

**CITY OF LYNN, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2014**

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## INDEPENDENT AUDITORS' REPORT

To the 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, 2014 (except for the Lynn Contributory Retirement System which is as of and for the year ended December 31, 2013), 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.

### **Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assess-

ments, 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, 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.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Schedule of Funding Progress 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 April 6, 2015 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*

April 6, 2015

## **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, 2014. All amounts, unless otherwise indicated, 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 liabilities, 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, highways and streets, sanitation, economic development, and culture and recreation. 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 exceeded liabilities by \$47,562 (i.e., net position), a change of \$(13,009) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$76,028, a change of \$26,838 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$17,514, a change of \$974 in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$84,823, a change of \$20,679 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</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 120,200	\$ 90,530	\$ 101	\$ 100	\$ 120,301	\$ 90,630
Noncurrent assets	8,006	11,782	-	-	8,006	11,782
Capital assets	<u>196,853</u>	<u>180,472</u>	<u>2,490</u>	<u>2,445</u>	<u>199,343</u>	<u>182,917</u>
Total assets	325,059	282,784	2,591	2,545	327,650	285,329
Long-term liabilities outstanding	254,506	204,204	1,113	1,124	255,619	205,328
Other liabilities	<u>23,998</u>	<u>19,024</u>	<u>471</u>	<u>406</u>	<u>24,469</u>	<u>19,430</u>
Total liabilities	278,504	223,228	1,584	1,530	280,088	224,758
Net position:						
Net investment in capital assets	148,848	135,969	1,560	1,516	150,408	137,485
Restricted	50,139	27,736	-	-	50,139	27,736
Unrestricted	<u>(152,432)</u>	<u>(104,149)</u>	<u>(553)</u>	<u>(501)</u>	<u>(152,985)</u>	<u>(104,650)</u>
Total net position	<u>\$ 46,555</u>	<u>\$ 59,556</u>	<u>\$ 1,007</u>	<u>\$ 1,015</u>	<u>\$ 47,562</u>	<u>\$ 60,571</u>

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Charges for services	\$ 9,568	\$ 8,262	\$ 210	\$ 288	\$ 9,778	\$ 8,550
Operating grants and contributions	209,724	201,547	-	-	209,724	201,547
Capital grants and contributions	1,367	2,282	221	1,049	1,588	3,331
General revenues:						
Property taxes	107,163	102,985	-	-	107,163	102,985
Excises	5,519	5,924	-	-	5,519	5,924
Penalties and interest on taxes	1,366	1,390	-	-	1,366	1,390
Grants and contributions not restricted to specific programs	25,372	20,703	-	-	25,372	20,703
Investment income	683	296	-	-	683	296
Other	1,309	1,295	-	-	1,309	1,295
Total revenues	<u>362,071</u>	<u>344,684</u>	<u>431</u>	<u>1,337</u>	<u>362,502</u>	<u>346,021</u>
Expenses:						
General government	13,858	24,013	-	-	13,858	24,013
Public safety	41,029	42,159	-	-	41,029	42,159
Education	201,232	189,090	-	-	201,232	189,090
Public works	19,374	17,276	-	-	19,374	17,276
Health and human services	4,197	4,646	-	-	4,197	4,646
Culture and recreation	4,395	2,754	-	-	4,395	2,754
Employee benefits	87,313	90,298	-	-	87,313	90,298
Interest on long-term debt	1,365	1,634	-	-	1,365	1,634
Intergovernmental	2,309	2,288	-	-	2,309	2,288
Marina	-	-	439	485	439	485
Total expenses	<u>375,072</u>	<u>374,158</u>	<u>439</u>	<u>485</u>	<u>375,511</u>	<u>374,643</u>
Other financing sources:						
Transfers, net	-	(110)	-	50	-	(60)
Total other financing sources	<u>-</u>	<u>(110)</u>	<u>-</u>	<u>50</u>	<u>-</u>	<u>(60)</u>
(Decrease) in net position	(13,001)	(29,584)	(8)	902	(13,009)	(28,682)
Net position - beginning of year	<u>59,556</u>	<u>89,140</u>	<u>1,015</u>	<u>113</u>	<u>60,571</u>	<u>89,253</u>
Net position - end of year	<u>\$ 46,555</u>	<u>\$ 59,556</u>	<u>\$ 1,007</u>	<u>\$ 1,015</u>	<u>\$ 47,562</u>	<u>\$ 60,571</u>

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 \$47,562, a change of \$(13,009) from the prior year.

The largest portion of net position \$150,408 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, \$50,139, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$(152,985), results in a deficit, caused primarily because of unfunded OPEB liabilities (see note 19).

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$(13,001). Key elements of this change are as follows:

Increase in net OPEB obligation over prior year	\$ (25,738)
Capital assets purchased with current year revenue	11,190
Other	<u>1,547</u>
Total	<u>\$ (13,001)</u>

**Business-type activities.** Business-type activities for the year resulted in a change in net position of \$(8). 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 \$76,028, an increase of \$26,838 in comparison to the prior year. Key elements of this increase are as follows:

General fund revenues and transfers in in excess of expenditures and transfers out	\$ 4,248
School capital project major fund revenues and bond proceeds in excess of expenditures	22,708
Other	<u>(118)</u>
Total	<u>\$ 26,838</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 \$17,514, while total fund balance was \$26,294. 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>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 17,514	\$ 16,540	\$ 974	5.6%
Total fund balance	\$ 26,294	\$ 22,046	\$ 4,248	8.4%

The total fund balance of the general fund changed by \$4,248 during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay surplus as a funding source	\$ (5,276)
Prior year deficits raised in the current year	1,429
Revenues greater than budget	2,789
Expenditures greater than budget	(237)
Current year encumbrances in excess of prior year	4,319
Taxes collected in excess of current year levy	1,158
Other	66
<b>Total</b>	<b>\$ 4,248</b>

**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 \$(553), a decrease of \$(52) 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 \$5,878. Major reasons for these amendments include:

- \$3,000 School capital renovations
- \$1,000 Additional school appropriations
- \$260 Additional public works appropriations
- \$413 Additional inspectional services appropriations
- \$550 Financial software upgrade
- \$361 Additional police appropriations

- \$217 Additional general government appropriations
- \$77 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 \$199,342 (net of accumulated depreciation), an increase of \$16,425 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	\$ 12,094
School HVAC projects	3,968
New school equipment	1,957
School building repairs	1,403
Bandstand renovation	885
Street and sidewalks repaving	777
Park and field improvements	695
HVAC upgrades	671
New public safety equipment	590
Other miscellaneous projects	565
Renovation of new school administrative space	482
New IT equipment	249
Marina infrastructure	222
New public works vehicles	187
New public safety vehicles	117
Multi-service center improvements	110
Depreciation	<u>(8,547)</u>
Total	<u>\$ 16,425</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 \$84,823, 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.

