

CITY OF LYNN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2012

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Governmental-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	17
Proprietary Funds:	
Statement of Net Assets	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets	19
Statement of Cash Flows	20
Fiduciary Funds:	
Statement of Fiduciary Net Assets	21
Statement of Changes in Fiduciary Net Assets	22
Notes to Financial Statements	23
SUPPLEMENTARY INFORMATION:	
Schedule of Funding Progress	51



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Lynn, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lynn, Massachusetts, as of and for the year ended June 30, 2012, (except for the Lynn Contributory Retirement System which is as of and for the year ended December 31, 2011) which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City of Lynn's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, as of June 30, 2012, (except the Lynn Contributory Retirement System which is as of December 31, 2011), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have issued our report dated May 24, 2013 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the 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.

Melanson, Heath + Company P.C.

May 24, 2013

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, 2012. 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 Assets presents information on all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees 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 \$89,253 (i.e., net assets), a change of \$(18,740) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$55,293 a change of \$1,729 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$21,848, a change of \$933 in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$69,050 a change of \$(9,092) 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>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 96,449	\$ 92,673	\$ 118	\$ 135	\$ 96,567	\$ 92,808
Noncurrent assets	15,227	18,664	-	-	15,227	18,664
Capital assets	<u>175,342</u>	<u>176,207</u>	<u>1,471</u>	<u>1,547</u>	<u>176,813</u>	<u>177,754</u>
Total assets	<u>287,018</u>	<u>287,544</u>	<u>1,589</u>	<u>1,682</u>	<u>288,607</u>	<u>289,226</u>
Long-term liabilities outstanding	179,730	162,529	1,135	1,146	180,865	163,675
Other liabilities	<u>18,148</u>	<u>17,282</u>	<u>341</u>	<u>276</u>	<u>18,489</u>	<u>17,558</u>
Total liabilities	<u>197,878</u>	<u>179,811</u>	<u>1,476</u>	<u>1,422</u>	<u>199,354</u>	<u>181,233</u>
Net assets:						
Invested in capital assets, net	125,836	121,131	541	617	126,377	121,748
Restricted	29,527	30,087	-	-	29,527	30,087
Unrestricted	<u>(66,223)</u>	<u>(43,485)</u>	<u>(428)</u>	<u>(357)</u>	<u>(66,651)</u>	<u>(43,842)</u>
Total net assets	<u>\$ 89,140</u>	<u>\$ 107,733</u>	<u>\$ 113</u>	<u>\$ 260</u>	<u>\$ 89,253</u>	<u>\$ 107,993</u>

CHANGES IN NET ASSETS

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 9,792	\$ 8,926	\$ 431	\$ 478	\$ 10,223	\$ 9,404
Operating grants and contributions	181,922	179,477	-	-	181,922	179,477
Capital grants and contributions	1,359	1,026	-	-	1,359	1,026
General revenues:						
Property taxes	99,332	97,083	-	-	99,332	97,083
Excises	4,697	4,873	-	-	4,697	4,873
Penalties and interest on taxes	1,207	1,163	-	-	1,207	1,163
Grants and contributions not restricted to specific programs	27,605	27,023	-	-	27,605	27,023
Investment income	601	145	-	-	601	145
Other	<u>1,308</u>	<u>1,372</u>	<u>-</u>	<u>-</u>	<u>1,308</u>	<u>1,372</u>
Total revenues	327,823	321,088	431	478	328,254	321,566
Expenses:						
General government	21,233	19,553	-	-	21,233	19,553
Public safety	36,755	35,334	-	-	36,755	35,334
Education	175,304	162,563	-	-	175,304	162,563
Public works	16,421	16,667	-	-	16,421	16,667
Health and human services	3,838	3,016	-	-	3,838	3,016
Culture and recreation	1,341	1,166	-	-	1,341	1,166
Employee benefits	87,505	79,671	-	-	87,505	79,671
Interest on long-term debt	1,906	1,148	-	-	1,906	1,148
Intergovernmental	2,113	2,117	-	-	2,113	2,117
Marina	<u>-</u>	<u>-</u>	<u>578</u>	<u>650</u>	<u>578</u>	<u>650</u>
Total expenses	<u>346,416</u>	<u>321,235</u>	<u>578</u>	<u>650</u>	<u>346,994</u>	<u>321,885</u>
Decrease in net assets	(18,593)	(147)	(147)	(172)	(18,740)	(319)
Net assets - beginning of year	<u>107,733</u>	<u>107,880</u>	<u>260</u>	<u>432</u>	<u>107,993</u>	<u>108,312</u>
Net assets - end of year	<u>\$ 89,140</u>	<u>\$ 107,733</u>	<u>\$ 113</u>	<u>\$ 260</u>	<u>\$ 89,253</u>	<u>\$ 107,993</u>

As noted earlier, net assets 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 assets were \$89,253, a change of \$(18,740) from the prior year.

The largest portion of net assets \$126,377 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 assets, \$29,527, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$(66,651), results in a deficit.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$(18,593). Key elements of this change are as follows (in thousands):

General fund revenues in excess of expenditures	\$ 3,974
Non-major funds expenditures in excess of revenues	(2,245)
Internal service fund revenues in excess of expenditures	1,699
Capital assets obtained from current year revenues	6,210
Massachusetts School Building Authority principal payment received in current year, however recognized in prior years	(3,513)
Principal debt service in excess of depreciation expense	2,025
Decrease in capital lease liability over prior year	651
Increase in net OPEB obligation over prior year	(27,620)
Other	<u>226</u>
Total	<u>\$ (18,593)</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$(147) primarily due to accrued interest on long-term debt that is not being repaid.

