,056	5,519
Penalties and interest on taxes	1,392	1,366	-	-	1,392	1,366
Grants and contributions not restricted to specific programs	48,454	25,372	-	-	48,454	25,372
Investment income	224	683	-	-	224	683
Other	1,039	1,309	-	-	1,039	1,309
Total revenues	<u>380,182</u>	<u>362,071</u>	<u>516</u>	<u>431</u>	<u>380,698</u>	<u>362,502</u>
Expenses:						
General government	12,671	13,858	-	-	12,671	13,858
Public safety	41,317	41,029	-	-	41,317	41,029
Education	201,693	201,232	-	-	201,693	201,232
Public works	21,037	19,374	-	-	21,037	19,374
Health and human services	5,324	4,197	-	-	5,324	4,197
Culture and recreation	4,725	4,395	-	-	4,725	4,395
Employee benefits	96,310	87,313	-	-	96,310	87,313
Interest on long-term debt	2,902	1,365	-	-	2,902	1,365
Intergovernmental	2,350	2,309	-	-	2,350	2,309
Marina	-	-	480	439	480	439
Total expenses	<u>388,329</u>	<u>375,072</u>	<u>480</u>	<u>439</u>	<u>388,809</u>	<u>375,511</u>
Increase (Decrease) in net position	(8,147)	(13,001)	36	(8)	(8,111)	(13,009)
Net position - beginning of year, as restated*	<u>(210,138)</u>	<u>59,556</u>	<u>1,008</u>	<u>1,016</u>	<u>(209,130)</u>	<u>60,572</u>
Net position - end of year	<u>\$ (218,285)</u>	<u>\$ 46,555</u>	<u>\$ 1,044</u>	<u>\$ 1,008</u>	<u>\$ (217,241)</u>	<u>\$ 47,563</u>

* Restated from prior year as described in note 25. Comparative balances for fiscal year 2014 as reported in the MD&A have not been restated.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$(217,241), a change of \$(8,111) from the restated prior year.

The largest portion of net position, \$188,282, reflects our investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of 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 net position, \$26,718, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$(432,242), results in a deficit, caused primarily by unfunded OPEB liabilities (see Note 20), and unfunded net pension liabilities (see Note 21).

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(8,147). Key elements of this change are as follows:

Marshall middle school MSBA state grant funding	\$ 27,335
Increase in net OPEB obligation over prior year	(29,629)
Internal service fund expenses exceeding revenues	(5,162)
Depreciation expense greater than debt service	<u>(691)</u>
Total	<u>\$ (8,147)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$36. In addition, the Marina Enterprise fund has not made any principal or interest payments on a loan outstanding with the National Oceanic and Atmospheric Administration (NOAA) since fiscal year 2010. The City does not consider themselves to be in default, as they have requested repayment assistance from NOAA, per the loan agreement, and have yet to hear back.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT’S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources.

Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$53,612, a change of \$(22,416) in comparison to the prior year. Key elements of this change are as follows:

General fund expenditures and other financing uses in excess of revenues and other financing sources	\$ (11,495)
School capital project major fund expenditures in excess of revenues	(12,884)
Other	<u>1,963</u>
Total	<u>\$ (22,416)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$8,988, while total fund balance was \$14,799. 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 general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 8,988	\$ 17,514	\$ (8,526)	2.9%
Total fund balance	\$ 14,799	\$ 26,294	\$ (11,495)	4.8%

The total fund balance of the general fund changed by \$(11,495) during the current fiscal year. Key factors in this change are as follows:

Use of free cash as a funding source	\$ (11,847)
Prior year deficits raised in the current year	1,892
Revenues greater than budget	2,431
Expenditures greater than budget	(1,781)
Current year encumbrances less than prior year	<u>(2,190)</u>
Total	\$ <u>(11,495)</u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to a deficit balance of \$(596), a decrease of \$(44) in comparison to the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$7,165. Major reasons for these amendments include:

- \$1,467 School capital renovations
- \$2,000 Additional school appropriations
- \$1,650 Legal settlement
- \$1,000 Additional public works appropriations
- \$ 730 City capital projects
- \$ 250 Additional general government appropriations
- \$ 20 Additional police appropriations
- \$ 48 Additional parking appropriations

The increases were funded from free cash and transfers from related special revenue funds.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$244,567 (net of accumulated depreciation), an increase of \$45,224 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

School construction projects	\$ 41,988
School HVAC projects	3,998
School building repairs	2,588
Street and sidewalks repaving	2,325
New school equipment	2,265
Other miscellaneous projects	723
New IT equipment	667
New public safety vehicles	398
New public works vehicles	370
Marina infrastructure	278
Park and field improvements	225
Depreciation	<u>(10,601)</u>
Total	<u>\$ 45,224</u>

Additional information on capital assets can be found in the Notes to Financial Statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$77,154, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the Notes to Financial Statements.

Credit rating. During the fiscal year, the City's AA credit rating remained unchanged by Standard & Poor's.

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Economic Development

Overview

Program year 2015 marked ongoing forward momentum in the area of economic development as the City continues implementing findings and goals of recently

completed economic development strategies. Most notably, we have completed and adopted our Waterfront Master Plan and our Master Harbor Plan, resulting in continuing development within these important sections of the City. Recent development on the waterfront, as well as other critical locations in the City in 2015, will position the City of Lynn in a positive economic direction for not only the next twenty to thirty years, but also for generations to come.

The relocation of the National Grid Power Lines bisecting our Waterfront, the singular reason for underutilized development activity over the past 50 years, has been addressed. The significance of this public/private project is substantial; over 220 acres of underdeveloped waterfront property is now fully capable of new higher and better future reuse. Furthermore, the City is pleased to report the power line relocation was completed on time and under budget. As noted earlier, the City has well-positioned itself for future development by adopting local changes in zoning-by-right opportunities both on the waterfront and this past year enhancing downtown zoning overlays. These new ordinances will enable future development and developers the proper tools with which to rapidly advance the shared community goal of a vibrant mixed use waterfront and downtown. The City has taken the additional step of working closely with the Commonwealth of Massachusetts and concluded the construction of a commuter ferry station located at the end of Blossom Street here in the city. This seven million dollar capital project will enhance the area, attract additional development and provide multiple commuting options for the residents of Lynn and the greater north shore as a whole.

With regard to the economic State of the City, this past calendar year's most pressing concern revolves around the continued higher than optimal unemployment; a trend shared not only by the City of Lynn and the Commonwealth, but also our Nation as a whole. Furthermore, the City is concerned regarding the prospect of a prolonged double dip recession and continued slow economic growth. The City remains in and around the 5 to 6 percent unemployment rate, over a decade at this level or higher. The City is encouraged to see the jobs market slowly improve; we are optimistic we will see the unemployment number return to pre-recession percentages. On a more positive note, investment by the federal government continues in the aircraft engine division of the General Electric Company, Lynn's largest single employer. Additionally, the City has recently become involved with a new public engagement team including Federal, State, and Local Stakeholders coming together to encourage GE to begin the process of improving infrastructure at the Lynn plant in hopes to stabilize and grow new manufacturing jobs at the Lynn Facility. On the local level, via strong leadership from the Mayor and her economic development team, the former "factory of the future" manufacturing site, which has remained fallow for over 30 years, will be redeveloped into a commercial reuse anchored by a local super-market chain and creating 150 local jobs; the City is confident this project will be completed by the end of 2016. Related to the General Electric main plant site, a former section of the plant, the "Gear Plant" facility, a total of 65 acres, has been sold to a private developer with the intent of building over 1200 units of market

rate housing. Plans for this project are currently under state review, with the expectation of permits being applied for in 2016.

The Central Square area of the City continued to see a renaissance and resurgence as the number of retail/commercial businesses take hold and activity increases. Of recent note, the Blue Ox, an award winning “Best of Boston” recipient, continues to draw people into our Downtown and has demonstrated outstanding success, leading to four new restaurants opening in Lynn in 2015; translating into at least 100 additional jobs. As reported in the past, the City continues to strongly support downtown revival as evident by the effort to support the Creative Economy via the Massachusetts Cultural Arts district overlay designation, and the City has brought on board a full-time director for said district. To date, over 250 newer residents call downtown home, and this marks the halfway point in the City’s goal to create 500 new units in the center of the City. Additional efforts by the Mayor and her economic development team are hoping to spur even more new growth and opportunities which will in the end reach the critical mass of activity to sustain a vibrant downtown. To further assist this goal, EDIC – Lynn and the NDA have completed a \$2 million investment constructing 8 artist loft units, as well as retail space in the heart of downtown. Furthermore, the City has applied for and has been awarded a TDI grant from MassDevelopment. This grant and subsequently the “fellow”/ staffer attached to this funding source will look to advance the work we have done and partner with us over the next three year period.

Another positive trend in the City’s downtown was the growth of the healthcare industry within this compressed geographical area. Lynn Community Health Center and Greater Lynn Senior Services are in new space with the possibility of an additional regional health care provider location service in the downtown area in 2016. This expansion project creates 100 jobs and invested over \$6 million dollars in new infrastructure in the downtown area. This expansion project has been so successful that additional office space was required, necessitating the lease and now nearly full occupation of a dormant and vacant office building in the heart of our downtown. We are pleased to report the reuse of 21 Central Avenue, the former central school administration building, is now active with over 75 employees utilizing the space during the work week. Additionally, there was a strong commitment by North Shore Medical Center, the major community hospital and employer, to maintain a presence in the City as part of their strategic long-term plans for the region and the City of Lynn. Just across the street from this redevelopment project are plans for 40 additional market rate apartments to come online in 2016, an investment of nearly \$10 million by a private developer.