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

### **Economic Development**

#### **Overview**

Program year 2014 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 2014, 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 revised existing downtown zoning. These new ordinances will enable future development and developers the proper tools in 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 begun the construction of a commuter ferry station to be 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 additional 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 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 the Commonwealth to work together with 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 supermarket chain and creating 150 local jobs; the City is confident this project will be completed by the end of 2015.

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 convinced four new restaurants to open in Lynn in 2014; translating into 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 are finalizing 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” 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 2015. 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.

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, 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.

**Lynn Assessed Values**

<b>FY</b>	<b>Commercial</b>	<b>% Chg</b>	<b>Total All Classes</b>	<b>% Chg</b>
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%

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 2015 will see an ongoing increase translating into reinvestment or ongoing stabilization of current budget projections.

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.

<b>FY</b>	<b>City of Lynn Ave Value</b>	<b>% Chg</b>	<b>Calendar Yr</b>	<b>Median Sale Price</b>	<b>% Chg</b>
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	175,000	-9.8%

FY	City of Lynn Ave Value	% Chg	Calendar Yr	Median Sale Price	% Chg
2012	225,414	0.7%	2012	180,000	2.9%
2013	215,637	-4.3%	2013	220,000	22.2%
2014	217,936	1.1%	2014	240,000	9.1%

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 \$40 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 will provide a site for water shuttle service from Lynn to Boston in the future. 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 2015 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 2015, EDIC will 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**

<b>Annual</b>	<b>Year</b>	<b>Labor Force</b>	<b>Employed</b>	<b>Unemployed</b>	<b>Unemployment Rate</b>
Average	2014	46,584	43,548	3,036	6.5
Average	2013	43,190	39,718	3,472	8.0
Average	2012	43,542	40,094	3,438	7.9
Average	2011	43,428	39,788	3,640	8.4
Average	2010	42,377	38,258	4,119	9.7
Average	2009	42,105	38,068	4,037	9.6
Average	2008	41,645	39,009	2,636	6.3
Average	2007	41,268	39,021	2,247	5.4
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.

<b><u>Largest Employers</u></b>	<b><u>Product</u></b>	<b><u>Employment</u></b>
General Electric	Manufacturer-Jet Engines	3,150
Atlantic Care	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	420
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 – 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, 2014

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 91,012,045	\$ 75,304	\$ 91,087,349
Investments	7,247,920	-	7,247,920
Receivables, net of allowance for uncollectibles:			
Property taxes	3,812,419	-	3,812,419
Excises	1,295,724	-	1,295,724
Departmental and other	5,966,316	3,670	5,969,986
Intergovernmental	8,045,453	-	8,045,453
Other assets	2,820,000	22,641	2,842,641
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental	7,896,673	-	7,896,673
Property taxes	109,653	-	109,653
Capital assets, non-depreciable	9,669,202	-	9,669,202
Capital assets, depreciable, net of accumulated depreciation	<u>187,183,451</u>	<u>2,489,908</u>	<u>189,673,359</u>
<b>TOTAL ASSETS</b>	<b>325,058,856</b>	<b>2,591,523</b>	<b>327,650,379</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	4,717,434	-	4,717,434
Accounts payable	2,473,245	-	2,473,245
Accrued liabilities	7,978,702	320,307	8,299,009
Tax refunds payable	1,372,224	-	1,372,224
Other current liabilities	7,456,464	151,000	7,607,464
Current portion of long-term liabilities:			
Bonds payable	9,595,000	941,679	10,536,679
Other liabilities	1,177,766	-	1,177,766
Noncurrent:			
Bonds payable, net of current portion	74,115,000	171,156	74,286,156
Other liabilities, net of current portion	9,718,101	-	9,718,101
Net OPEB obligation	<u>159,900,000</u>	<u>-</u>	<u>159,900,000</u>
<b>TOTAL LIABILITIES</b>	<b>278,503,936</b>	<b>1,584,142</b>	<b>280,088,078</b>
<b>NET POSITION</b>			
Net investment in capital assets	148,847,694	1,560,233	150,407,927
Restricted for:			
Grants and other statutory restrictions	42,534,079	-	42,534,079
Permanent funds:			
Nonexpendable	7,198,263	-	7,198,263
Expendable	406,676	-	406,676
Unrestricted	<u>(152,431,792)</u>	<u>(552,852)</u>	<u>(152,984,644)</u>
<b>TOTAL NET POSITION</b>	<b>\$ <u>46,554,920</u></b>	<b>\$ <u>1,007,381</u></b>	<b>\$ <u>47,562,301</u></b>

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

CITY OF LYNN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

	<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>
<b>Governmental Activities:</b>							
General government	\$ 13,857,888	\$ 2,057,371	\$ 441,889	\$ -	\$ (11,358,628)	\$ -	\$ (11,358,628)
Public safety	41,028,786	1,411,073	1,953,769	-	(37,663,944)	-	(37,663,944)
Education	201,232,371	859,593	196,693,153	-	(3,679,625)	-	(3,679,625)
Public works	19,374,196	2,393,461	5,950,695	1,367,105	(9,662,935)	-	(9,662,935)
Health and human services	4,196,634	584,948	3,926,350	-	314,664	-	314,664
Culture and recreation	4,394,690	2,261,226	185,114	-	(1,948,350)	-	(1,948,350)
Employee benefits	87,313,606	-	572,372	-	(86,741,234)	-	(86,741,234)
Interest	1,365,163	-	-	-	(1,365,163)	-	(1,365,163)
Intergovernmental	2,308,716	-	-	-	(2,308,716)	-	(2,308,716)
Total Governmental Activities	375,072,050	9,567,672	209,723,342	1,367,105	(154,413,931)	-	(154,413,931)
<b>Business-Type Activities:</b>							
Marina services	439,252	210,151	-	221,688	-	(7,413)	(7,413)
Total Business-Type Activities	439,252	210,151	-	221,688	-	(7,413)	(7,413)
Total	\$ <u>375,511,302</u>	\$ <u>9,777,823</u>	\$ <u>209,723,342</u>	\$ <u>1,588,793</u>	(154,413,931)	(7,413)	(154,421,344)
<b>General Revenues:</b>							
Property taxes					107,163,331	-	107,163,331
Excises					5,519,151	-	5,519,151
Penalties, interest and other taxes					1,366,380	-	1,366,380
Grants and contributions not restricted to specific programs					25,371,653	-	25,371,653
Investment income					682,906	10	682,916
Other					1,309,013	-	1,309,013
Total general revenues					141,412,434	10	141,412,444
Change in Net Position					(13,001,497)	(7,403)	(13,008,900)
<b>Net Position:</b>							
Beginning of year					59,556,417	1,014,784	60,571,201
End of year					\$ <u>46,554,920</u>	\$ <u>1,007,381</u>	\$ <u>47,562,301</u>