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 \$55,293, an increase of \$1,729 in comparison to the prior year. Key elements of this increase are as follows (in thousands):

General fund revenues in excess of expenditures	\$ 3,974
Special revenue fund expenditures in excess of revenues	(2,339)
Capital project fund expenditures in excess of revenues	(435)
Trust fund gain on investments	<u>529</u>
Total	<u>\$ 1,729</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 \$21,848, while total fund balance was \$28,512. 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 (in thousands).

<u>General Fund</u>	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 21,848	\$ 20,915	\$ 933	7.8%
Total fund balance	28,512	24,842	3,670	10.2%

The total fund balance of the general fund changed by \$3,670 during the current fiscal year. Key factors in this change are as follows (in thousands):

Use of free cash and overlay surplus as a funding source	\$ (2,956)
Prior year deficits raised in the current year	2,085
Revenues less than budget	243
Expenditures less than budget	2,325
Current year encumbrances in excess of prior year	2,102
Property tax collections in excess of budget	<u>(129)</u>
Total	<u>\$ 3,670</u>

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

Unrestricted net assets of the enterprise funds at the end of the year amounted to a deficit balance of \$(428), a decrease of \$(72) 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 \$3,159. Major reasons for these amendments include:

- \$835 Additional fire department appropriations
- \$750 Marshall school renovations
- \$701 Additional public works appropriations
- \$320 Additional workers compensation appropriations
- \$318 Additional inspectional services appropriations
- \$150 Additional Medicare contributions
- \$ 45 Additional parking appropriations
- \$ 35 Additional city clerk appropriations
- \$ 5 Other

The increases were funded from property taxes, 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 \$176,813 (net of accumulated depreciation), a decrease of \$(941) 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 (in thousands):

New school equipment	\$ 1,180
Street and sidewalks repaving	1,019
School building repairs	758
Street lighting improvements	723
Highrock Reservation improvements	677
Library project	502
New public works vehicles	416
New police equipment	311
New fire equipment and furnishings	289
New school vehicles	120
Memorial auditorium fire alarm system upgrades	94
Multi-service center improvements	56
Museum and Historical Society building improvements	47
Depreciation	<u>(7,133)</u>
Total	<u>\$ (941)</u>

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

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$69,050, 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 Footnotes to the Financial Statements.

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:

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

CITY OF LYNN, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 64,574,871	\$ 45,939	\$ 64,620,810
Investments	6,761,224	-	6,761,224
Receivables, net of allowance for uncollectibles:			
Property taxes	4,270,171	-	4,270,171
Excises	1,638,015	-	1,638,015
Departmental and other	6,900,558	42,458	6,943,016
Intergovernmental	9,564,057	-	9,564,057
Other assets	2,740,000	30,056	2,770,056
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental	14,896,181	-	14,896,181
Property taxes	331,034	-	331,034
Capital assets, non-depreciable	8,369,202	-	8,369,202
Capital assets, depreciable, net of accumulated depreciation	<u>166,972,652</u>	<u>1,471,389</u>	<u>168,444,041</u>
TOTAL ASSETS	287,017,965	1,589,842	288,607,807
LIABILITIES			
Current:			
Warrants payable	3,734,444	-	3,734,444
Accounts payable	1,388,813	-	1,388,813
Accrued liabilities	6,707,358	190,194	6,897,552
Tax refunds payable	864,708	-	864,708
Other current liabilities	5,452,270	151,000	5,603,270
Current portion of long-term liabilities:			
Bonds payable	8,895,000	707,738	9,602,738
Other liabilities	844,891	-	844,891
Noncurrent:			
Bonds payable, net of current portion	59,020,000	427,545	59,447,545
Other liabilities, net of current portion	4,667,565	-	4,667,565
Net OPEB obligation	<u>106,303,000</u>	<u>-</u>	<u>106,303,000</u>
TOTAL LIABILITIES	197,878,049	1,476,477	199,354,526
NET ASSETS			
Invested in capital assets, net of related debt	125,835,749	541,714	126,377,463
Restricted for:			
Grants and other statutory restrictions	22,646,905	-	22,646,905
Permanent funds:			
Nonexpendable	6,628,552	-	6,628,552
Expendable	251,358	-	251,358
Unrestricted	<u>(66,222,648)</u>	<u>(428,349)</u>	<u>(66,650,997)</u>
TOTAL NET ASSETS	\$ <u>89,139,916</u>	\$ <u>113,365</u>	\$ <u>89,253,281</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 21,232,654	\$ 2,478,327	\$ 325,381	\$ -	\$ (18,428,946)	\$ -	\$ (18,428,946)
Public safety	36,755,423	1,232,591	1,571,256	-	(33,951,576)	-	(33,951,576)
Education	175,304,363	883,298	171,379,256	-	(3,041,809)	-	(3,041,809)
Public works	16,420,974	3,574,378	5,235,256	1,358,944	(6,252,396)	-	(6,252,396)
Health and human services	3,837,516	534,384	2,825,145	-	(477,987)	-	(477,987)
Culture and recreation	1,340,781	1,089,300	55,871	-	(195,610)	-	(195,610)
Employee benefits	87,504,641	-	529,639	-	(86,975,002)	-	(86,975,002)
Interest	1,905,771	-	-	-	(1,905,771)	-	(1,905,771)
Intergovernmental	2,113,574	-	-	-	(2,113,574)	-	(2,113,574)
Total Governmental Activities	346,415,697	9,792,278	181,921,804	1,358,944	(153,342,671)	-	(153,342,671)
Business-Type Activities:							
Marina services	578,277	430,523	-	-	-	(147,754)	(147,754)
Total Business-Type Activities	578,277	430,523	-	-	-	(147,754)	(147,754)
Total	\$ 346,993,974	\$ 10,222,801	\$ 181,921,804	\$ 1,358,944	(153,342,671)	(147,754)	(153,490,425)
General Revenues:							
Property taxes					99,331,518	-	99,331,518
Excises					4,696,686	-	4,696,686
Penalties, interest and other taxes					1,206,709	-	1,206,709
Grants and contributions not restricted to specific programs					27,605,696	-	27,605,696
Investment income					601,055	44	601,099
Other					1,308,287	-	1,308,287
Total general revenues					134,749,951	44	134,749,995
Change in Net Assets					(18,592,720)	(147,710)	(18,740,430)
Net Assets:							
Beginning of year					107,732,636	261,075	107,993,711
End of year					\$ 89,139,916	\$ 113,365	\$ 89,253,281