Both locally and nationally, the real estate marketplace remains an issue of concern for the upcoming fiscal year. As of 2012, over 350 homes were in or completed foreclosure, the highest foreclosure rate in the history of the Commonwealth. The impact has transcended the state and morphed into a national problem, and the City is exploring ways to help impact homeowners. On a more positive note, as affordable housing opportunities and increasing rental costs continued to decline in and around the Boston Metropolitan area, Lynn’s role as an

alternative investment choice continued to gain momentum. To this end, the Commonwealth has joined with our local NDA and will begin construction of a \$35 million mixed use housing development project on the Washington Street corridor, adjacent to our downtown and North Shore Community College. The end result will be additional units and disposable income directed toward our local downtown economy and small business owners. Additionally, North Shore community College is expanding on their campus adjacent to the downtown; this over \$30 million project when completed will not only expand educational opportunities, but also increase and enhance disposable income dollars of these students directly in our downtown.

Lynn Assessed Values				
FY	Commercial	% Chg	Total All Classes	% Chg
2001	\$257,805,301	14.9%	\$3,151,034,450	12.2%
2002	293,909,090	14.0%	3,854,700,111	22.3%
2003	330,581,516	12.5%	4,656,277,295	20.8%
2004	352,109,922	6.5%	5,508,583,433	18.3%
2005	440,961,667	25.2%	6,249,264,921	13.4%
2006	460,329,322	4.4%	6,774,769,631	8.4%
2007	489,356,651	6.3%	7,030,173,447	3.8%
2008	529,546,785	8.2%	7,042,423,768	0.2%
2009	507,754,589	-4.1%	6,208,089,401	-11.8%
2010	464,501,219	-12%	5,246,831,500	-6.5%
2011	433,672,455	-6.6%	5,261,064,310	0.3%
2012	460,650,260	6.2%	5,388,175,382	2.4%
2013	459,801,701	-2.1%	5,285,703,328	-1.9%
2014	450,348,575	-0.1%	5,431,137,085	2.8%
2015	458,931,005	1.9%	5,837,592,724	7.5%

Commercial and Residential real estate valuations are hopefully stabilizing from their historic highs and then lows of the 2000s. The City of Lynn continues to place a reliance on the residential sector based on volume; however, within the parameters set forth, the local tax rate allocation with regard to tax levy increase does impact our commercial rates more than our residential. If continued stabilization takes place, we are hopeful 2016 will see an ongoing increase translating into reinvestment or ongoing stabilization of current budget projections.

The City is encouraged in the residential real estate sector, in part due to the recent unveiling of an 80 million dollar residential mixed use project situated on our waterfront and located on the old “Beacon” site. This 6-plus acre waterfront parcel has sat vacant for over 30 years and is expected to create upwards of \$1.3 million in residential tax income.

Single family home median sales appear to be regaining values from the prolonged negative trend and the historic highs of the early 2000s. Median sales have reverted close to near 2001 sales; however, continued foreclosures and short sales burden the local real estate market and continue to impact the local marketplace.

FY	City of Lynn Ave Value	% Chg	Calendar Yr	Median Sale Price	% Chg
1999	\$111,459	12.9%	1999	\$135,000	16.2%
2000	124,571	11.8%	2000	155,000	19.0%
2001	139,174	11.7%	2001	184,900	18.8%
2002	168,817	21.3%	2002	226,500	28.9%
2003	198,415	17.5%	2003	250,000	9.3%
2004	229,600	15.7%	2004	269,900	4.6%
2005	256,992	11.9%	2005	290,000	6.8%
2006	276,031	7.4%	2006	283,000	-3.0%
2007	286,007	3.6%	2007	259,000	-10.3%
2008	286,002	0.0 %	2008	206,000	-23.1%
2009	260,462	-11.2%	2009	196,000	-20.6%
2010	223,153	-14.3%	2010	194,000	-1.0%
2011	223,882	0.3%	2011	180,000	-7.2%
2012	225,414	0.7%	2012	185,000	2.8%
2013	215,637	-4.3%	2013	225,000	21.6%
2014	217,936	1.1%	2014	243,000	8.0%
2015	234,567	7.6%	2015	261,000	7.4%
2016	253,678	8.1%			

Source: a) Mass. Dept. of Revenue
b) Town Stats, the Warren Group

Information is based on Single Family Homes

Infrastructure

In addition to the City's close proximity to both Boston and Logan Airport, coupled with an impressive three-mile ocean waterfront park, Lynn has a first-class infrastructure conducive to economic development. Important infrastructure assets of the City include: a \$140 million secondary wastewater treatment facility and a \$47 million water treatment plant last owned and operated by the Lynn Water and Sewer Commission, a \$70 million Community College serving 2,500 full and part-time students.

With regard to transportation, with the completion of the Route 1A Connector to the Ted Williams Tunnel, the industrial community received an unexpected but pleasant benefit from this link, as travel time to the areas of South Boston, Interstate 93, and the Massachusetts Turnpike provided vastly improved access to the Commonwealth's Interstate System.

Lynn's proactive stance toward infrastructure improvements and land use regulations enables it to react immediately to development opportunities as they arise. The redevelopment of the Blossom Street public access pier is injecting \$7 million into our local economy and provides a site for water shuttle service from Lynn to Boston. In addition, the City's stable population and wide range of

community and economic development services create an ideal environment for business investment and development. Lynn possesses numerous assets and resources that have helped it to emerge once again as one of the North Shore's most attractive communities.

The City, using CDBG funding, continued to make investments in the downtown through its antique street re-lighting along the downtown linear spine of Union, Exchange and Broad Streets. Additional re-lighting projects located on Monroe Street and a revitalization project planned for leased MBTA space will be completed this year. These efforts at beautification and revitalization have been well accepted by both the existing downtown community and investors alike. This trend will continue, as 2016 will bring about an additional \$1,000,000 via CDBG and EDIC funds. Further beautification projects have been launched in collaboration with the City which has produced new murals and artwork in our public places downtown.

The City remains committed to providing a reasonable financial alternative for families to find safe and fun activities to participate in; the continued play of the North Shore Navigators' at the New Frasier Field will hopefully continue to grow and prosper. The ongoing management of the sporting complex centrally located in our City has provided a magnet of youth activity, showing all positive attributes of the City and increasing commercial activity on the Boston Street commercial corridor as well as the Wyomia Square business district.

While 2008 completed the re-birth of Manning Field; for the past 60 years, Manning Bowl has served as a lynchpin to many sporting events. The stadium was rebuilt and a new sports complex is now in place next to the refurbished Frasier Field. 2009 saw our City and Community take full advantage of the sporting complex. In no small part to the strong management and leadership of the City, this state of the art facility is an economic draw for the City and long term a great asset for the Greater North Shore.

In terms of future development activities long-term in nature, the City continues to pursue its Brownfield agenda with representatives of both National Grid and the General Electric Co., owners of roughly 40 acres of mothballed sites in the community. Progress has been extremely slow, with the exception of the factor of the future site; the City is committed to continued discussions and dialogue to encourage reuse of these locations. The recent election of a new local Congressman has reinvigorated efforts, and we are hopeful that locations on the Waterfront/Lynnway will have transformative action taking place in the next few years.

In 2016, EDIC will again submit and be considered for Federal grants/assistance to update the City's entire Brownfield's inventory. As additional funding opportunities present themselves, the City will look for new sites for continued Brownfield redevelopment opportunities.

The City of Lynn and EDIC are very proud and hopeful that the recent work and investments made to recruit and establish Kettle Cuisine, a local and fresh food manufacturer, to relocate in the City and create 100 plus new jobs, will encourage and spur additional development in this targeted area.

Employment

The local economy continues our slow rebound: the addition of Kettle Cuisine, the announcement of Market Basket investment, and the continued successful reuse of the City Hall auditorium all point to positive signs for the City of Lynn. The City will also be celebrating the opening of additional new restaurants in our downtown, as mentioned previously; these new business are positive indicators of upward momentum.

The following table sets forth the City's average labor force and unemployment rates for calendar years 2000 through 2014 and the unemployment rates for the state and nation as a whole for the same period.

Employment and Unemployment Rates

Annual	Year	Labor Force	Employed	Unemployed	Unemployment Rate
Average	2014	46,584	43,548	3,036	6.5
Average	2013	43,190	39,718	3,472	8.0
Average	2012	43,226	39,819	3,447	8.0
Average	2011	43,338	39,700	3,638	8.4
Average	2010	43,328	39,314	4,014	9.3
Average	2009	42,023	38,032	3,991	9.5
Average	2008	41,607	38,947	2,660	6.4
Average	2007	41,232	38,969	2,263	5.5
Average	2006	41,699	39,212	2,487	6.0
Average	2005	41,674	39,095	2,579	6.2
Average	2004	42,114	39,330	2,784	6.6
Average	2003	42,879	39,714	3,165	7.4
Average	2002	42,845	40,169	2,676	6.2
Average	2001	42,492	40,651	1,841	4.3
Average	2000	41,937	40,582	1,355	3.2

SOURCE: Massachusetts Department of Employment and Training, Federal Reserve Bank of Boston and U.S. Bureau of Labor Statistics. Data based upon place of residence not place of employment. All data is unadjusted.

The following is a list of the largest employers in Lynn, exclusive of the City itself.

<u>Largest Employers</u>	<u>Product</u>	<u>Employment</u>
General Electric	Manufacturer-Jet Engines	3,150
Partners Healthcare	Healthcare/Hospital	1,125
Garelick Farms	Creamery/ Milk Products	492
Visiting Nurse Association	Healthcare/Nursing	630
Greater Lynn Senior Services	Elderly Services	629
Eastern Bank	Banking	462
Lynn Community Health Center	Healthcare Services	550
Wal-Mart	Retail Store	250
North Shore Community College	Education	400
Old Neighborhood Foods	Food Production	350
Kettle Cuisine	Food Production	140
Verizon	Utility	100

Organizational Structures

The Office of Inspectional Services is in year five of operation and continues to receive positive feedback from both the residents and the development community. Permits were issued on a timely basis and turnaround time from design to completion was greatly reduced. Similar to the reorganization of the City's Development Agencies in 1999, this effort initiated by the Mayor, with the full support of the business community, sought to gain efficiencies through the elimination of duplicative tasks and information gathering, as well as streamlining the permitting process for the investor/developer and resident alike.