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

CITY OF LYNN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	<u>General</u>	<u>School Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and short-term investments	\$ 35,575,538	\$ 23,333,113	\$ 18,931,555	\$ 77,840,206
Investments	-	-	7,247,920	7,247,920
Receivables:				
Property taxes	6,240,847	-	-	6,240,847
Excises	3,273,943	-	-	3,273,943
Departmental and other	960,590	-	5,005,726	5,966,316
Intergovernmental	-	-	4,545,699	4,545,699
Due from other funds	<u>28,080</u>	<u>-</u>	<u>-</u>	<u>28,080</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 46,078,998</u></b>	<b><u>\$ 23,333,113</u></b>	<b><u>\$ 35,730,900</u></b>	<b><u>\$ 105,143,011</u></b>
<b>LIABILITIES</b>				
Warrants payable	\$ 3,373,797	\$ -	\$ 1,343,637	\$ 4,717,434
Accounts Payable	963,684	728,728	780,833	2,473,245
Accrued liabilities	3,861,890	-	-	3,861,890
Tax refunds payable	1,372,224	-	-	1,372,224
Due to other funds	-	-	28,080	28,080
Other liabilities	<u>443,854</u>	<u>-</u>	<u>-</u>	<u>443,854</u>
<b>TOTAL LIABILITIES</b>	<b>10,015,449</b>	<b>728,728</b>	<b>2,152,550</b>	<b>12,896,727</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>9,769,245</b>	<b>-</b>	<b>6,449,302</b>	<b>16,218,547</b>
<b>FUND BALANCES</b>				
Nonspendable	929,675	-	7,198,263	8,127,938
Restricted	-	22,604,385	20,336,370	42,940,755
Assigned	7,851,021	-	-	7,851,021
Unassigned	<u>17,513,608</u>	<u>-</u>	<u>(405,585)</u>	<u>17,108,023</u>
<b>TOTAL FUND BALANCES</b>	<b><u>26,294,304</u></b>	<b><u>22,604,385</u></b>	<b><u>27,129,048</u></b>	<b><u>76,027,737</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b><u>\$ 46,078,998</u></b>	<b><u>\$ 23,333,113</u></b>	<b><u>\$ 35,730,900</u></b>	<b><u>\$ 105,143,011</u></b>

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

CITY OF LYNN, MASSACHUSETTS

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

JUNE 30, 2014

<b>Total governmental fund balances</b>	\$ 76,027,737
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	196,852,653
• 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.	11,396,427
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	11,921,553
• 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.	7,363,581
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(551,164)
• Future expenditures related to providing other post employment benefits (OPEB's) are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(159,900,000)
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(96,555,867)</u>
<b>Net position of governmental activities</b>	<u><u>\$ 46,554,920</u></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, 2014

	<u>General</u>	<u>School Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 107,401,628	\$ -	\$ -	\$ 107,401,628
Excises	6,128,616	-	-	6,128,616
Penalties, interest and other taxes	1,366,380	-	-	1,366,380
Charges for services	1,699,190	-	4,486,222	6,185,412
Intergovernmental	193,213,035	4,376,035	43,215,847	240,804,917
Contributions and donations	-	-	1,354,743	1,354,743
Licenses and permits	1,364,162	-	9,248	1,373,410
Fines and forfeitures	2,181,733	-	-	2,181,733
Investment income	180,350	26	502,534	682,910
Miscellaneous	224,553	-	828,205	1,052,758
	<u>313,759,647</u>	<u>4,376,061</u>	<u>50,396,799</u>	<u>368,532,507</u>
Total Revenues				
Expenditures:				
Current:				
General government	21,651,501	-	746,278	22,397,779
Public safety	38,012,513	-	2,895,456	40,907,969
Education	162,269,368	11,667,628	32,233,002	206,169,998
Public works	12,232,658	-	8,870,888	21,103,546
Health and human services	1,293,692	-	2,928,040	4,221,732
Culture and recreation	1,307,240	-	2,813,781	4,121,021
Employee benefits	63,606,272	-	-	63,606,272
Debt service	11,689,144	-	-	11,689,144
Intergovernmental	2,308,716	-	-	2,308,716
	<u>314,371,104</u>	<u>11,667,628</u>	<u>50,487,445</u>	<u>376,526,177</u>
Total Expenditures				
Excess (deficiency) of revenues over expenditures	(611,457)	(7,291,567)	(90,646)	(7,993,670)
Other Financing Sources (Uses):				
Bond proceeds	-	30,000,000	-	30,000,000
Lease proceeds	3,967,564	-	-	3,967,564
Bond premium	864,556	-	-	864,556
Transfers in	610,904	-	587,582	1,198,486
Transfers out	(582,875)	-	(615,611)	(1,198,486)
	<u>4,860,149</u>	<u>30,000,000</u>	<u>(28,029)</u>	<u>34,832,120</u>
Total Other Financing Sources (Uses)				
Change in Fund Balance	4,248,692	22,708,433	(118,675)	26,838,450
Fund Balance, at Beginning of Year, as restated	<u>22,045,612</u>	<u>(104,048)</u>	<u>27,247,723</u>	<u>49,189,287</u>
Fund Balance, at End of Year	<u>\$ 26,294,304</u>	<u>\$ 22,604,385</u>	<u>\$ 27,129,048</u>	<u>\$ 76,027,737</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, 2014