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

ASSETS	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Cash and short-term investments	\$ 34,700,317	\$ 19,899,864	\$ 54,600,181
Investments	-	6,761,224	6,761,224
Receivables:			
Property taxes	6,650,221	-	6,650,221
Excises	6,073,173	-	6,073,173
Departmental and other	628,804	6,271,754	6,900,558
Intergovernmental	-	6,051,343	6,051,343
Due from other funds	<u>27,970</u>	<u>-</u>	<u>27,970</u>
TOTAL ASSETS	<u>\$ 48,080,485</u>	<u>\$ 38,984,185</u>	<u>\$ 87,064,670</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Warrants payable	\$ 2,720,462	\$ 1,013,982	\$ 3,734,444
Accounts Payable	686,787	702,026	1,388,813
Accrued liabilities	2,886,979	-	2,886,979
Deferred revenues	12,363,081	10,459,053	22,822,134
Tax refunds payable	864,708	-	864,708
Due to other funds	-	27,970	27,970
Other liabilities	<u>46,362</u>	<u>-</u>	<u>46,362</u>
TOTAL LIABILITIES	19,568,379	12,203,031	31,771,410
Fund Balances:			
Nonspendable	2,022,771	6,628,552	8,651,323
Restricted	-	21,987,263	21,987,263
Committed	-	911,000	911,000
Assigned	4,641,286	-	4,641,286
Unassigned	<u>21,848,049</u>	<u>(2,745,661)</u>	<u>19,102,388</u>
TOTAL FUND BALANCES	<u>28,512,106</u>	<u>26,781,154</u>	<u>55,293,260</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 48,080,485</u>	<u>\$ 38,984,185</u>	<u>\$ 87,064,670</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS

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

JUNE 30, 2012

Total governmental fund balances	\$ 55,293,260
<ul style="list-style-type: none"> • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 	175,341,854
<ul style="list-style-type: none"> • 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. 	18,408,895
<ul style="list-style-type: none"> • Revenues are reported on the accrual basis of accounting and are not deferred until collection. 	16,337,960
<ul style="list-style-type: none"> • 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 Assets. 	4,144,455
<ul style="list-style-type: none"> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	(656,052)
<ul style="list-style-type: none"> • 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. 	(106,303,000)
<ul style="list-style-type: none"> • 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>(73,427,456)</u>
Net assets of governmental activities	\$ <u>89,139,916</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2012

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 99,388,337	\$ -	\$ 99,388,337
Excises	4,922,361	-	4,922,361
Penalties, interest and other taxes	1,206,709	-	1,206,709
Charges for services	2,250,533	4,053,696	6,304,229
Intergovernmental	172,773,098	42,734,325	215,507,423
Contributions and donations	-	918,915	918,915
Licenses and permits	1,188,187	-	1,188,187
Fines and forfeitures	1,541,725	-	1,541,725
Investment income	70,234	530,821	601,055
Miscellaneous	135,247	951,373	1,086,620
Total Revenues	<u>283,476,431</u>	<u>49,189,130</u>	<u>332,665,561</u>
Expenditures:			
Current:			
General government	18,329,447	1,745,628	20,075,075
Public safety	34,405,122	3,020,235	37,425,357
Education	139,148,658	34,291,071	173,439,729
Public works	9,825,092	8,423,961	18,249,053
Health and human services	1,127,871	2,675,207	3,803,078
Culture and recreation	1,187,812	1,277,755	2,465,567
Employee benefits	61,509,478	-	61,509,478
Debt service	11,855,614	-	11,855,614
Intergovernmental	2,113,574	-	2,113,574
Total Expenditures	<u>279,502,668</u>	<u>51,433,857</u>	<u>330,936,525</u>
Excess (deficiency) of revenues over expenditures	3,973,763	(2,244,727)	1,729,036
Other Financing Sources (Uses):			
Transfers in	607,483	911,000	1,518,483
Transfers out	<u>(911,000)</u>	<u>(607,483)</u>	<u>(1,518,483)</u>
Total Other Financing Sources (Uses)	<u>(303,517)</u>	<u>303,517</u>	<u>-</u>
Change in Fund Balance	3,670,246	(1,941,210)	1,729,036
Fund Balance, at Beginning of Year	<u>24,841,860</u>	<u>28,722,364</u>	<u>53,564,224</u>
Fund Balance, at End of Year	<u>\$ 28,512,106</u>	<u>\$ 26,781,154</u>	<u>\$ 55,293,260</u>