The City, through its Office of Economic and Community Development, continued to operate and sponsor the Lynn Small Business Assistance Center. The Lynn Small Business Assistance Center (LSBAC) has been an example of "best practices" in the area of minority and small business development, entrepreneurial training and support, and financial/technical assistance to both new and expanding Lynn businesses.

The LSBAC continues to provide links to many other organizational resources, including the EDIC/Lynn, the Lynn Area Chamber of Commerce (LACC) and the Union Street Corridor Community Development Corporation (CDC). Service Corps of Retired Executives (SCORE), cosponsored by the LACC, holds business counseling sessions in the LSBAC offices twice a month, and the Small Business Development Center at Salem State College is often tapped for conducting workshops and seminars. All of these efforts are targeted to businesses within the City.

Conclusion

The City possesses an excellent economic infrastructure, especially in telecommunications. Among other assets this infrastructure includes: New England's first

and only transatlantic fiber optic hub; an abundance of inexpensive commercial office space; close geographic proximity to Boston, Cambridge and Logan Airport; regular commuter rail service to downtown Boston; three miles of open and unobstructed ocean waterfront within easy walking distance from the heart of downtown; and a 2,200 acre forested urban park, Lynn Woods – the second largest in the United States.

The emergence of our creative economy, our cultural arts district and the strengths of our diversity as an urban gateway city are helping to lay the foundation of a rebirth to a time when the City could be pointed to as an economic hinge point for the Commonwealth.

Couple these assets with the presence of the City's more traditional manufacturing and service base such as GE's Aircraft Engine Division, Garelick Farms, and Eastern Bank, it becomes clear that Lynn has a rich blend of both emerging and traditional industries that provide both economic stability and new opportunities for the future.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Lynn'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:

Comptroller's Office
3 City Hall Square
Lynn, Massachusetts 01901

CITY OF LYNN, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2015

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Assets			
Current:			
Cash and short-term investments	\$ 73,683,496	\$ 85,400	\$ 73,768,896
Investments	7,196,944	-	7,196,944
Receivables, net of allowance for uncollectibles:			
Property taxes	3,554,407	-	3,554,407
Excises	1,268,711	-	1,268,711
Departmental and other	860,252	10,249	870,501
Intergovernmental	7,009,714	-	7,009,714
Loans	426,623	-	426,623
Other assets	2,840,000	15,140	2,855,140
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental	4,396,920	-	4,396,920
Property taxes	266,260	-	266,260
Loans	3,839,606	-	3,839,606
Capital assets, non-depreciable	15,644,770	-	15,644,770
Capital assets, depreciable, net of accumulated depreciation	226,352,185	2,569,788	228,921,973
Deferred Outflows of Resources	<u>413,000</u>	<u>-</u>	<u>413,000</u>
Total Assets and Deferred Outflows of Resources	347,752,888	2,680,577	350,433,465
Liabilities			
Current:			
Warrants payable	6,011,229	-	6,011,229
Accounts payable	7,516,232	-	7,516,232
Accrued liabilities	11,111,501	385,145	11,496,646
Tax refunds payable	1,193,631	-	1,193,631
Other current liabilities	6,113,278	151,000	6,264,278
Current portion of long-term liabilities:			
Bonds payable	10,388,825	942,230	11,331,055
Other liabilities	1,372,721	-	1,372,721
Noncurrent:			
Bonds payable, net of current portion	65,664,752	158,602	65,823,354
Other liabilities, net of current portion	12,092,695	-	12,092,695
Net OPEB obligation	189,529,000	-	189,529,000
Net pension liability	<u>255,044,000</u>	<u>-</u>	<u>255,044,000</u>
Total Liabilities	566,037,864	1,636,977	567,674,841
Net Position			
Net investment in capital assets	186,642,057	1,640,113	188,282,170
Restricted for:			
Grants and other statutory restrictions	19,023,378	-	19,023,378
Permanent funds:			
Nonexpendable	7,162,508	-	7,162,508
Expendable	532,224	-	532,224
Unrestricted	<u>(431,645,143)</u>	<u>(596,513)</u>	<u>(432,241,656)</u>
Total Net Position	\$ <u>(218,284,976)</u>	\$ <u>1,043,600</u>	\$ <u>(217,241,376)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LYNN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 12,670,660	\$ 2,791,754	\$ 130,885	\$ -	\$ (9,748,021)	\$ -	\$ (9,748,021)
Public safety	41,317,316	1,729,452	2,401,451	-	(37,186,413)	-	(37,186,413)
Education	201,692,842	1,110,567	183,255,620	-	(17,326,655)	-	(17,326,655)
Public works	21,037,417	2,670,949	6,647,645	2,349,420	(9,369,403)	-	(9,369,403)
Health and human services	5,324,115	307,935	3,752,446	-	(1,263,734)	-	(1,263,734)
Culture and recreation	4,725,293	2,390,068	238,047	-	(2,097,178)	-	(2,097,178)
Employee benefits	96,310,211	8,539	448,802	-	(95,852,870)	-	(95,852,870)
Interest	2,901,906	-	-	-	(2,901,906)	-	(2,901,906)
Intergovernmental	2,349,528	-	-	-	(2,349,528)	-	(2,349,528)
Total Governmental Activities	388,329,288	11,009,264	196,874,896	2,349,420	(178,095,708)	-	(178,095,708)
Business-Type Activities:							
Marina services	480,669	238,985	-	277,890	-	36,206	36,206
Total Business-Type Activities	480,669	238,985	-	277,890	-	36,206	36,206
Total	\$ 388,809,957	\$ 11,248,249	\$ 196,874,896	\$ 2,627,310	(178,095,708)	36,206	(178,059,502)
General Revenues:							
Property taxes					111,783,873	-	111,783,873
Excises					7,055,740	-	7,055,740
Penalties, interest and other taxes					1,391,584	-	1,391,584
Grants and contributions not restricted to specific programs					48,454,497	-	48,454,497
Investment income					223,922	13	223,935
Other					1,039,061	-	1,039,061
Total general revenues					169,948,677	13	169,948,690
Change in Net Position					(8,147,031)	36,219	(8,110,812)
Net Position:							
Beginning of year, as restated					(210,137,945)	1,007,381	(209,130,564)
End of year					\$ (218,284,976)	\$ 1,043,600	\$ (217,241,376)

The accompanying notes are an integral part of these financial statements.

CITY OF LYNN, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2015

	<u>General</u>	<u>School Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and short-term investments	\$ 25,138,185	\$ 14,866,412	\$ 22,988,693	\$ 62,993,290
Investments	-	-	7,196,944	7,196,944
Receivables:				
Property taxes	6,141,918	-	-	6,141,918
Excises	2,824,779	-	-	2,824,779
Departmental and other	845,507	-	14,745	860,252
Intergovernmental	-	-	3,509,960	3,509,960
Loans	-	-	4,266,229	4,266,229
Due from other funds	<u>27,970</u>	<u>-</u>	<u>-</u>	<u>27,970</u>
Total Assets	<u>\$ 34,978,359</u>	<u>\$ 14,866,412</u>	<u>\$ 37,976,571</u>	<u>\$ 87,821,342</u>
Liabilities				
Warrants payable	\$ 3,657,325	\$ -	\$ 2,353,904	\$ 6,011,229
Accounts Payable	1,174,313	5,145,629	1,196,290	7,516,232
Accrued liabilities	5,098,868	-	-	5,098,868
Tax refunds payable	1,193,631	-	-	1,193,631
Due to other funds	-	-	27,970	27,970
Other liabilities	<u>49,498</u>	<u>-</u>	<u>-</u>	<u>49,498</u>
Total Liabilities	11,173,635	5,145,629	3,578,164	19,897,428
Deferred Inflows of Resources	9,005,912	-	5,305,956	14,311,868
Fund Balances				
Nonspendable	929,675	-	7,162,508	8,092,183
Restricted	-	9,720,783	20,568,272	30,289,055
Committed	-	-	1,625,364	1,625,364
Assigned	4,881,153	-	-	4,881,153
Unassigned	<u>8,987,984</u>	<u>-</u>	<u>(263,693)</u>	<u>8,724,291</u>
Total Fund Balances	<u>14,798,812</u>	<u>9,720,783</u>	<u>29,092,451</u>	<u>53,612,046</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 34,978,359</u>	<u>\$ 14,866,412</u>	<u>\$ 37,976,571</u>	<u>\$ 87,821,342</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LYNN, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2015

Total governmental fund balances	\$ 53,612,046
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	241,996,955
• Long-term receivable from the Massachusetts School Building Authority are not available in the current period and, therefore, are not reported in the governmental funds.	7,896,674
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	10,434,549
• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.	2,201,090
• Deferred outflows of resources related to pensions resulting from projected vs. actual earnings will be recognized as an increase to the net pension liability in the years ending June 30, 2016 through June 30, 2019.	413,000
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(747,297)
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(76,053,577)
Net OPEB obligation	(189,529,000)
Net pension liability	(255,044,000)
Other (compensated absences, capital leases, etc.)	<u>(13,465,416)</u>
Net position of governmental activities	\$ <u>(218,284,976)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LYNN, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