<b>Net changes in fund balances - total governmental funds</b>	<b>\$ 26,838,450</b>																								
<ul style="list-style-type: none"> <li>• 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;">24,750,268</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(8,369,766)</td> </tr> </table> </li> <li>• 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. <span style="float: right;">(2,196,689)</span></li> <li>• 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;">9,310,000</td> </tr> <tr> <td>Proceeds of bonds</td> <td style="text-align: right;">(30,000,000)</td> </tr> <tr> <td>Bond premium</td> <td style="text-align: right;">(864,556)</td> </tr> <tr> <td>Amortization of bond premium</td> <td style="text-align: right;">256,249</td> </tr> <tr> <td>Proceeds of capital leases</td> <td style="text-align: right;">(3,967,564)</td> </tr> <tr> <td>Payments of capital leases</td> <td style="text-align: right;">316,989</td> </tr> </table> </li> <li>• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <span style="float: right;">32,219</span></li> <li>• 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. <span style="float: right;">1,695,721</span></li> <li>• 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%;">Decrease in compensated absences liability</td> <td style="text-align: right;">49,990</td> </tr> <tr> <td>Increase in net OPEB obligation</td> <td style="text-align: right;">(25,738,000)</td> </tr> <tr> <td>Decrease in workers compensation liability</td> <td style="text-align: right;">334,946</td> </tr> <tr> <td>Legal liability</td> <td style="text-align: right;">(1,950,000)</td> </tr> </table> </li> <li>• 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. <span style="float: right;"><u>(3,499,754)</u></span></li> </ul>		Capital outlay purchases, net of dispositions	24,750,268	Depreciation	(8,369,766)	Repayments of debt	9,310,000	Proceeds of bonds	(30,000,000)	Bond premium	(864,556)	Amortization of bond premium	256,249	Proceeds of capital leases	(3,967,564)	Payments of capital leases	316,989	Decrease in compensated absences liability	49,990	Increase in net OPEB obligation	(25,738,000)	Decrease in workers compensation liability	334,946	Legal liability	(1,950,000)
Capital outlay purchases, net of dispositions	24,750,268																								
Depreciation	(8,369,766)																								
Repayments of debt	9,310,000																								
Proceeds of bonds	(30,000,000)																								
Bond premium	(864,556)																								
Amortization of bond premium	256,249																								
Proceeds of capital leases	(3,967,564)																								
Payments of capital leases	316,989																								
Decrease in compensated absences liability	49,990																								
Increase in net OPEB obligation	(25,738,000)																								
Decrease in workers compensation liability	334,946																								
Legal liability	(1,950,000)																								
<b>Change in net position of governmental activities</b>	<b>\$ <u>(13,001,497)</u></b>																								

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, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
<b>Revenues and Other Sources:</b>				
Taxes	\$ 106,243,993	\$ 106,243,993	\$ 106,243,993	\$ -
Excise	5,657,232	5,657,232	6,128,616	471,384
Penalties, interest and other taxes	1,224,121	1,224,121	1,366,380	142,259
Charges for services	2,459,443	2,459,443	1,699,190	(760,253)
Intergovernmental	163,046,682	163,046,682	164,399,466	1,352,784
Licenses and permits	1,583,966	1,583,966	1,364,162	(219,804)
Fines and forfeits	1,584,299	1,584,299	2,181,733	597,434
Investment income	60,032	60,032	180,350	120,318
Miscellaneous	13,098	4,187	224,553	220,366
Transfers in	-	610,904	610,904	-
Bond premium	-	-	864,556	864,556
Use of free cash	-	5,275,779	5,275,779	-
<b>Total Revenues and Other Sources</b>	<b>281,872,866</b>	<b>287,750,638</b>	<b>290,539,682</b>	<b>2,789,044</b>
<b>Expenditures and Other Uses:</b>				
General government	20,650,035	23,796,416	23,325,059	471,357
Public safety	38,097,644	38,490,377	38,225,829	264,548
Education	130,634,999	131,634,999	131,718,578	(83,579)
Public works	10,260,135	10,778,997	12,453,331	(1,674,334)
Health and human services	1,374,872	1,387,151	1,303,214	83,937
Culture and recreation	1,286,327	1,291,787	1,289,008	2,779
Debt service	11,670,765	11,840,989	11,689,144	151,845
Intergovernmental	2,308,719	2,308,719	2,308,716	3
Employee benefits	64,160,667	64,209,625	63,663,503	546,122
Transfers out	-	582,875	582,875	-
Other uses	1,428,703	1,428,703	1,428,703	-
<b>Total Expenditures and Other Uses</b>	<b>281,872,866</b>	<b>287,750,638</b>	<b>287,987,960</b>	<b>(237,322)</b>
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 2,551,722	\$ 2,551,722

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

CITY OF LYNN, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2014

	Business-Type Activities <u>Enterprise Fund</u>	Governmental <u>Activities</u>
	Marina <u>Fund</u>	Internal Service <u>Fund</u>
<b>ASSETS</b>		
Current:		
Cash and short-term investments	\$ 75,304	\$ 13,171,839
User fees, net of allowance for uncollectibles	3,670	-
Inventory	22,641	-
Other assets	<u>-</u>	<u>2,820,000</u>
Total current assets	101,615	15,991,839
Noncurrent:		
Capital assets, net		
of accumulated depreciation	<u>2,489,908</u>	<u>-</u>
Total noncurrent assets	<u>2,489,908</u>	<u>-</u>
<b>TOTAL ASSETS</b>	2,591,523	15,991,839
<b>LIABILITIES</b>		
Current:		
Accrued liabilities	320,307	3,565,648
Other current liabilities	151,000	5,062,610
Current portion of long-term liabilities:		
Bonds payable	<u>941,679</u>	<u>-</u>
Total current liabilities	1,412,986	8,628,258
Noncurrent:		
Bonds payable, net of current portion	<u>171,156</u>	<u>-</u>
Total noncurrent liabilities	<u>171,156</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	1,584,142	8,628,258
<b>NET POSITION</b>		
Net investment in capital assets	1,560,233	-
Unrestricted	<u>(52,852)</u>	<u>7,363,581</u>
<b>TOTAL NET POSITION</b>	<u>\$ 1,007,381</u>	<u>\$ 7,363,581</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, 2014