See notes to 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, 2012

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 1,729,036																
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;">Capital outlay purchases, net of dispositions</td> <td style="width: 20%; text-align: right;">6,192,723</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(7,057,499)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. (520,771) • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;">Repayments of debt</td> <td style="width: 20%; text-align: right;">9,082,000</td> </tr> <tr> <td>Amortization of bond premium</td> <td style="text-align: right;">221,667</td> </tr> <tr> <td>Payments of capital leases, net</td> <td style="text-align: right;">651,047</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 79,075 • 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. 1,699,064 • 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: 40px;"> <tr> <td style="width: 80%;">Decrease in compensated absences liability</td> <td style="width: 20%; text-align: right;">537,875</td> </tr> <tr> <td>Increase in net OPEB obligation</td> <td style="text-align: right;">(27,620,050)</td> </tr> <tr> <td>Increase in workers compensation liability</td> <td style="text-align: right;">(74,175)</td> </tr> </table> • Reimbursements from the Massachusetts School Building Authority for principal payments on long-term debt provide current financial resources to governmental funds but have no effect on changes in net assets, therefore are excluded from net assets. <u>(3,512,712)</u> 		Capital outlay purchases, net of dispositions	6,192,723	Depreciation	(7,057,499)	Repayments of debt	9,082,000	Amortization of bond premium	221,667	Payments of capital leases, net	651,047	Decrease in compensated absences liability	537,875	Increase in net OPEB obligation	(27,620,050)	Increase in workers compensation liability	(74,175)
Capital outlay purchases, net of dispositions	6,192,723																
Depreciation	(7,057,499)																
Repayments of debt	9,082,000																
Amortization of bond premium	221,667																
Payments of capital leases, net	651,047																
Decrease in compensated absences liability	537,875																
Increase in net OPEB obligation	(27,620,050)																
Increase in workers compensation liability	(74,175)																
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>(18,592,720)</u>																

See notes to 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, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Taxes	\$ 98,770,830	\$ 99,517,058	\$ 99,517,058	\$ -
Excise	4,741,500	4,741,500	4,922,361	180,861
Penalties, interest and other taxes	1,295,000	1,295,000	1,206,709	(88,291)
Charges for services	2,300,000	2,300,000	2,250,533	(49,467)
Intergovernmental	146,040,059	146,040,059	146,463,675	423,616
Licenses and permits	1,809,000	1,809,000	1,188,187	(620,813)
Fines and forfeits	1,297,400	1,297,400	1,541,725	244,325
Investment income	52,978	52,978	70,234	17,256
Miscellaneous	-	-	135,247	135,247
Transfers in	-	607,483	607,483	-
Use of overlay surplus	1,150,000	1,150,000	1,150,000	-
Use of free cash	-	1,805,572	1,805,572	-
	<u>257,456,767</u>	<u>260,616,050</u>	<u>260,858,784</u>	<u>242,734</u>
Expenditures and Other Uses:				
General government	19,334,202	18,687,071	18,056,365	630,706
Public safety	33,736,963	34,887,965	34,651,412	236,553
Education	115,598,812	115,598,812	114,968,551	630,261
Public works	8,896,305	10,126,651	9,706,742	419,909
Health and human services	1,120,342	1,146,700	1,128,607	18,093
Culture and recreation	1,199,859	1,217,567	1,188,256	29,311
Debt service	11,953,908	11,953,908	11,855,614	98,294
Intergovernmental	2,097,874	2,097,874	2,113,574	(15,700)
Employee benefits	61,433,803	61,903,803	61,626,291	277,512
Transfers out	-	911,000	911,000	-
Other uses	2,084,699	2,084,699	2,084,699	-
	<u>257,456,767</u>	<u>260,616,050</u>	<u>258,291,111</u>	<u>2,324,939</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,567,673</u>	\$ <u>2,567,673</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2012

	<u>Business-Type Activities</u> <u>Enterprise Fund</u>	<u>Governmental</u> <u>Activities</u>
	<u>Marina</u> <u>Fund</u>	<u>Internal</u> <u>Service</u> <u>Fund</u>
<u>ASSETS</u>		
Current:		
Cash and short-term investments	\$ 45,939	\$ 9,974,690
User fees, net of allowance for uncollectibles	42,458	-
Inventory	30,056	-
Other assets	-	2,740,000
Total current assets	118,453	12,714,690
Noncurrent:		
Capital assets, net of accumulated depreciation	1,471,389	-
Total noncurrent assets	1,471,389	-
TOTAL ASSETS	1,589,842	12,714,690
<u>LIABILITIES</u>		
Current:		
Accrued liabilities	190,194	3,164,327
Other current liabilities	151,000	5,405,908
Current portion of long-term liabilities:		
Bonds payable	707,738	-
Total current liabilities	1,048,932	8,570,235
Noncurrent:		
Bonds payable, net of current portion	427,545	-
Total noncurrent liabilities	427,545	-
TOTAL LIABILITIES	1,476,477	8,570,235
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	541,714	-
Unrestricted	(428,349)	4,144,455
TOTAL NET ASSETS	\$ 113,365	\$ 4,144,455