	<u>General</u>	<u>School Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 111,985,435	\$ -	\$ -	\$ 111,985,435
Excises	7,082,753	-	-	7,082,753
Penalties, interest and other taxes	1,391,584	-	-	1,391,584
Charges for services	2,088,936	-	5,155,291	7,244,227
Intergovernmental	167,888,960	27,334,839	42,374,940	237,598,739
Contributions and donations	-	-	505,311	505,311
Licenses and permits	1,816,995	-	6,065	1,823,060
Fines and forfeitures	2,009,343	-	-	2,009,343
Investment income	182,820	6	41,099	223,925
Miscellaneous	100,307	-	614,934	715,241
Total Revenues	<u>294,547,133</u>	<u>27,334,845</u>	<u>48,697,640</u>	<u>370,579,618</u>
Expenditures:				
Current:				
General government	28,770,736	-	709,156	29,479,892
Public safety	38,153,594	-	2,765,815	40,919,409
Education	146,723,719	40,218,447	29,324,929	216,267,095
Public works	14,088,870	-	9,270,664	23,359,534
Health and human services	1,290,047	-	4,039,999	5,330,046
Culture and recreation	1,325,246	-	2,714,426	4,039,672
Employee benefits	63,774,311	-	-	63,774,311
Debt service	12,837,080	-	-	12,837,080
Intergovernmental	2,349,528	-	-	2,349,528
Total Expenditures	<u>309,313,131</u>	<u>40,218,447</u>	<u>48,824,989</u>	<u>398,356,567</u>
Excess (deficiency) of revenues over expenditures	(14,765,998)	(12,883,602)	(127,349)	(27,776,949)
Other Financing Sources (Uses):				
Refunding bond proceeds	9,560,000	-	-	9,560,000
Payment to refunding agent	(10,135,455)	-	-	(10,135,455)
Lease proceeds	5,260,951	-	-	5,260,951
Bond premium	675,762	-	-	675,762
Transfers in	321,960	-	2,412,712	2,734,672
Transfers out	(2,412,712)	-	(321,960)	(2,734,672)
Total Other Financing Sources (Uses)	<u>3,270,506</u>	<u>-</u>	<u>2,090,752</u>	<u>5,361,258</u>
Change in Fund Balance	(11,495,492)	(12,883,602)	1,963,403	(22,415,691)
Fund Balance, at Beginning of Year	<u>26,294,304</u>	<u>22,604,385</u>	<u>27,129,048</u>	<u>76,027,737</u>
Fund Balance, at End of Year	<u>\$ 14,798,812</u>	<u>\$ 9,720,783</u>	<u>\$ 29,092,451</u>	<u>\$ 53,612,046</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LYNN, MASSACHUSETTS
RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Net changes in fund balances - total governmental funds	\$ (22,415,691)																												
<ul style="list-style-type: none"> • 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: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Capital outlay purchases, net of dispositions</td> <td style="text-align: right;">55,547,047</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(10,402,745)</td> </tr> </table> • 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. (1,487,004) • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Repayments of debt</td> <td style="text-align: right;">9,595,000</td> </tr> <tr> <td>Proceeds of refunding bonds</td> <td style="text-align: right;">(9,560,000)</td> </tr> <tr> <td>Payment to refunding agent, net</td> <td style="text-align: right;">9,690,000</td> </tr> <tr> <td>Bond premium</td> <td style="text-align: right;">(675,762)</td> </tr> <tr> <td>Amortization of bond premium</td> <td style="text-align: right;">323,825</td> </tr> <tr> <td>Proceeds of capital leases</td> <td style="text-align: right;">(5,260,951)</td> </tr> <tr> <td>Payments of capital leases</td> <td style="text-align: right;">639,911</td> </tr> </table> • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. (196,133) • Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. (5,162,491) • Some expenses reported in the Statement of Activities, such as certain employee benefits, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Change in compensated absences liability</td> <td style="text-align: right;">141,125</td> </tr> <tr> <td>Change in net OPEB obligation</td> <td style="text-align: right;">(29,629,000)</td> </tr> <tr> <td>Change in net pension liability and deferrals</td> <td style="text-align: right;">2,061,865</td> </tr> <tr> <td>Change in workers compensation liability</td> <td style="text-align: right;">193,726</td> </tr> <tr> <td>Change in legal liability</td> <td style="text-align: right;">1,950,000</td> </tr> </table> • Reimbursements from the Massachusetts School Building Authority for principal payments on long-term debt provide current financial resources to governmental funds but have no effect on changes in net assets, therefore are excluded from net assets. <u>(3,499,753)</u> 		Capital outlay purchases, net of dispositions	55,547,047	Depreciation	(10,402,745)	Repayments of debt	9,595,000	Proceeds of refunding bonds	(9,560,000)	Payment to refunding agent, net	9,690,000	Bond premium	(675,762)	Amortization of bond premium	323,825	Proceeds of capital leases	(5,260,951)	Payments of capital leases	639,911	Change in compensated absences liability	141,125	Change in net OPEB obligation	(29,629,000)	Change in net pension liability and deferrals	2,061,865	Change in workers compensation liability	193,726	Change in legal liability	1,950,000
Capital outlay purchases, net of dispositions	55,547,047																												
Depreciation	(10,402,745)																												
Repayments of debt	9,595,000																												
Proceeds of refunding bonds	(9,560,000)																												
Payment to refunding agent, net	9,690,000																												
Bond premium	(675,762)																												
Amortization of bond premium	323,825																												
Proceeds of capital leases	(5,260,951)																												
Payments of capital leases	639,911																												
Change in compensated absences liability	141,125																												
Change in net OPEB obligation	(29,629,000)																												
Change in net pension liability and deferrals	2,061,865																												
Change in workers compensation liability	193,726																												
Change in legal liability	1,950,000																												
Change in net position of governmental activities	\$ <u>(8,147,031)</u>																												

The accompanying notes are an integral part of these financial statements.

CITY OF LYNN, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Transfers:				
Taxes	\$ 110,289,873	\$ 110,289,873	\$ 111,985,435	\$ 1,695,562
Excise	5,920,000	5,920,000	7,082,753	1,162,753
Penalties, interest and other taxes	1,250,000	1,250,000	1,391,584	141,584
Charges for services	1,915,000	1,915,000	2,088,936	173,936
Intergovernmental	168,671,904	168,671,904	167,888,960	(782,944)
Licenses and permits	1,790,000	1,790,000	1,816,995	26,995
Fines and forfeits	1,806,500	1,806,500	2,009,343	202,843
Investment income	177,000	177,000	182,820	5,820
Transfers in	-	317,423	321,960	4,537
Miscellaneous	300,000	300,000	100,307	(199,693)
Total Revenues and Transfers	292,120,277	292,437,700	294,869,093	2,431,393
Expenditures and Transfers:				
General government	25,010,320	27,332,515	27,069,325	263,190
Public safety	38,120,444	38,181,232	37,862,842	318,390
Education	140,016,784	142,033,255	142,014,340	18,915
Public works	10,072,267	10,237,434	13,336,271	(3,098,837)
Health and human services	1,346,374	1,341,840	1,286,246	55,594
Culture and recreation	1,264,072	1,326,773	1,327,860	(1,087)
Debt service	12,950,000	12,950,000	12,736,773	213,227
Intergovernmental	2,365,585	2,365,585	2,349,528	16,057
Employee benefits	64,082,246	64,211,381	63,778,405	432,976
Transfers out	-	2,412,712	2,412,712	-
Total Expenditures and Transfers	295,228,092	302,392,727	304,174,302	(1,781,575)
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(3,107,815)	(9,955,027)	(9,305,209)	649,818
Other Financing Sources/(Uses):				
Use of fund balance:				
To reduce the tax levy	5,000,000	5,000,000	-	(5,000,000)
For school purposes	-	2,000,000	-	(2,000,000)
For legal settlement	-	1,650,000	-	(1,650,000)
For school construction projects	-	1,467,464	-	(1,467,464)
For snow removal and parking	-	1,000,000	-	(1,000,000)
For city capital projects	-	729,748	-	(729,748)
Raise prior year deficits	(1,892,185)	(1,892,185)	-	1,892,185
Excess of expenditures and other uses over revenues and other sources	\$ -	\$ -	\$ (9,305,209)	\$ (9,305,209)

The accompanying notes are an integral part of these financial statements.

CITY OF LYNN, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2015

	Business-Type Activities <u>Enterprise Fund</u>	Governmental <u>Activities</u>
	<u>Marina Fund</u>	<u>Internal Service Fund</u>
Assets		
Current:		
Cash and short-term investments	\$ 85,400	\$ 10,690,206
User fees, net of allowance for uncollectibles	10,249	-
Inventory	15,140	-
Other assets	<u>-</u>	<u>2,840,000</u>
Total current assets	110,789	13,530,206
Noncurrent:		
Capital assets, net of accumulated depreciation	<u>2,569,788</u>	<u>-</u>
Total noncurrent assets	<u>2,569,788</u>	<u>-</u>
Total Assets	2,680,577	13,530,206
Liabilities		
Current:		
Accrued liabilities	385,145	5,265,336
Other current liabilities	151,000	6,063,780
Current portion of long-term liabilities: Bonds payable	<u>942,230</u>	<u>-</u>
Total current liabilities	1,478,375	11,329,116
Noncurrent:		
Bonds payable, net of current portion	<u>158,602</u>	<u>-</u>
Total noncurrent liabilities	<u>158,602</u>	<u>-</u>
Total Liabilities	1,636,977	11,329,116
Net Position		
Net investment in capital assets	1,640,113	-
Unrestricted	<u>(596,513)</u>	<u>2,201,090</u>
Total Net Position	<u>\$ 1,043,600</u>	<u>\$ 2,201,090</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LYNN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	Marina <u>Fund</u>	Internal Service <u>Fund</u>
Operating Revenues:		
Charges for services	\$ 238,985	\$ -
Employee and employer contributions	<u>-</u>	<u>46,205,315</u>
Total Operating Revenues	238,985	46,205,315
Operating Expenses:		
Personnel expenses	116,677	-
Non personnel expenses	93,252	-
Depreciation	198,010	-
Employee benefits	<u>-</u>	<u>51,367,806</u>
Total Operating Expenses	<u>407,939</u>	<u>51,367,806</u>
Operating income (loss)	(168,954)	(5,162,491)
Nonoperating Revenues (Expenses):		
Investment income	13	-
Interest expense	<u>(72,730)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(72,717)</u>	<u>-</u>
Other Financing Sources:		
Capital contribution	<u>277,890</u>	<u>-</u>
Total Other Financing Sources	<u>277,890</u>	<u>-</u>
Change in net position	36,219	(5,162,491)
Net Position at Beginning of Year	<u>1,007,381</u>	<u>7,363,581</u>
Net Position at End of Year	<u>\$ 1,043,600</u>	<u>\$ 2,201,090</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LYNN, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	Marina <u>Fund</u>	Internal Service <u>Fund</u>
Cash Flows From Operating Activities:		
Receipts from customers and users	\$ 232,406	\$ -
Payments to vendors and employees	(137,590)	-
Receipts from employees and employer	-	46,205,315
Payments of employee benefits and expenses	-	<u>(48,686,948)</u>
Net Cash Provided By (Used For) Operating Activities	94,816	(2,481,633)
Cash Flows From Capital and Related Financing Activities:		
Principal payments on bonds	(12,003)	-
Interest expense	<u>(72,730)</u>	-
Net Cash Used For Capital and Related Financing Activities	(84,733)	-
Cash Flows From Investing Activities:		
Investment income	<u>13</u>	-
Net Cash Provided by Investing Activities	<u>13</u>	-
Net Change in Cash and Short-Term Investments	10,096	(2,481,633)
Cash and Short-Term Investments, Beginning of Year	<u>75,304</u>	<u>13,171,839</u>
Cash and Short-Term Investments, End of Year	<u>\$ 85,400</u>	<u>\$ 10,690,206</u>
Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:		
Operating (loss)	\$ (168,954)	\$ (5,162,491)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	198,010	-
Changes in assets and liabilities:		
User fees	(6,579)	-
Other assets	7,501	(20,000)
Accrued liabilities	64,838	1,699,688
Other liabilities	<u>-</u>	<u>1,001,170</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 94,816</u>	<u>\$ (2,481,633)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LYNN, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2015