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	Marina <u>Fund</u>	Internal Service <u>Fund</u>
<b>Operating Revenues:</b>		
Charges for services	\$ 210,151	\$ -
Employee and employer contributions	<u>-</u>	<u>46,499,928</u>
Total Operating Revenues	210,151	46,499,928
<b>Operating Expenses:</b>		
Personnel expenses	102,174	-
Non personnel expenses	86,527	-
Depreciation	176,971	-
Employee benefits	<u>-</u>	<u>44,804,207</u>
Total Operating Expenses	<u>365,672</u>	<u>44,804,207</u>
Operating income (loss)	(155,521)	1,695,721
<b>Nonoperating Revenues (Expenses):</b>		
Investment income	10	-
Interest expense	<u>(73,580)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(73,570)</u>	<u>-</u>
<b>Other Financing Sources:</b>		
Capital contribution	<u>221,688</u>	<u>-</u>
Total Other Financing Sources	<u>221,688</u>	<u>-</u>
Change in net position	(7,403)	1,695,721
Net Position at Beginning of Year	<u>1,014,784</u>	<u>5,667,860</u>
Net Position at End of Year	<u>\$ 1,007,381</u>	<u>\$ 7,363,581</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, 2014

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	Marina <u>Fund</u>	Internal Service <u>Fund</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Receipts from customers and users	\$ 286,889	\$ -
Payments to vendors and employees	(188,701)	-
Receipts from employees and employer	-	46,835,571
Payments of employee benefits and expenses	-	<u>(45,148,274)</u>
Net Cash Provided By Operating Activities	98,188	1,687,297
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>		
Principal payments on bonds	(11,476)	-
Interest expense	<u>(73,580)</u>	-
Net Cash Used For Capital and Related Financing Activities	(85,056)	-
<b><u>Cash Flows From Investing Activities:</u></b>		
Investment income	<u>10</u>	-
Net Cash Provided by Investing Activities	<u>10</u>	-
Net Change in Cash and Short-Term Investments	13,142	1,687,297
Cash and Short-Term Investments, Beginning of Year	<u>62,162</u>	<u>11,484,542</u>
Cash and Short-Term Investments, End of Year	<u>\$ 75,304</u>	<u>\$ 13,171,839</u>
<b><u>Reconciliation of Operating Income to Net Cash</u></b>		
<b><u>Provided by (Used For) Operating Activities:</u></b>		
Operating income (loss)	\$ (155,521)	\$ 1,695,721
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	176,971	-
Changes in assets and liabilities:		
User fees	11,682	-
Other assets	65,056	-
Accrued liabilities	-	335,643
Other liabilities	-	<u>(344,067)</u>
Net Cash Provided By Operating Activities	<u>\$ 98,188</u>	<u>\$ 1,687,297</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, 2014

	Pension Trust Fund (As of <u>December 31, 2013</u> )	Agency Funds
<b><u>ASSETS</u></b>		
Cash and short term investments	\$ 3,350,177	\$ 605,353
Investments	254,496,826	-
Accounts receivable	<u>1,858,821</u>	<u>-</u>
Total Assets	259,705,824	605,353
 <b><u>LIABILITIES AND NET POSITION</u></b>		
Other liabilities	<u>398,770</u>	<u>605,353</u>
Total Liabilities	<u>398,770</u>	<u>605,353</u>
 <b><u>NET POSITION</u></b>		
Total net position held in trust for pension benefits	<u>\$ 259,307,054</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, 2013

	<u>Pension Trust Fund</u>
<b>Additions:</b>	
Contributions:	
Employers	\$ 27,091,830
Plan members	7,154,605
Other	<u>1,281,221</u>
Total contributions	35,527,656
Investment Income (Gain):	
Change in fair value of investments	33,980,307
Less: management fees	<u>(1,580,667)</u>
Net investment (gain)	<u>32,399,640</u>
Total additions	67,927,296
<b>Deductions:</b>	
Benefit payments to plan members and beneficiaries	34,233,057
Refunds to plan members	278,290
Transfers to other systems	1,283,531
Administrative expenses	<u>333,788</u>
Total deductions	<u>36,128,666</u>
Net increase	31,798,630
<b>Net position:</b>	
Beginning of year	<u>227,508,424</u>
End of year	<u><u>\$ 259,307,054</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 government 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 Massachusetts School Building Authority construction projects at various school locations.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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 2014 tax levy reflected an excess capacity of \$19,156.

#### *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 expen-

ditures 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)	\$ 313,759,647	\$ 314,371,104
Other financing sources/uses (GAAP Basis)	<u>5,443,024</u>	<u>582,875</u>
Subtotal (GAAP Basis)	319,202,671	314,953,979
Adjust tax revenue to accrual basis	(1,157,635)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(3,531,658)
Add end-of-year appropriation carryforwards from expenditures	-	7,851,021
To reverse the effect of non- budgeted State contributions for teachers retirement	(28,813,569)	(28,813,569)
To reverse lease proceeds	(3,967,564)	(3,967,564)
Recognize use of fund balance as funding source	5,275,779	1,428,703
Other	<u>-</u>	<u>67,048</u>
Budgetary Basis	<u>\$ 290,539,682</u>	<u>\$ 287,987,960</u>

*D. Excess of Expenditures Over Appropriations*

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

Snow and ice	\$	(1,892,185)
School department		(83,579)

*E. Deficit Fund Equity*

The following funds had deficits as of June 30, 2014:

Non-major Governmental Funds:		
Police Support Incentive	\$	(175,261)
Chapter 90		(71,738)
911 Fire Support		(54,690)
State 911 Training		(21,927)
Universal Pre-K		(21,514)
After School Meals		(11,640)
McKinney-Vento ARRA Grant		(10,454)
Title I Dissemination		(7,752)
Byrne Grant		(7,720)
School Sale		(6,900)
Assistance to Firefighter		(5,481)
Mass Family Network		(5,301)
School Achievement		(1,542)
Learning lab		(1,160)
EMPG Grant		(1,095)
Curriculum, Instruction, Assessment		(1,000)
Agency Funds:		
Electrical Detail		(9,913)
Fire Detail		(2,387)
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, 2014 and December 31, 2013, \$39,543,984 and \$3,226,539 of the City’s and System’s bank balances of \$95,132,050 and \$3,726,539 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, \$1,750,233 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	\$ 1,770
Corporate bonds	2,480
Corporate equities	1,929
Mutual funds	474
Federal agency securities	<u>595</u>
Total investments	<u>\$ 7,248</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, 2013 (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>
Pooled funds	\$ 18,679
State investment pool*	<u>235,818</u>
Total investments	<u>\$ 254,497</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 \$254,496,826 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, \$235,818,380 is invested in the State Investment Pool (PRIT).