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	Marina <u>Fund</u>	Internal Service <u>Fund</u>
Operating Revenues:		
Charges for services	\$ 430,523	\$ -
Employee and employer contributions	<u>-</u>	<u>46,230,388</u>
Total Operating Revenues	430,523	46,230,388
Operating Expenses:		
Personnel expenses	112,710	-
Non personnel expenses	317,297	-
Depreciation	75,370	-
Employee benefits	<u>-</u>	<u>44,531,324</u>
Total Operating Expenses	<u>505,377</u>	<u>44,531,324</u>
Operating loss	(74,854)	1,699,064
Nonoperating Revenues (Expenses):		
Investment income	44	-
Interest expense	<u>(72,900)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(72,856)</u>	<u>-</u>
Change in net assets	(147,710)	1,699,064
Net Assets at Beginning of Year	<u>261,075</u>	<u>2,445,391</u>
Net Assets at End of Year	<u>\$ 113,365</u>	<u>\$ 4,144,455</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	Marina <u>Fund</u>	Internal Service <u>Fund</u>
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers and users	\$ 411,968	\$ -
Payments to vendors and employees	(358,893)	-
Receipts from employees and employer	-	46,230,388
Payments of employee benefits and expenses	<u>-</u>	<u>(45,718,220)</u>
Net Cash Provided By Operating Activities	53,075	512,168
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Principal payments on bonds	(10,490)	-
Interest expense	<u>(72,900)</u>	<u>-</u>
Net Cash Used For Capital and Related Financing Activities	(83,390)	-
<u>Cash Flows From Investing Activities:</u>		
Investment income	<u>44</u>	<u>-</u>
Net Cash Provided by Investing Activities	<u>44</u>	<u>-</u>
Net Change in Cash and Short-Term Investments	(30,271)	512,168
Cash and Short-Term Investments, Beginning of Year	<u>76,210</u>	<u>9,462,522</u>
Cash and Short-Term Investments, End of Year	<u>\$ 45,939</u>	<u>\$ 9,974,690</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>		
Operating income (loss)	\$ (74,854)	\$ 1,699,064
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	75,370	-
Changes in assets and liabilities:		
User fees	(18,555)	-
Inventory	6,057	-
Other assets	-	(15,000)
Accrued liabilities	65,057	(1,554,056)
Other liabilities	<u>-</u>	<u>382,160</u>
Net Cash Provided By Operating Activities	<u>\$ 53,075</u>	<u>\$ 512,168</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2012

	Pension Trust Fund (As of <u>December 31, 2011</u>)	Agency <u>Funds</u>
<u>ASSETS</u>		
Cash and short term investments	\$ 1,933,982	\$ 416,359
Investments	197,422,590	-
Accounts receivable	<u>1,226,822</u>	<u>-</u>
Total Assets	200,583,394	416,359
 <u>LIABILITIES AND NET ASSETS</u>		
Other liabilities	<u>-</u>	<u>416,359</u>
Total Liabilities	<u>-</u>	<u>416,359</u>
 <u>NET ASSETS</u>		
Total net assets held in trust for pension benefits	\$ <u><u>200,583,394</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Pension Trust Fund</u>
Additions:	
Contributions:	
Employers	\$ 24,700,000
Plan members	6,317,746
Other	<u>1,499,177</u>
Total contributions	32,516,923
Investment Income (Gain):	
Change in fair value of investments	1,961,544
Less: management fees	<u>(1,259,372)</u>
Net investment (gain)	<u>702,172</u>
Total additions	33,219,095
Deductions:	
Benefit payments to plan members and beneficiaries	31,246,992
Refunds to plan members	303,792
Transfers to other systems	341,433
Administrative expenses	<u>263,254</u>
Total deductions	32,155,471
Net increase	1,063,624
Net assets:	
Beginning of year	<u>199,519,770</u>
End of year	<u><u>\$ 200,583,394</u></u>

See notes to 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. In fiscal year 2012, it was determined that no entities met the required GASB 39 criteria of component units. 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 Assets 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.

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 2012 tax levy reflected an excess capacity of \$4,704.

G. Interfund Receivables and Payables

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

H. Inventories

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

I. Capital Assets

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

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

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

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

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

J. Compensated Absences

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

K. Long-Term Obligations

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

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 assets”.