	Pension Trust Fund (As of <u>December 31, 2014</u>)	Agency Funds
Assets		
Cash and short term investments	\$ 2,134,790	\$ 668,461
Investments	275,948,974	-
Accounts receivable	<u>1,886,097</u>	<u>26,044</u>
Total Assets	279,969,861	694,505
 Liabilities		
Other liabilities	<u>60</u>	<u>694,505</u>
Total Liabilities	<u>60</u>	<u>694,505</u>
 Net Position		
Total net position restricted for pension benefits	\$ <u><u>279,969,801</u></u>	\$ <u><u>-</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF LYNN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Pension Trust Fund</u>
Additions:	
Contributions:	
Employers	\$ 28,424,025
Plan members	7,030,062
Other	<u>753,185</u>
Total contributions	36,207,272
Investment Income (Gain):	
Change in fair value of investments	21,222,354
Less: management fees	<u>(1,654,824)</u>
Net investment (gain)	<u>19,567,530</u>
Total additions	55,774,802
Deductions:	
Benefit payments to plan members and beneficiaries	34,274,023
Refunds to plan members	250,495
Transfers to other systems	201,066
Administrative expenses	<u>386,471</u>
Total deductions	<u>35,112,055</u>
Net increase	20,662,747
Net position:	
Beginning of year	<u>259,307,054</u>
End of year	<u><u>\$ 279,969,801</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the City of Lynn (the City) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The City is a municipal corporation governed by an elected Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

The Lynn Contributory Retirement System was established to provide retirement benefits primarily to 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 3 City Hall Square, Lynn, MA 01901.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items

not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter 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.

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*, as is the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *school capital projects fund* is used to account for the Massachusetts School Building Authority construction project at the Marshall Middle School.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The government reports the following major proprietary funds:

- Seaport Marina Operations

The self-insured employee health program is reported as an internal service fund in the accompanying financial statements.

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

The *agency fund* is used to account for student activity funds and police details. Agency funds report only assets and liabilities, and thus have no measurement focus.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the Statement of Cash Flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Contributory Retirement System and Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2015 tax levy reflected an excess capacity of \$35,336.

G. Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from/to other funds" (i.e., the current portion of interfund loans).

H. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. No significant inventory balances were on hand in governmental funds.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$25,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical

cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	20
Vehicles	8
Office equipment	5 - 10
Computer equipment	5 - 10
Infrastructure	10 - 20

J. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

K. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

L. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The City reserves those portions of fund balance that are legally segregated for a specific

future use or which do not represent available, spendable resources and, therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The City's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the City Council).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned and unassigned.

Net Position - Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net position is reported as unrestricted.

M. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities

and disclosures 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.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by City Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the City Council is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 294,547,133	\$ 309,313,131
Other financing sources/uses (GAAP Basis)	<u>15,818,673</u>	<u>12,548,167</u>
Subtotal (GAAP Basis)	310,365,806	321,861,298
Reverse beginning of year appropriation carryforwards from expenditures	-	(7,071,436)
Add end-of-year appropriation carryforwards from expenditures	-	4,881,153
To reverse lease proceeds	(5,260,951)	(5,260,951)
To reverse bond refunding	<u>(10,235,762)</u>	<u>(10,235,762)</u>
Budgetary Basis	<u>\$ 294,869,093</u>	<u>\$ 304,174,302</u>

D. Excess of Expenditures Over Appropriations

Expenditures exceeding appropriations during the current fiscal year were as follows:

Snow and ice	\$ (3,381,211)
Culture and recreation	\$ (1,087)

E. Deficit Fund Equity

The following funds had deficits as of June 30, 2015:

Non-major Governmental Funds:		
School capital projects	\$	(160,775)
State 911 Training	\$	(41,443)
After School Meals	\$	(11,640)
McKinney-Vento ARRA Grant	\$	(10,454)
Byrne Grant	\$	(7,720)
State 911 Development	\$	(7,387)
School Sale	\$	(6,900)
Peer Education	\$	(6,078)
Mass Family Network	\$	(5,301)
LCHS Trip	\$	(2,224)
School Achievement	\$	(1,542)
Curriculum, Instruction, Assessment	\$	(1,000)
Agency Funds:		
Electrical Detail	\$	(10,808)
Division of Fish & Wildlife	\$	(1,875)

The deficits in these funds will be eliminated through future departmental or intergovernmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's and Contributory Retirement System's (the "System") deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The City and System do not have a deposit policy for custodial credit risk.

As of June 30, 2015 and December 31, 2014, \$15,905,970 and \$2,074,810 of the City's and System's bank balances of \$77,527,295 and \$2,574,810 respectively, were exposed to custodial credit risk as uninsured or uncollateralized. However, the City has a system in place to verify the creditworthiness of the financial institutions in which it has placed its funds.

Of the System's total exposed balance, \$1,550,308 was invested in PRIT.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the City's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below are the City's investments at year-end (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Treasury notes	\$ 1,597
Corporate bonds	3,072
Corporate equities	1,892
Mutual funds	488
Federal agency securities	<u>148</u>
Total investments	<u>\$ 7,197</u>

Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets is invested in any one security.

In accordance with Chapter 32 Section 22 of the Massachusetts General Laws, the System has transferred its investments to the Commonwealth's PRIT fund because its funding ratio and rate of return in prior years has not met the standards established by PERAC.

Presented below are the investments of the Lynn Contributory Retirement System as of December 31, 2014 (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>
Pooled funds	\$ 18,324
State investment pool*	<u>257,625</u>
Total investments	<u>\$ 275,949</u>

These investment types are not rated.

* *Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.*

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City and System do not have policies for custodial credit risk.

The System's investments of \$275,948,974 were exposed to custodial credit risk because the related securities are uninsured, unregistered, or held by the System's brokerage firm, which is also the Counterparty to these securities. The System manages this risk with SIPC, Excess SIPC and because the assets are held in separately identifiable trust accounts. Of the System's total exposure, \$257,624,857 is invested in the State Investment Pool (PRIT).

All the City's investments of \$7,196,944 were subject to custodial credit risk exposure because the related securities are uninsured, unregistered and/or held by the City's brokerage firm, which is also the Counterparty to these securities. The City manages this custodial credit risk with SIPC and excess SIPC.

C. Concentration of Credit Risk

The City and Contributory Retirement System do not have an investment in one issuer greater than 5% of total investments, other than U.S. Treasury Notes and PRIT.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City and System do 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.

Information about the credit quality and sensitivity of the fair values of the City's investments subject to market interest rate fluctuations is as follows (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>				<u>Average Rating</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater Than 10</u>	
Debt-related Securities:						
Corporate bonds	\$ 3,072	\$ 456	\$ 1,537	\$ 1,079	\$ -	A1
U.S. Treasury notes	1,597	671	423	503	-	Aaa
Federal agency securities	148	-	8	17	123	Aaa
Total	<u>\$ 4,817</u>	<u>\$ 1,127</u>	<u>\$ 1,968</u>	<u>\$ 1,599</u>	<u>\$ 123</u>	

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City does not have a policy for foreign currency risk. The System's policy is that holdings in foreign issuers shall be limited to those denominated in U.S. dollars and listed and traded on major domestic exchanges.

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on a quarterly basis 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 they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayer's property. The City has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2015 consist of the following (in thousands):

Real Estate		
2015	\$ 2,230	
2014	41	
2013	18	
Prior	<u>18</u>	\$ 2,307
Personal Property		
2015	86	
2014	76	
2013	64	
2012	59	
2011	93	
2010	45	
2009	42	
Prior	<u>1,127</u>	1,592
Tax Liens		1,321
Deferred Taxes		<u>922</u>
Total		<u>\$ 6,142</u>

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>
Property taxes	\$ 2,321
Excises	\$ 1,556

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2015. Of the \$11,406,634 of intergovernmental receivables, \$7,896,674 is due from the Massachusetts School Building Authority for reimbursement of school construction projects.