All the City's investments of \$7,247,920 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	\$ 2,480	\$ 95	\$ 1,716	\$ 669	\$ -	A1
U.S. Treasury notes	1,770	-	1,335	435	-	Aaa
Federal agency securities	<u>595</u>	<u>-</u>	<u>313</u>	<u>127</u>	<u>155</u>	Aaa
Total	<u>\$ 4,845</u>	<u>\$ 95</u>	<u>\$ 3,364</u>	<u>\$ 1,231</u>	<u>\$ 155</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 Assessor's 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 taxpayers' 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, 2014 consist of the following (in thousands):

Real Estate		
2014	\$ 2,411	
2013	31	
2012	17	
Prior	<u>26</u>	2,485
Personal Property		
2014	105	
2013	66	
2012	60	
2011	94	
2010	45	
2009	41	
2008	31	
Prior	<u>1,095</u>	1,537
Tax Liens		1,271
Deferred Taxes		<u>948</u>
Total		<u>\$ 6,241</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	\$ 2,319
Excises	\$ 1,978

## 7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2014. Of the \$15,942,126 of intergovernmental receivables, \$11,396,427 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, 2014 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 28,080	\$ -
Nonmajor Governmental Funds:		
Trust and Agency Funds:		
Library trust fund	-	28,080
Total	<u>\$ 28,080</u>	<u>\$ 28,080</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 2014:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 610,904	\$ 582,875
Nonmajor Governmental Funds:		
Special Revenue Funds:		
FEMA May floods	32,875	-
School	4,707	-
Law department	-	171,710
Waste management donation	-	148,000
Rebate receipts	-	141,150
Parking meter fund	-	77,000
Insurance reimbursements fund	-	45,751
Precinct officers fund	-	32,000
Capital Project Funds:		
Financial software upgrade fund	550,000	-
Total	<u>\$ 1,198,486</u>	<u>\$ 1,198,486</u>

The \$550,000 transfer from the General fund to the Capital project funds represents one time funding for upgrades to the City's financial software. 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, 2014 was as follows (in thousands):

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 246,621	\$ 20,462	\$ -	\$ 267,083
Machinery, equipment, and furnishings	27,224	3,250	-	30,474
Land improvements	4,894	130	-	5,024
Infrastructure	<u>21,913</u>	<u>909</u>	<u>-</u>	<u>22,822</u>
Total capital assets, being depreciated	300,652	24,751	-	325,403
Less accumulated depreciation for:				
Buildings and improvements	(100,453)	(5,190)	-	(105,643)
Machinery, equipment, and furnishings	(16,384)	(2,220)	-	(18,604)
Land improvements	(2,185)	(193)	-	(2,378)
Infrastructure	<u>(10,827)</u>	<u>(767)</u>	<u>-</u>	<u>(11,594)</u>
Total accumulated depreciation	<u>(129,849)</u>	<u>(8,370)</u>	<u>-</u>	<u>(138,219)</u>
Total capital assets, being depreciated, net	170,803	16,381	-	187,184
Capital assets, not being depreciated:				
Land	<u>9,669</u>	<u>-</u>	<u>-</u>	<u>9,669</u>
Total capital assets, not being depreciated	<u>9,669</u>	<u>-</u>	<u>-</u>	<u>9,669</u>
Governmental activities capital assets, net	<u>\$ 180,472</u>	<u>\$ 16,381</u>	<u>\$ -</u>	<u>\$ 196,853</u>
	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 2,076	\$ -	\$ -	\$ 2,076
Machinery, equipment, and furnishings	434	-	-	434
Land improvements	38	-	-	38
Infrastructure	<u>1,279</u>	<u>222</u>	<u>-</u>	<u>1,501</u>
Total capital assets, being depreciated	3,827	222	-	4,049
Less accumulated depreciation for:				
Buildings and improvements	(745)	(42)	-	(787)
Machinery, equipment, and furnishings	(389)	(7)	-	(396)
Land improvements	(38)	-	-	(38)
Infrastructure	<u>(210)</u>	<u>(128)</u>	<u>-</u>	<u>(338)</u>
Total accumulated depreciation	<u>(1,382)</u>	<u>(177)</u>	<u>-</u>	<u>(1,559)</u>
Total capital assets, being depreciated, net	<u>2,445</u>	<u>45</u>	<u>-</u>	<u>2,490</u>
Business-type activities capital assets, net	<u>\$ 2,445</u>	<u>\$ 45</u>	<u>\$ -</u>	<u>\$ 2,490</u>

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

Governmental Activities:	
General government	\$ 1,394
Public safety	1,043
Education	4,496
Public works	811
Culture and recreation	<u>626</u>
Total depreciation expense - governmental activities	<u>\$ 8,370</u>
Business-Type Activities:	
Marina	<u>\$ 177</u>
Total depreciation expense - business-type activities	<u>\$ 177</u>

#### 10. Warrants and Accounts Payable

Warrants payable represent 2014 expenditures paid by July 15, 2014. Accounts payable represent additional 2014 expenditures paid after July 15, 2014.