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 Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist 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 assets are 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 assets are 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)	\$ 283,476,431	\$ 279,502,668
Other financing sources/uses (GAAP Basis)	<u>607,483</u>	<u>911,000</u>
Subtotal (GAAP Basis)	284,083,914	280,413,668
Adjust tax revenue to accrual basis	128,721	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(2,539,119)
Add end-of-year appropriation carryforwards from expenditures	-	4,641,286
To reverse the effect of non- budgeted State contributions for teachers retirement	(26,309,423)	(26,309,423)
Recognize use of fund balance as funding source	<u>2,955,572</u>	<u>2,084,699</u>
Budgetary Basis	<u>\$ 260,858,784</u>	<u>\$ 258,291,111</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2012:

Non-major Governmental Funds:	
Chapter 90	\$ (2,289,839)
JAG ARRA Police	(173,900)
CPC Phase 7	(82,716)
Early Childhood SPED Stimulus	(65,740)
911 Fire Support	(44,594)
Title I Dissemination	(31,464)
510 F Grant	(13,079)
After School Meals	(11,640)
McKinney-Vento ARRA Grant	(10,454)
School Sale	(6,900)
Mass Family Network	(5,301)
EC Allocation	(5,191)
School Achievement	(1,995)
Curriculum, Instruction, Assessment	(1,000)
State 911 Training Grant	(701)
Agency Funds:	
Police Detail	(25,486)
Electrical Detail	(10,084)
Fire Detail	(7,975)
Division of Fish & Wildlife	(1,874)

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, 2012 and December 31, 2011, \$57,803,674 and \$2,060,868 of the City's and System's bank balances of \$68,206,873 and \$2,310,868 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, \$1,600,307 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	\$ 1,997
Corporate bonds	2,011
Corporate equities	1,687
Mutual funds	418
Federal agency securities	<u>648</u>
Total investments	<u>\$ 6,761</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, 2011 (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>
Pooled funds	\$ 19,160
State investment pool*	<u>178,263</u>
Total investments	<u>\$ 197,423</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 \$197,422,590 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, \$178,263,493 is invested in the State Investment Pool (PRIT).

All the City's investments of \$6,761,224 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	\$ 2,011	\$ -	\$ 1,045	\$ 966	\$ -	A1
U.S. Treasury notes	1,997	-	1,053	944	-	Aaa
Federal agency securities	<u>648</u>	<u>-</u>	<u>-</u>	<u>76</u>	<u>572</u>	Aaa
Total	<u>\$ 4,656</u>	<u>\$ -</u>	<u>\$ 2,098</u>	<u>\$ 1,986</u>	<u>\$ 572</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, 2012 consist of the following (in thousands):

Real Estate		
2012	\$ 2,833	
2011	55	
2010	22	
Prior	<u>7</u>	
		2,917
Personal Property		
2012	141	
2011	100	
2010	47	
2009	42	
2008	31	
2007	20	
2006	25	
Prior	<u>1,050</u>	
		1,456
Tax Liens		1,242
Deferred Taxes		<u>1,035</u>
Total		<u>\$ 6,650</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	\$ 2,049
Excises	4,435

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2012. Of the \$24,460,238 of intergovernmental receivables, \$18,408,895 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, 2012 balances in interfund receivable and payable accounts:

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

The City reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2012:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 607,483	\$ 911,000
Nonmajor Governmental Funds:		
Special Revenue Funds:		
Worker's compensation fund	-	320,000
Insurance reimbursements fund	-	188,946
Parking meter fund	-	45,500
Precinct officers fund	-	34,500
Partners health care fund	-	18,537
Capital Project Funds:		
Classical HS project	861,000	-
Other city improvements	<u>50,000</u>	<u>-</u>
Total	<u>\$ 1,518,483</u>	<u>\$ 1,518,483</u>

9. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 240,532	\$ 1,651	\$ -	\$ 242,183
Machinery, equipment, and furnishings	21,337	2,052	(950)	22,439
Land improvements	4,552	147	-	4,699
Infrastructure	<u>17,675</u>	<u>2,360</u>	<u>-</u>	<u>20,035</u>
Total capital assets, being depreciated	284,096	6,210	(950)	289,356
Less accumulated depreciation for:				
Buildings and improvements	(90,509)	(4,943)	-	(95,452)
Machinery, equipment, and furnishings	(14,324)	(1,387)	933	(14,778)
Land improvements	(1,827)	(175)	-	(2,002)
Infrastructure	<u>(9,599)</u>	<u>(552)</u>	<u>-</u>	<u>(10,151)</u>
Total accumulated depreciation	<u>(116,259)</u>	<u>(7,057)</u>	<u>933</u>	<u>(122,383)</u>
Total capital assets, being depreciated, net	167,837	(847)	(17)	166,973
Capital assets, not being depreciated:				
Land	<u>8,369</u>	<u>-</u>	<u>-</u>	<u>8,369</u>
Total capital assets, not being depreciated	<u>8,369</u>	<u>-</u>	<u>-</u>	<u>8,369</u>
Governmental activities capital assets, net	<u>\$ 176,206</u>	<u>\$ (847)</u>	<u>\$ (17)</u>	<u>\$ 175,342</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 2,043	\$ -	\$ -	\$ 2,043
Machinery, equipment, and furnishings	489	-	(55)	434
Land improvements	38	-	-	38
Infrastructure	<u>263</u>	<u>-</u>	<u>-</u>	<u>263</u>
Total capital assets, being depreciated	2,833	-	(55)	2,778
Less accumulated depreciation for:				
Buildings and improvements	(663)	(41)	-	(704)
Machinery, equipment, and furnishings	(427)	(9)	55	(381)
Land improvements	(38)	-	-	(38)
Infrastructure	<u>(158)</u>	<u>(26)</u>	<u>-</u>	<u>(184)</u>
Total accumulated depreciation	<u>(1,286)</u>	<u>(76)</u>	<u>55</u>	<u>(1,307)</u>
Total capital assets, being depreciated, net	<u>1,547</u>	<u>(76)</u>	<u>-</u>	<u>1,471</u>
Business-type activities capital assets, net	<u>\$ 1,547</u>	<u>\$ (76)</u>	<u>\$ -</u>	<u>\$ 1,471</u>

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

Governmental Activities:	
General government	\$ 1,204
Public safety	846
Education	3,820
Public works	638
Culture and recreation	<u>549</u>
Total depreciation expense - governmental activities	<u>\$ 7,057</u>
Business-Type Activities:	
Marina	<u>\$ 76</u>
Total depreciation expense - business-type activities	<u>\$ 76</u>

10. Warrants and Accounts Payable

Warrants payable represent 2012 expenditures paid by July 15, 2012. Accounts payable represent additional 2012 expenditures paid after July 15, 2012.