8. Interfund Fund Receivables/Payables and Transfer In/Out

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2015 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 27,970	\$ -
Nonmajor Governmental Funds:		
Permanent and Agency Funds:		
Library trust fund	-	27,970
Total	<u>\$ 27,970</u>	<u>\$ 27,970</u>

The City reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2015:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 321,960	\$ 2,412,712
Nonmajor Governmental Funds:		
Special Revenue Funds:		
Insurance reimbursements fund	-	70,097
Parking meter fund	-	48,100
Precinct officers fund	-	33,148
Capital Project Funds:		
Pickering middle school project	750,000	
Wyoma square municipal lot project	729,748	
Harrington elementary school project	547,404	
Connery elementary school project	335,560	
Financial software upgrade	50,000	170,615
Total	<u>\$ 2,734,672</u>	<u>\$ 2,734,672</u>

The \$2,412,712 transfer from the General fund to the Capital project funds represents appropriations from free cash for the specific projects noted above. Other transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs which are accounted for in other funds in accordance with budgetary authorizations.

9. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 267,083	\$ 42,548	\$ -	\$ 309,631
Machinery, equipment, and furnishings	30,474	3,768	(2,100)	32,142
Land improvements	5,024	1,077	-	6,101
Infrastructure	<u>22,822</u>	<u>2,145</u>	<u>-</u>	<u>24,967</u>
Total capital assets, being depreciated	325,403	49,538	(2,100)	372,841
Less accumulated depreciation for:				
Buildings and improvements	(105,643)	(6,191)	-	(111,834)
Machinery, equipment, and furnishings	(18,604)	(3,074)	2,133	(19,545)
Land improvements	(2,378)	(221)	-	(2,599)
Infrastructure	<u>(11,594)</u>	<u>(917)</u>	<u>-</u>	<u>(12,511)</u>
Total accumulated depreciation	<u>(138,219)</u>	<u>(10,403)</u>	<u>2,133</u>	<u>(146,489)</u>
Total capital assets, being depreciated, net	187,184	39,135	33	226,352
Capital assets, not being depreciated:				
Land	9,669	-	-	9,669
Construction in progress	<u>-</u>	<u>5,976</u>	<u>-</u>	<u>5,976</u>
Total capital assets, not being depreciated	<u>9,669</u>	<u>5,976</u>	<u>-</u>	<u>15,645</u>
Governmental activities capital assets, net	<u>\$ 196,853</u>	<u>\$ 45,111</u>	<u>\$ 33</u>	<u>\$ 241,997</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 2,076	\$ -	\$ -	\$ 2,076
Machinery, equipment, and furnishings	434	-	-	434
Land improvements	38	-	-	38
Infrastructure	<u>1,501</u>	<u>278</u>	<u>-</u>	<u>1,779</u>
Total capital assets, being depreciated	4,049	278	-	4,327
Less accumulated depreciation for:				
Buildings and improvements	(787)	(42)	-	(829)
Machinery, equipment, and furnishings	(396)	(6)	-	(402)
Land improvements	(38)	-	-	(38)
Infrastructure	<u>(338)</u>	<u>(150)</u>	<u>-</u>	<u>(488)</u>
Total accumulated depreciation	<u>(1,559)</u>	<u>(198)</u>	<u>-</u>	<u>(1,757)</u>
Total capital assets, being depreciated, net	<u>2,490</u>	<u>80</u>	<u>-</u>	<u>2,570</u>
Business-type activities capital assets, net	<u>\$ 2,490</u>	<u>\$ 80</u>	<u>\$ -</u>	<u>\$ 2,570</u>

Depreciation expense was charged to functions of the City as follows (in thousands):

Governmental Activities:	
General government	\$ 2,165
Public safety	1,121
Education	5,564
Public works	883
Culture and recreation	<u>670</u>
Total depreciation expense - governmental activities	<u>\$ 10,403</u>
Business-Type Activities:	
Marina	<u>\$ 198</u>
Total depreciation expense - business-type activities	<u>\$ 198</u>

10. **Deferred Outflows of Resources**

Deferred outflows of resources represent the consumption of net assets by the City that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

The following is a summary of deferred outflow of resources balances as of June 30, 2015:

	<u>Entity-wide Basis</u>
	Governmental
	<u>Activities</u>
Net difference between projected and actual pension investment earnings	\$ 413

11. **Warrants and Accounts Payable**

Warrants payable represent 2015 expenditures paid by July 15, 2015. Accounts payable represent additional 2015 expenditures paid after July 15, 2015.

12. Tax Refunds Payable

This balance consists of an estimate of refunds due to property tax payers for potential abatements. These cases are currently pending with the state Appellate Tax Board.

13. Capital Lease Obligations

The City is the lessee of certain equipment under capital leases expiring in various years through 2030. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2015:

<u>Fiscal</u> <u>Year</u>	<u>Capital</u> <u>Leases</u>
2016	\$ 1,191,805
2017	1,018,612
2018	1,008,000
2019	871,687
2020	690,479
2021-2025	3,452,395
2026-2030	<u>2,752,429</u>
Total minimum lease payments	10,985,407
Less amounts representing interest	<u>(1,919,502)</u>
Present Value of Minimum Lease Payments	<u>\$ 9,065,905</u>

14. Long-Term Debt

A. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial</u> <u>Maturities</u> <u>Through</u>	<u>Interest</u> <u>Rate(s) %</u>	<u>Amount</u> <u>Outstanding</u> <u>as of</u> <u>6/30/15</u>
New Police Station	10/01/15	3.0 - 6.0	\$ 825,000
Lynn Arts CCMC ⁽¹⁾	08/01/16	4.95 - 6.59	90,000
New Police Station, Manning Field	09/01/16	4.0 - 6.0	900,000
School Gen Obligation Refunding bonds	09/01/17	2.0 - 4.0	4,990,000
General Obligation Refunding bonds	12/01/17	2.0 - 5.0	11,840,000
Public Improvements Refunding	09/01/19	3.0	35,540
Recreational Facilities Refunding	09/01/19	3.0	927,900
Police Station Refunding	09/01/20	2.0 - 3.0	802,000
Police Station Refunding	09/01/24	2.0 - 4.0	6,626,460
Police Station Refunding	09/01/25	2.0 - 4.0	1,168,100
General Obligation bonds	06/01/26	2.25 - 3.9	1,115,000
Remodeling	07/15/27	4.0 - 6.0	6,390,000
Pine Grove Cemetery	03/01/28	3.0 - 5.0	715,000
General Obligation bonds	06/01/28	2.0 - 3.0	2,175,000
Power Lines	09/01/28	2.0 - 4.0	2,480,000
Classical High School	03/01/29	3.0 - 5.0	2,940,000
Marshall Middle School	06/01/39	3.0 - 5.0	<u>29,965,000</u>
Total Governmental Activities:			<u>\$ 73,985,000</u>

⁽¹⁾ Repaid through CDBG program

<u>Business-Type Activities:</u>	<u>Serial</u> <u>Maturities</u> <u>Through</u>	<u>Interest</u> <u>Rate(s) %</u>	<u>Amount</u> <u>Outstanding</u> <u>as of</u> <u>6/30/15</u>
Marina	2/1/2014*	7.0	\$ 929,675
Marina	04/14/26	4.5	<u>171,157</u>
Total Business-Type Activities:			<u>\$ 1,100,832</u>

* Principal and interest payments have not been made on this loan since fiscal year 2010. The date noted above was the original maturity date. The City does not consider themselves to be in default, as they have requested repayment assistance from NOAA, per the loan agreement, and have yet to hear back.

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2015 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 10,065,000	\$ 2,804,845	\$ 12,869,845
2017	10,185,000	2,289,653	12,474,653
2018	5,900,000	1,971,445	7,871,445
2019	3,545,000	1,785,676	5,330,676
2020	3,565,000	1,648,508	5,213,508
2021 - 2025	15,695,000	6,297,664	21,992,664
2026 - 2030	9,970,000	3,663,453	13,633,453
2031 - 2035	7,770,000	2,273,363	10,043,363
2036 - 2039	<u>7,290,000</u>	<u>738,700</u>	<u>8,028,700</u>
Total	<u>\$ 73,985,000</u>	<u>\$ 23,473,307</u>	<u>\$ 97,458,307</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 942,230	\$ 286,632	\$ 1,228,862
2017	13,132	6,868	20,000
2018	13,735	6,265	20,000
2019	14,366	5,634	20,000
2020	15,026	4,974	20,000
2021 - 2025	86,139	13,860	99,999
2026	<u>16,204</u>	<u>334</u>	<u>16,538</u>
Total	<u>\$ 1,100,832</u>	<u>\$ 324,567</u>	<u>\$ 1,425,399</u>

The general fund has been designated as the source, except as noted on the previous page, to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2015.