#### 11. 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.

#### 12. Capital Lease Obligations

The City is the lessee of certain equipment under capital leases expiring in various years through 2014. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2014:

<u>Fiscal Year</u>	<u>Capital Leases</u>
2015	\$ 670,040
2016	523,176
2017	349,983
2018	349,983
2019	349,983
2020-2024	1,749,915
2025-2028	<u>1,399,932</u>
Total minimum lease payments	5,393,012
Less amounts representing interest	<u>(948,147)</u>
Present Value of Minimum Lease Payments	<u>\$ 4,444,865</u>

### 13. 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 Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/14</u>
Lynn Arts CCMC <sup>(1)</sup>	07/25/16	4.9 - 6.6	\$ 130,000
School Gen Obligation refunding bonds	09/01/17	2.0 - 4.0	7,080,000
General Obligation refunding bonds	12/01/17	2.0 - 5.0	16,550,000
New Police Station	01/15/21	3.4 - 4.5	960,000
New Police Station	10/01/24	3.0 - 6.0	8,400,000
Police Station, Manning Field	03/01/26	4.0 - 6.0	3,470,000
General Obligation bonds	06/01/26	2.3 - 3.0	1,225,000
Remodeling	07/15/27	4.0 - 6.0	6,945,000
Pine Grove Cemetery	03/01/28	3.0 - 5.0	770,000
General Obligation bonds	06/01/28	2.3 - 6.0	2,415,000
Power Lines	09/01/28	2.0 - 4.0	2,615,000
Classical High School	03/01/29	3.0 - 5.0	3,150,000
Marshall Middle School	06/30/39	3.0 - 5.0	<u>30,000,000</u>
<b>Total Governmental Activities:</b>			<b>\$ <u>83,710,000</u></b>

<sup>(1)</sup> Repaid through CDBG program

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/14</u>
Marina*	02/01/14	7.0	\$ 929,675
Marina	04/14/26	4.5	<u>183,160</u>
<b>Total Business-Type Activities:</b>			<b>\$ <u>1,112,835</u></b>

\*Principal and interest payments have not been made on this loan 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.

**B. Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2014 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 9,595,000	\$ 3,292,772	\$ 12,887,772
2016	10,065,000	2,822,714	12,887,714
2017	10,170,000	2,385,465	12,555,465
2018	5,885,000	2,055,733	7,940,733
2019	3,540,000	1,856,189	5,396,189
2020 - 2024	16,625,000	7,070,685	23,695,685
2025 - 2029	11,365,000	4,062,889	15,427,889
2030 - 2034	7,515,000	2,527,363	10,042,363
2035 - 2039	8,950,000	1,086,175	10,036,175
Total	\$ <u>83,710,000</u>	\$ <u>27,159,985</u>	\$ <u>110,869,985</u>

  

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 941,679	\$ 279,187	\$ 1,220,866
2016	12,555	7,445	20,000
2017	13,132	6,868	20,000
2018	13,735	6,265	20,000
2019	14,366	5,634	20,000
2020 - 2024	82,356	17,644	100,000
2025 - 2029	35,012	1,525	36,537
Total	\$ <u>1,112,835</u>	\$ <u>324,568</u>	\$ <u>1,437,403</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, 2014.

**C. Changes in General Long-Term Liabilities**

During the year ended June 30, 2014, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/13	Additions	Reductions	Total Balance 6/30/14	Less Current Portion	Equals Long-Term Portion 6/30/14
<u>Governmental Activities</u>						
Bonds payable	\$ 63,020	\$ 30,000	\$ (9,310)	\$ 83,710	\$ (9,595)	\$ 74,115
Other:						
Capital leases	794	3,968	(317)	4,445	(448)	3,997
Accrued employee benefits	2,994	-	(50)	2,944	(294)	2,650
Workers compensation	2,125	-	(335)	1,790	(179)	1,611
Bond premium liability	1,108	864	(256)	1,716	(256)	1,460
Net OPEB obligation	134,162	42,683	(16,945)	159,900	-	159,900
Totals	\$ <u>204,203</u>	\$ <u>77,515</u>	\$ <u>(27,213)</u>	\$ <u>254,505</u>	\$ <u>(10,772)</u>	\$ <u>243,733</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 1,124	\$ -	\$ (11)	\$ 1,113	\$ (942)	\$ 171
Totals	\$ <u>1,124</u>	\$ <u>-</u>	\$ <u>(11)</u>	\$ <u>1,113</u>	\$ <u>(942)</u>	\$ <u>171</u>

#### 14. **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.

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund deferred inflows of resources account is equal to the total of all June 30, 2014 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

#### 15. **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.

#### 16. **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, 2014:

**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 an NOAA Marina loan and nonmajor 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.

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, 2014:

	General Fund	School Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>				
NOAA Marina loan	\$ 929,675	\$ -	\$ -	\$ 929,675
Nonexpendable permanent funds	-	-	7,198,263	7,198,263
Total Nonspendable	<u>929,675</u>	<u>-</u>	<u>7,198,263</u>	<u>8,127,938</u>
<b>Restricted</b>				
Circuit breaker	-	-	654,730	654,730
School lunch	-	-	2,285,492	2,285,492
Other school revolving	-	-	586,766	586,766
City federal grants	-	-	230,698	230,698
School federal grants	-	-	3,066,766	3,066,766
City state grants and contributions	-	-	1,159,381	1,159,381
School state grants and contributions	-	-	528,753	528,753
Cemetery	-	-	894,956	894,956
Golf course	-	-	425,000	425,000
Sale of public property	-	-	498,237	498,237
Workers compensation refunds	-	-	792,496	792,496
Parks and recreation	-	-	492,496	492,496
Memorial Auditorium	-	-	590,871	590,871
Other miscellaneous grants and contributions	-	-	2,765,485	2,765,485
Other school miscellaneous grants and contributions	-	-	1,967,757	1,967,757
Lynn Housing Authority	-	-	434,335	434,335
Other special revenue funds	-	-	301,221	301,221
School capital projects	-	22,604,385	-	22,604,385
Various city capital projects	-	-	2,254,254	2,254,254
Expendable permanent funds	-	-	406,676	406,676
Total Restricted	<u>-</u>	<u>22,604,385</u>	<u>20,336,370</u>	<u>42,940,755</u>
<b>Assigned</b>				
For encumbrances:				
General government	2,934,108	-	-	2,934,108
Public safety	442,090	-	-	442,090
Education	4,016,050	-	-	4,016,050
Public works	366,269	-	-	366,269
Health and human services	14,339	-	-	14,339
Culture and recreation	2,371	-	-	2,371
Employee benefits	75,794	-	-	75,794
Total Assigned	<u>7,851,021</u>	<u>-</u>	<u>-</u>	<u>7,851,021</u>
Unassigned	<u>17,513,608</u>	<u>-</u>	<u>(405,585)</u>	<u>17,108,023</u>
Total Fund Balance	\$ <u>26,294,304</u>	\$ <u>22,604,385</u>	\$ <u>27,129,048</u>	\$ <u>76,027,737</u>

**17. Subsequent Events**

Debt

Subsequent to June 30, 2014, 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 refunding bond	\$ 9,560,000	2.0 - 4.0%	11/13/14	09/01/25

Judgements

Subsequent to June 30, 2014, a judgement was received against the City totaling \$1,950,000 to be paid in FY 2015 financed by the use of free cash. This has been booked as an other current liability/expense in the governmental activities.