11. Deferred Revenue

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

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2012 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

12. Tax Refunds Payable

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

13. Capital Lease Obligations

The City is the lessee of certain equipment under capital leases expiring in various years through 2014. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2012:

<u>Fiscal Year</u>	<u>Capital Leases</u>
2013	\$ 237,610
2014	<u>9,625</u>
Total minimum lease payments	247,235
Less amounts representing interest	<u>(9,439)</u>
Present Value of Minimum Lease Payments	<u>\$ 237,796</u>

14. Long-Term Debt

A. General Obligation Bonds

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

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/12</u>
HUD 108 Note ⁽¹⁾	08/01/12	1.2 - 4.6	\$ 75,000
HUD 108 2004 A ⁽¹⁾	08/01/12	2.3 - 5.0	130,000
Lynn Arts CCMC ⁽¹⁾	07/25/16	4.9 - 6.6	210,000
School Gen Obligation refunding bonds	09/01/17	2.0 - 4.0	11,115,000
General Obligation refunding bonds	12/01/17	2.0 - 5.0	25,330,000
New Police Station	01/15/21	3.4 - 4.5	1,240,000
New Police Station	10/01/24	3.0 - 6.0	10,050,000
Police Station, Manning Field	03/01/26	4.0 - 6.0	4,385,000
Remodeling	07/15/27	4.0 - 6.0	8,055,000
Pine Grove Cemetery	03/01/28	3.0 - 5.0	880,000
Power Lines	09/01/28	2.0 - 4.0	2,875,000
Classical High School	03/01/29	3.0 - 5.0	<u>3,570,000</u>
Total Governmental Activities:			<u>\$ 67,915,000</u>

⁽¹⁾ Repaid through CDBG program

<u>Business-Type Activities:</u>	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/12
Marina	02/01/14	7.0	\$ 929,675
Marina	04/14/26	4.5	<u>205,608</u>
Total Business-Type Activities:			\$ <u><u>1,135,283</u></u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2012 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 8,895,000	\$ 2,667,965	\$ 11,562,965
2014	8,950,000	2,311,179	11,261,179
2015	9,210,000	1,949,059	11,159,059
2016	9,500,000	1,564,545	11,064,545
2017	9,825,000	1,143,421	10,968,421
2018 - 2022	13,420,000	2,918,488	16,338,488
2023 - 2027	7,080,000	854,977	7,934,977
2028 - 2032	<u>1,035,000</u>	<u>49,006</u>	<u>1,084,006</u>
Total	\$ <u><u>67,915,000</u></u>	\$ <u><u>13,458,640</u></u>	\$ <u><u>81,373,640</u></u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 707,738	\$ 40,536	\$ 748,274
2014	244,386	24,828	269,214
2015	12,003	7,997	20,000
2016	12,555	7,445	20,000
2017	13,132	6,868	20,000
2018 - 2022	75,280	24,719	99,999
2023 - 2027	<u>70,189</u>	<u>6,349</u>	<u>76,538</u>
Total	\$ <u><u>1,135,283</u></u>	\$ <u><u>118,742</u></u>	\$ <u><u>1,254,025</u></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, 2012.

C. Changes in General Long-Term Liabilities

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

	Total Balance 7/1/11	Additions	Reductions	Total Balance 6/30/12	Less Current Portion	Equals Long-Term Portion 6/30/12
<u>Governmental Activities</u>						
Bonds payable	\$ 76,997	\$ -	\$ (9,082)	\$ 67,915	\$ (8,895)	\$ 59,020
Other:						
Capital leases	889	27	(678)	238	(229)	9
Accrued employee benefits	3,410	-	(538)	2,872	(287)	2,585
Workers compensation	998	74	-	1,072	(107)	965
Bond premium liability	1,552	-	(222)	1,330	(222)	1,108
Net OPEB obligation	78,683	41,444	(13,824)	106,303	-	106,303
Totals	\$ <u>162,529</u>	\$ <u>41,545</u>	\$ <u>(24,344)</u>	\$ <u>179,730</u>	\$ <u>(9,740)</u>	\$ <u>169,990</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ <u>1,145</u>	\$ <u>-</u>	\$ <u>(10)</u>	\$ <u>1,135</u>	\$ <u>(708)</u>	\$ <u>427</u>
Totals	\$ <u>1,145</u>	\$ <u>-</u>	\$ <u>(10)</u>	\$ <u>1,135</u>	\$ <u>(708)</u>	\$ <u>427</u>

15. Restricted Net Assets

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

Permanent fund restricted net assets are 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, 2012:

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 prepaid expenditures 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, 2012:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Chapter 90 deficit balance	\$ 1,093,096	\$ -	\$ 1,093,096
NOAA Marina loan	929,675	-	929,675
Nonexpendable permanent funds	-	6,628,552	6,628,552
Total Nonspendable	<u>2,022,771</u>	<u>6,628,552</u>	<u>8,651,323</u>
Restricted			
Community Development	-	359,193	359,193
School lunch	-	2,342,277	2,342,277
Other school revolving	-	391,100	391,100
City federal grants	-	59,107	59,107
School federal grants	-	7,057,334	7,057,334
City state grants and contributions	-	1,575,789	1,575,789
School state grants and contributions	-	4,139,255	4,139,255
Cemetery	-	834,344	834,344
Sale of public property	-	724,472	724,472
Workers compensation refunds	-	502,721	502,721
Parks and recreation	-	442,321	442,321
Other miscellaneous grants and contributions	-	2,332,452	2,332,452
Lynn Housing Authority	-	484,205	484,205
Other special revenue funds	-	175,521	175,521
Classical HS capital project	-	282,764	282,764
Other city capital projects	-	33,050	33,050
Expendable permanent funds	-	251,358	251,358
Total Restricted	<u>-</u>	<u>21,987,263</u>	<u>21,987,263</u>

(continued)

(continued)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Committed			
Classical HS capital project	-	861,000	861,000
Other city capital projects	-	50,000	50,000
Total Committed	-	911,000	911,000
Assigned			
For encumbrances:			
General government	516,719	-	516,719
Public safety	556,066	-	556,066
Education	3,127,096	-	3,127,096
Public works	303,889	-	303,889
Health and human services	2,343	-	2,343
Culture and recreation	1,285	-	1,285
Employee benefits	133,888	-	133,888
Total Assigned	4,641,286	-	4,641,286
Unassigned	21,848,049	(2,745,661)	19,102,388
Total Fund Balance	\$ 28,512,106	\$ 26,781,154	\$ 55,293,260

17. 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.

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 \$14 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, 2012 had received \$10.2 million in settlement claims.

18. 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 Assets 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, 2012 the actuarial valuation date, approximately 2,278 retirees and 2,553 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 2012 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, 2012, 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, 2012 (in thousands):

Annual Required Contribution (ARC)	\$ 41,218
Interest on net OPEB obligation	2,773
Adjustment to ARC	<u>(2,547)</u>
Annual OPEB cost	41,444
Contributions made	<u>(13,824)</u>
Increase in net OPEB obligation	27,620
Net OPEB obligation - beginning of year	<u>78,683</u>
Net OPEB obligation - end of year	<u><u>\$ 106,303</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:

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
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, 2012 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, 2012 the date of the most recent actuarial valuation was as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 648,817
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 648,817</u></u>
Funded ratio (actuarial value of plan assets/AAL)	<u><u>0%</u></u>
Covered payroll (active plan members)	<u><u>\$ 150,247</u></u>
UAAL as a percentage of covered payroll	<u><u>431.8%</u></u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the City and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2012 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advanced funded its obligation. The actuarial assumptions included a 3.5% investment rate of return and an initial annual healthcare cost trend rate of 8.5% which decreases to a 4.5% long-term rate for all healthcare benefits after eight 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%.

19. 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, 2011:

Retirees and beneficiaries receiving benefits	1,198
Inactive members	209
Active plan members	<u>1,296</u>
Total	<u><u>2,703</u></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</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2003	\$ 14,054,394	100%
2004	14,693,491	100%
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%

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.

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]
01/01/11	\$ 219,472	\$ 477,096	\$ 257,624	46.0%	\$ 65,301	394.5%

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 \$477 million was calculated. The actuarial assumptions included (a) 8.0% investment rate of return and (b) a projected salary increase of 4.75%, 5.00%, and 5.25% 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 (8.0%) 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, 2011, 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 2012, the Commonwealth of Massachusetts contributed \$26,309,423 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

20. 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, 2012 are as follows:

	<u>Health Coverage</u>
Claims liability, beginning of year	\$ 9,742,131
Claims incurred/recognized in fiscal year 2012	44,531,324
Claims paid in fiscal year 2012	<u>(45,703,220)</u>
Claims liability, end of year	<u>\$ 8,570,235</u>

The \$5,405,908 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.

21. 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.

22. 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's actuarially accrued liability.

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

June 30, 2012
(Unaudited)

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1/1/11	\$ 219,472	\$ 477,096	\$ 257,624	46.00%	\$ 65,301	394.5%
1/1/09	\$ 186,016	\$ 443,629	\$ 257,613	41.93%	\$ 69,357	371.4%
1/1/07	\$ 198,161	\$ 412,239	\$ 214,078	48.07%	\$ 67,206	318.5%
1/1/06	\$ 186,959	\$ 400,013	\$ 213,054	46.74%	\$ 65,445	325.5%
1/1/04	\$ 178,523	\$ 351,319	\$ 172,796	50.82%	\$ 63,051	274.1%
1/1/02	\$ 166,986	\$ 317,253	\$ 150,267	52.63%	\$ 66,008	227.6%
1/1/00	\$ 168,280	\$ 278,031	\$ 109,751	60.53%	\$ 58,954	186.2%
1/1/98	\$ 109,786	\$ 200,056	\$ 90,270	54.88%	\$ 47,985	188.1%

Other Post-Employment Benefits

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