C. Changes in General Long-Term Liabilities

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

	Total Balance 7/1/14	Additions	Reductions	Total Balance 6/30/15	Less Current Portion	Equals Long-Term Portion 6/30/15
<u>Governmental Activities</u>						
Bonds payable	\$ 83,710	\$ 9,560	\$ (19,285)	\$ 73,985	\$ (10,065)	\$ 63,920
Unamortized bond premium	1,716	676	(323)	2,069	(324)	1,745
Subtotal	<u>85,426</u>	<u>10,236</u>	<u>(19,608)</u>	<u>76,054</u>	<u>(10,389)</u>	<u>65,665</u>
Other:						
Capital leases	4,445	5,261	(640)	9,066	(933)	8,133
Accrued employee benefits	2,944	294	(435)	2,803	(280)	2,523
Workers compensation	1,790	-	(194)	1,596	(160)	1,436
Subtotal	<u>9,179</u>	<u>5,555</u>	<u>(1,269)</u>	<u>13,465</u>	<u>(1,373)</u>	<u>12,092</u>
Net OPEB obligation	159,900	44,699	(15,070)	189,529	-	189,529
Net pension liability	<u>256,693</u>	<u>413</u>	<u>(2,062)</u>	<u>255,044</u>	<u>-</u>	<u>255,044</u>
Totals	<u>\$ 511,198</u>	<u>\$ 60,903</u>	<u>\$ (38,009)</u>	<u>\$ 534,092</u>	<u>\$ (11,762)</u>	<u>\$ 522,330</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 1,113	\$ -	\$ (12)	\$ 1,101	\$ (942)	\$ 159
Totals	<u>\$ 1,113</u>	<u>\$ -</u>	<u>\$ (12)</u>	<u>\$ 1,101</u>	<u>\$ (942)</u>	<u>\$ 159</u>

D. Advance and Current Refundings

Current Year

On November 20, 2014, the City issued general obligation bonds in the amount of \$9,560,000 with various interest rates ranging from 2.0% to 4.0% to (a) current refund the City's \$10,470,000 General Obligation Bonds dated December 1, 2003, maturing January 15 of the years 2016 through 2021, in the aggregate principal amount of \$820,000, with interest rates ranging from 4.0% to 4.25%, and callable on January 15, 2015, (b) advance refund the City's \$15,000,000 General Obligation Bonds dated October 1, 2005, maturing October 1, of the years 2016 through 2024, in the aggregate principal amount of \$6,750,000, with interest rates ranging from 4.0% to 4.375%, and callable on October 1, 2015 and (c) advance refund the City's \$6,685,000 General Obligation Bonds dated September 1, 2006, maturing September 1 of the years 2017 through 2019 and two term bonds maturing September 1, 2022 and September 1, 2025, in the aggregate principal amount of \$2,120,000, with 4.0% interest rates, and callable on September 1, 2006.

The general obligation bonds were issued at a true interest cost of 1.8154% and, after paying issuance costs of approximately \$95,533, the net proceeds were \$10,140,229. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with

an escrow agent to provide debt service payments until the 2003, 2005 and 2006 bonds are called on their respective call dates. The refundings met the requirements of an in-substance debt defeasance and the term bonds were removed from the City's financial statements.

As a result of the refundings, the City reduced its total debt service cash flow requirements by \$723,714, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$654,325.

Defeased debt still outstanding at June 30, 2015 is \$1,725,000.

15. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the City that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of deferred inflow of resources balances as of June 30, 2015 (in thousands):

	Governmental Funds	
	<u>General Fund</u>	<u>Nonmajor</u>
Unavailable revenues	\$ 9,006	\$ 5,306

16. Restricted Net Position

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position is segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

17. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The City implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2015:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for a NOAA Marina loan and non-major governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority. This fund balance classification includes funds set aside by City Council vote for specific capital projects.

Assigned - Represents amounts that are constrained by the City's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various City departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period. The City follows an informal policy that permits management to assign fund balance amounts to a specific purpose, although fund balance to be applied against a subsequent year's budget is voted by the City Council.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the City's fund balances at June 30, 2015:

	General Fund	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
NOAA Marina loan	\$ 929,675	\$ -	\$ -	\$ 929,675
Nonspendable permanent funds	-	-	7,162,508	7,162,508
Total Nonspendable	<u>929,675</u>	<u>-</u>	<u>7,162,508</u>	<u>8,092,183</u>
Restricted				
Circuit breaker	-	-	693,581	693,581
School lunch	-	-	2,236,029	2,236,029
Other school revolving	-	-	705,507	705,507
City federal grants	-	-	328,947	328,947
School federal grants	-	-	2,972,817	2,972,817
City state grants and contributions	-	-	1,462,795	1,462,795
School state grants and contributions	-	-	216,526	216,526
Cemetery	-	-	830,709	830,709
Golf course	-	-	824,402	824,402
Sale of public property	-	-	473,093	473,093
Insurance refunds	-	-	1,127,962	1,127,962
Parks and recreation	-	-	499,495	499,495
Memorial Auditorium	-	-	538,445	538,445
Cable access	-	-	587,663	587,663
Other miscellaneous grants and contributions	-	-	2,578,740	2,578,740
Other school miscellaneous grants and contributions	-	-	1,675,974	1,675,974
Lynn Housing Authority	-	-	478,826	478,826
Other special revenue funds	-	-	841,172	841,172
School capital projects	-	9,720,783	-	9,720,783
Various city capital projects	-	-	1,012,670	1,012,670
Expendable permanent funds	-	-	482,919	482,919
Total Restricted	<u>-</u>	<u>9,720,783</u>	<u>20,568,272</u>	<u>30,289,055</u>
Committed				
Pickering MS capital project	-	-	750,000	750,000
Other city capital projects	-	-	875,364	875,364
Total Committed	<u>-</u>	<u>-</u>	<u>1,625,364</u>	<u>1,625,364</u>
Assigned				
For encumbrances:				
General government	1,094,404	-	-	1,094,404
Public safety	422,724	-	-	422,724
Education	3,041,275	-	-	3,041,275
Public works	310,809	-	-	310,809
Health and human services	5,223	-	-	5,223
Culture and recreation	2,624	-	-	2,624
Employee benefits	4,094	-	-	4,094
Total Assigned	<u>4,881,153</u>	<u>-</u>	<u>-</u>	<u>4,881,153</u>
Unassigned	<u>8,987,984</u>	<u>-</u>	<u>(263,693)</u>	<u>8,724,291</u>
Total Fund Balance	<u>\$ 14,798,812</u>	<u>\$ 9,720,783</u>	<u>\$ 29,092,451</u>	<u>\$ 53,612,046</u>

18. Subsequent Events

Debt

Subsequent to June 30, 2015, the City has incurred the following debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General obligation state qualified school bond	\$ 9,000,000	2.0 - 5.0%	02/02/16	09/01/38

Use of Free Cash

On December 8, 2015, the City voted to appropriate \$3,600,000 of free cash to reduce the tax rate. In addition, on January 26, 2016, the City voted to appropriate \$1,200,000 to fund a portion of the net school spending deficit.

19. Commitments and Contingencies

Outstanding Legal Issues - There are several pending legal issues in which the City is involved. The City's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Abatements – There are several cases pending before the Appellate Tax Board in regard to alleged discrepancies in property assessments. According to the City's council, the probable outcome of these cases at the present time is indeterminable, although the City expects such amounts, if any, to be indeterminable.

Net School Spending – In fiscal year 2015, the City did not meet net school spending by approximately \$9 million. The City has voted the legislation necessary to allow it to fund these costs over a four year period and has been in discussion with the Department of Elementary and Secondary Education to determine a course of action.

20. Post-Employment Healthcare and Life Insurance Benefits

Other Post-Employment Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described, the City provides post-employment healthcare and life insurance benefits for retired employees through the City's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2014 the actuarial valuation date, approximately 1,727 retirees and 2,426 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The City provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the City and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute various amounts based on active blended rates of the cost of the health plan, as determined by the City. The City contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The City's fiscal 2015 annual OPEB 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 No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years.

The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2015, the amount actually contributed to the

plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of June 30, 2014 (in thousands):

Annual Required Contribution (ARC)	\$ 44,068
Interest on net OPEB obligation	5,597
Adjustment to ARC	<u>(4,966)</u>
Annual OPEB cost	44,699
Contributions made	<u>(15,070)</u>
Increase in net OPEB obligation	29,629
Net OPEB obligation - beginning of year	<u>159,900</u>
Net OPEB obligation - end of year	<u><u>\$ 189,529</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows (in thousands):

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 44,699	33.71%	\$ 189,529
2014	\$ 42,683	39.70%	\$ 159,900
2013	\$ 43,414	35.83%	\$ 134,162
2012	\$ 41,444	33.36%	\$ 106,303
2011	\$ 34,495	35.25%	\$ 78,683
2010	\$ 32,896	35.25%	\$ 56,348
2009	\$ 28,993	37.96%	\$ 35,048
2008	\$ 27,498	37.96%	\$ 17,060

The City's net OPEB obligation as of June 30, 2015 is recorded as a noncurrent liability.

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2014, the date of the most recent actuarial valuation, was as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 653,803
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 653,803</u></u>
Funded ratio (actuarial value of plan assets/AAL)	<u><u>0%</u></u>
Covered payroll (active plan members)	<u><u>\$ 158,217</u></u>
UAAL as a percentage of covered payroll	<u><u>413.2%</u></u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included 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 that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the City 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 City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2014 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined, as the City has not advanced funded its obligation. The actuarial assumptions included a 3.5% investment rate of return and an initial annual healthcare cost trend rate of 7.0% which decreases to a 4.5% long-term rate for all healthcare benefits after five years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.0%.

21. Retirement System

The City follows the provisions of GASB Statement No. 67 *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

A. Plan Description

The City is a member of the Lynn Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Because of the significance of its operational and financial relationship with the City,

the System is included as a pension trust fund in the City's basic financial systems.

Substantially all employees of the City (except teachers and administrators under contract employed by the School Department) Lynn Housing Authority, and Lynn Water and Sewer Commission are members of the Lynn Contributory Retirement System (the System), a cost sharing, multiple employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid.

The System is governed by a five-member board. The five members include two appointed by the town, two elected by the members and retirees, and a fifth member chosen by the other four members with the approval of the Public Employee Retirement Administration Commission. The System Retirement Board does not have the authority to amend benefit provisions.

Membership of each plan consisted of the following at December 31, 2014:

Retirees and beneficiaries receiving benefits	1,185
Terminated plan members entitled to but not yet receiving benefits	198
Active plan members	<u>1,321</u>
Total	<u><u>2,704</u></u>
Number of participating employers	3

B. Benefits Provided

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining 20 years of service. The plan also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the City payroll on January 1, 1978, (3) voluntarily left City employment on or after that date, and (4) left accumulated annuity deductions in the fund. A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the five years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any two consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of five consecutive years preceding retirement.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive zero, fifty, or one hundred percent of the regular interest which has accrued upon those deductions. However, effective July 1, 2010, members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3% and do not forfeit any interest previously earned on contributions.

C. Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The City's contribution to the System for the year ended June 30, 2015 was \$25,192,615, which was equal to its annual required contribution.

D. Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended June 30, 2015 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized as revenue in the period in which the members provide services to the employer. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments

Investment Policy

Investments are reported at fair value in accordance with PERAC requirements. System assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

Rate of Return

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 7.45%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from System's fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

E. Net Pension Liability of Participating Employers

The components of the net pension liability of the participating employers at June 30, 2015 were as follows (in thousands):

Net Pension Liability of Employers

Total pension liability	\$ 567,733
Plan fiduciary net position	<u>(279,970)</u>
Employers' net pension liability	<u>\$ 287,763</u>
Plan fiduciary net position as a percentage of total pension liability	49.31%

Actuarial Assumptions

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below:

Valuation Date	January 1, 2013 rolled forward to December 31, 2014
Actuarial cost method	Entry Age
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.25% for Group 1 and 4.75% for Group 4
Inflation rate	Not explicitly assumed
Post-retirement cost-of-living adjustment	3% of first \$14,000

Actuarial valuation of the ongoing Systems involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the December 31, 2014 valuation were based on the results of the most recent actuarial experience study, dated January 1, 2013, which was for the period January 1, 2011 through December 31, 2012.

Mortality rates were based on pre-retirement rates that reflect the RP-2000 Employees table projected 20 years with Scale AA (gender distinct). Post retirement rates reflect the RP-2000 Healthy Annuitant table projected 15 years with Scale AA (gender distinct). For disabled retirees, this table is set forward 2 years.

Target Allocations

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	18.00%	7.80%
International equity	22.00%	8.60%
Fixed income	19.00%	5.00%
Private equity	10.00%	9.80%
Real estate	10.00%	6.50%
Timber/Natural Resources	4.00%	6.90%
Hedge funds	9.00%	7.00%
Private debt	4.00%	8.30%
Portfolio completion strategies	<u>4.00%</u>	NA
Total	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate:

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.75%) or one percentage-point higher (8.75%) than the current rate (in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
December 31, 2014	\$ 309,106	\$ 255,044	\$ 208,334

F. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the City reported a liability of \$ 255,044,000 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2013. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2014, the City's proportion was 88.63%.

For the year ended June 30, 2015, the City recognized pension expense of \$23,151,000. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	<u>Deferred Outflows of Resources</u>
Net difference between projected and actual	\$ <u>413</u>
Total	\$ <u><u>413</u></u>

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ended June 30:	
2016	\$ 104
2017	103
2018	103
2019	<u>103</u>
Total	\$ <u><u>413</u></u>

22. Massachusetts Teachers' Retirement System (MTRS)

A. Plan Description

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth

is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

C. Contributions

Member contributions for MTRS vary depending on the most recent date of membership:

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

D. Actuarial Assumptions

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of January 1, 2014, rolled back to June 30, 2013. This valuation used the following assumptions:

- (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Mortality rates were as follows:
 - Pre-retirement - reflects RP-2000 Employees table adjusted for “white-collar” employment projected 22 years with Scale AA (gender distinct)
 - Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct)
 - Disability – reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) set forward 3 years for males.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term

expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2014 and 2013 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	
		<u>2014</u>	<u>2013</u>
Global equity	43.0%	7.2%	7.70%
Core fixed income	13.0%	2.5%	2.00%
Hedge funds	10.0%	5.5%	4.75%
Private equity	10.0%	8.8%	9.00%
Real estate	10.0%	6.3%	6.00%
Value added fixed income	10.0%	6.3%	6.30%
Timber/natural resources	4.0%	5.0%	5.00%
Total	<u>100.0%</u>		

E. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (amounts in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease to 7%</u>	<u>Current Discount Rate 8%</u>	<u>1% Increase to 9%</u>
June 30, 2013	\$ 21,426,000	\$ 17,233,698	\$ 13,672,000
June 30, 2014	\$ 20,247,000	\$ 15,896,354	\$ 12,200,000

G. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

H. City Proportions

In fiscal year 2014 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense that is associated with the City was \$220,041,360 and \$15,287,329 respectively, based on a proportionate share of 1.384225%. As required by GASB 68, the City has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities.

23. Self-Insurance

The City self-insures against claims for workers compensation, unemployment and most employee health coverage. Annual estimated requirements for claims are provided in the City's annual operating budget.

Health Insurance

The City contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the City is liable for claims up to \$2,000,000 per individual. The claims liability represents an estimate of claims incurred but unpaid at year-end, based on past historical costs and claims paid subsequent to year-end.

Changes in the aggregate liability for claims for the year ended June 30, 2015 are as follows:

	<u>Health Coverage</u>
Claims liability, beginning of year	\$ 8,628,258
Claims incurred/recognized in fiscal year 2015	51,367,806
Claims paid in fiscal year 2015	<u>(48,666,948)</u>
Claims liability, end of year	<u>\$ 11,329,116</u>

The \$6,063,780 estimated liability for claims incurred but not reported includes only an estimate for known loss events expected to later be presented as claims. The City is unable to estimate the amount of unknown loss events expected to become claims and expected future developments on claims already reported.

24. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

25. Beginning Net Position Restatement

The City's beginning net position for fiscal year 2015 has been restated from the previous fiscal year to conform to GASB Statement 68. Fiscal year 2014 and prior periods have not been restated due to the impractical nature of allocating annual activity and lack of information for measurement dates June 30, 2012 and prior; as this is a new standard and beginning net position restatement does not recognize beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions per GASB 71. Accordingly, the following reconciliation is provided:

Government-Wide Financial Statements:	
	Governmental <u>Activities</u>
As previously reported	\$ 46,554,920
GASB 68 Implementation for net pension liability	<u>(256,692,865)</u>
As restated	<u>\$ (210,137,945)</u>

**CITY OF LYNN, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2015

(Unaudited)

(Amounts expressed in thousands)

Other Post-Employment Benefits						
Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
06/30/14	\$ -	\$ 653,803	\$ 653,803	0.0%	\$ 158,217	413.2%
06/30/12	\$ -	\$ 648,817	\$ 648,817	0.0%	\$ 150,247	431.8%
06/30/10	\$ -	\$ 531,170	\$ 531,170	0.0%	\$ 140,290	378.6%
06/30/08	\$ -	\$ 450,682	\$ 450,682	0.0%	\$ 149,762	300.9%

See Independent Auditors' Report.

**CITY OF LYNN, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2015

(Unaudited)

(Amounts expressed in thousands)

<u>Lynn Contributory Retirement System:</u>	<u>2015</u>
Proportion of the net pension liability for the most recent measurement date	88.63%
Proportionate share of the net pension liability for the most recent measurement date	\$ 255,044
Covered-employee payroll for the most recent measurement date	\$ 61,856
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	412.32%
Plan fiduciary net position as a percentage of the total pension liability	49.31%
<u>Massachusetts Teachers' Retirement System:</u>	<u>2015</u>
Proportion of the net pension liability for the most recent measurement date	1.384225%
The City's proportionate share of the net pension liability for the most recent measurement date	\$ -
Commonwealth of Massachusetts' total proportionate share of the net pension liability that is associated with the City	<u>220,041</u>
Total net pension liability associated with the City	<u>\$ 220,041</u>
Covered-employee payroll for the most recent measurement date	\$ 84,874
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0%
Plan fiduciary net position as a percentage of the total pension liability	61.64%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available

See Independent Auditors' Report.

CITY OF LYNN, MASSACHUSETTS

**SCHEDULE OF CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION**

JUNE 30, 2015

(Unaudited)

(Amounts expressed in thousands)

<u>Lynn Contributory Retirement System:</u>	<u>2015</u>
Contractually required contribution for the current fiscal year	\$ 25,193
Contributions in relation to the contractually required contribution	<u>(25,193)</u>
Contribution deficiency (excess)	\$ <u><u>-</u></u>
Covered-employee payroll for the current fiscal year	\$ 61,856
Contributions as a percentage of covered-employee payroll	40.73%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available

See Independent Auditors' Report.

**CITY OF LYNN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

Schedule of Changes in the Net Pension Liability

(Unaudited)

(Amounts expressed in thousands)

	<u>2014</u>
Total pension liability	
Service cost	\$ 10,537
Interest on unfunded liability - time value of \$	42,060
Benefit payments, including refunds of member contributions	<u>(34,069)</u>
Net change in total pension liability	18,528
Total pension liability - beginning	<u>549,205</u>
Total pension liability - ending (a)	<u>\$ 567,733</u>
 Plan fiduciary net position	
Contributions - employer	\$ 28,433
Contributions - member	6,829
Net investment income	19,567
Benefit payments, including refunds of member contributions	(34,069)
Administrative expense	(386)
Other	<u>14</u>
Net change in plan fiduciary net position	20,388
Plan fiduciary net position - beginning	<u>259,582</u>
Plan fiduciary net position - ending (b)	<u>\$ 279,970</u>
 Net pension liability (asset) - ending (a-b)	<u>\$ 287,763</u>

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See notes to the City's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

**CITY OF LYNN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

Schedules of Net Pension Liability, Contributions, and Investment Returns

(Unaudited)

(Amounts expressed in thousands)

Schedule of Net Pension Liability

	<u>2014</u>
Total pension liability	\$ 567,733
Plan fiduciary net position	<u>279,970</u>
Net pension liability (asset)	<u>\$ 287,763</u>
Plan fiduciary net position as a percentage of the total pension liability	49.31%
Covered employee payroll	\$ 69,791
Participating employer net pension liability (asset) as a percentage of covered employee payroll	412.32%

Schedule of Contributions

	<u>2014</u>
Actuarially determined contribution	\$ 28,424
Contributions in relation to the actuarially determined contribution	<u>28,424</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 69,791
Contributions as a percentage of covered employee payroll	40.73%

Schedule of Investment Returns

Year Ended December 31

	<u>2014</u>
Annual money weighted rate of return, net of investment expense	7.45%

*Schedules are intended to show information for 10 years.
Additional years will be displayed as they become available.*

See Independent Auditors' Report.