**18. 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 Town expects such amounts, if any, to be indeterminable.

Lynn Classical High School - The City of Lynn constructed a new high school on a former capped landfill site. The school has suffered structural damages resulting from shifting in the foundation slab and support system. Engineers believe repair to the existing structure can remediate the problem.

Costs needed for remediation are estimated at \$21 million including repairs, engineering, air quality monitoring, and costs of recovery from various parties participating in the design and construction.

The City has initiated claims for damages, and as of June 30, 2014 had received \$10.2 million in settlement claims.

Net School Spending – In fiscal year 2014, the City did not meet net school spending by approximately \$17 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.

## **19. 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 2014 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, 2014, 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)	\$ 42,154
Interest on net OPEB obligation	4,696
Adjustment to ARC	<u>(4,167)</u>
Annual OPEB cost	42,683
Contributions made	<u>(16,945)</u>
Increase in net OPEB obligation	25,738
Net OPEB obligation - beginning of year	<u>134,162</u>
Net OPEB obligation - end of year	<u><u>\$ 159,900</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>
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, 2014 is recorded as a component of the "other long-term liabilities" line item.

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

**20. Contributory Retirement System**

*A. Plan Description and Contribution Information*

Substantially all employees of the City (except teachers and administrators under contract employed by the School Department) are members of the Lynn Contributory Retirement System (LCRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the LCRS. 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 LCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid.

The LCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2013:

Retirees and beneficiaries receiving benefits	
Inactive members	1,219
Active plan members	<u>1,295</u>
Total	<u>2,514</u>
Number of participating employers	3

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings 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 Schedule of Employer Contributions is as follows:

Schedule of Employer Contributions:

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2005	\$ 16,354,707	100%
2006	17,501,805	100%
2007	18,282,652	100%
2008	19,500,000	100%
2009	20,700,000	100%
2010	22,000,000	100%
2011	23,500,000	100%
2012	24,700,000	100%
2013	26,041,685	100%
2014	27,091,830	100%

**B. Summary of Significant Accounting Policies**

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. 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.

Method Used to Value Investments - Investments are reported at fair value in accordance with PERAC requirements.

**C. Funded Status and Funding Progress**

The information presented below is from the Lynn Contributory Retirement System's most recent valuation.

<u>Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percent- age of Covered Payroll [(b-a)/c]</u>
01/01/13	\$ 222,055	\$ 529,724	\$ 307,669	41.9%	\$ 69,791	440.8%

The Schedule of Funding Progress following the notes to the financial statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

*D. Actuarial Methods and Assumptions*

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$530 million was calculated. The actuarial assumptions included (a) 7.75% investment rate of return and (b) a projected salary increase of 4.25%, 4.50%, and 4.75% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3.0%, on the first \$12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (7.75%) and accounting for deposits and disbursements with interest at the assumed rate of return.

An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of December 31, 2013, the unfunded actuarially accrued liability is being amortized over 20 years using an open group method which assumes a 4.0% per year increase in payroll.

*E. Teachers*

As required by State statutes, teachers of the City are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The City is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7% *
January 1, 1984 - June 30, 1996	8% *
July 1, 1996 - June 30, 2001	9% *
Beginning July 1, 2001	11%

\*Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$30,000.

The City's current year covered payroll for teachers and administrators was unavailable.

In fiscal year 2014, the Commonwealth of Massachusetts contributed \$28,813,569 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

**21. 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, 2014 are as follows:

	<u>Health Coverage</u>
Claims liability, beginning of year	\$ 8,636,682
Claims incurred/recognized in fiscal year 2014	44,804,207
Claims paid in fiscal year 2014	<u>(44,812,631)</u>
Claims liability, end of year	<u>\$ 8,628,258</u>

The \$5,062,610 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.

**22. 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.

**23. Beginning Fund Balance Reclassification**

The City’s major governmental funds for fiscal year 2014, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

Fund Basis Financial Statements:

	School <u>Capital Projects</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
As previously reported	\$ -	\$ 27,143,675	\$ 27,143,675
Reclass major funds	<u>(104,048)</u>	<u>104,048</u>	<u>-</u>
As restated	<u>\$ (104,048)</u>	<u>\$ 27,247,723</u>	<u>\$ 27,143,675</u>

**24. Implementation of New GASB Standards**

The GASB has issued Statement 68 Accounting and Financial Reporting for Pensions, which is required to be implemented in fiscal year 2015. Management’s current assessment is that this pronouncement will have a significant impact on the City’s basic financial statements by recognizing as a liability and expense, the City’s applicable portion of the City of Lynn Contributory Retirement System’s actuarially accrued liability.

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

**June 30, 2014  
(Unaudited)**

**Employees' Retirement System (in thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
01/01/13	\$ 222,055	\$ 529,724	\$ 307,669	41.92%	\$ 69,791	440.8%
01/01/11	\$ 219,472	\$ 477,096	\$ 257,624	46.00%	\$ 65,301	394.5%
01/01/09	\$ 186,016	\$ 443,629	\$ 257,613	41.93%	\$ 69,357	371.4%
01/01/07	\$ 198,161	\$ 412,239	\$ 214,078	48.07%	\$ 67,206	318.5%
01/01/06	\$ 186,959	\$ 400,013	\$ 213,054	46.74%	\$ 65,445	325.5%
01/01/04	\$ 178,523	\$ 351,319	\$ 172,796	50.82%	\$ 63,051	274.1%
01/01/02	\$ 166,986	\$ 317,253	\$ 150,267	52.63%	\$ 66,008	227.6%
01/01/00	\$ 168,280	\$ 278,031	\$ 109,751	60.53%	\$ 58,954	186.2%
01/01/98	\$ 109,786	\$ 200,056	\$ 90,270	54.88%	\$ 47,985	188.1%

**Other Post-Employment Benefits (in thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
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.