

**CITY OF LYNN, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2016**

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## INDEPENDENT AUDITORS' REPORT

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

### Additional Offices:

Nashua, NH  
Manchester, NH  
Greenfield, MA  
Ellsworth, ME

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lynn, Massachusetts, as of and for the year ended June 30, 2016 (except for the Lynn Contributory Retirement System which is as of and for the year ended December 31, 2015), and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assess-

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lynn, Massachusetts, as of June 30, 2016, (except for the Lynn Contributory Retirement System, which is as of and for the year ending December 31, 2015) and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Schedule of OPEB Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, the Schedule of Pension Contributions, the Schedule of Changes in Net Pension Liability, and the Schedules of Net Pension Liability, Contributions, and Investment Returns be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Melanson Heath*

March 29, 2017

## **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, 2016. All amounts are expressed in thousands of dollars.

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, culture and recreation, employee benefits, debt service interest, and intergovernmental. The business-type activities include the marina activities.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements,

governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

**Proprietary funds.** Proprietary funds are maintained as follows:

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

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

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

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

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

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information

which is required to be disclosed by accounting principles generally accepted in the United States of America.

## B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets and deferred outflows were less than liabilities and deferred inflows by \$(220,253) (i.e., net position), a change of \$(3,011) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$46,809, a change of \$(6,804) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$8,093, a change of \$(895) in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$76,495 (including unamortized bond premiums), a change of \$(660) in comparison to the prior year.

## C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 71,461	\$ 100,680	\$ 160	\$ 110	\$ 71,621	\$ 100,790
Capital assets	276,743	241,997	2,436	2,570	279,179	244,567
Other noncurrent assets	4,695	4,663	-	-	4,695	4,663
Deferred outflows	29,678	413	-	-	29,678	413
Total assets and deferred outflows	382,577	347,753	2,596	2,680	385,173	350,433
Long-term liabilities	583,688	534,092	1,088	1,101	584,776	535,193
Other liabilities	18,694	31,946	601	536	19,295	32,482
Deferred inflows	1,355	-	-	-	1,355	-
Total liabilities and deferred inflows	603,737	566,038	1,689	1,637	605,426	567,675
Net position:						
Net investment in capital assets	209,653	186,642	1,506	1,640	211,159	188,282
Restricted	25,861	26,718	-	-	25,861	26,718
Unrestricted	(456,674)	(431,645)	(599)	(597)	(457,273)	(432,242)
Total net position	\$ (221,160)	\$ (218,285)	\$ 907	\$ 1,043	\$ (220,253)	\$ (217,242)

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$(220,253), a change of \$(3,011) from the prior year.

The largest portion of net position, \$211,159, reflects our investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt

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

An additional portion of net position, \$25,861, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$(457,273), results in a deficit, caused primarily by unfunded OPEB liabilities (see Note 19), and unfunded net pension liabilities (see Note 20).

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

	<u>CHANGES IN NET POSITION</u>					
	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services	\$ 12,981	\$ 11,009	\$ 325	\$ 238	\$ 13,306	\$ 11,247
Operating grants and contributions	211,865	196,875	-	-	211,865	196,875
Capital grants and contributions	1,048	2,349	72	277	1,120	2,626
General revenues:						
Property taxes	115,681	111,784	-	-	115,681	111,784
Excises	7,458	7,056	-	-	7,458	7,056
Penalties and interest on taxes	1,179	1,392	-	-	1,179	1,392
Grants and contributions not restricted to specific programs	36,330	48,454	-	-	36,330	48,454
Investment income	400	224	-	-	400	224
Other	1,284	1,039	-	-	1,284	1,039
Total revenues	<u>388,226</u>	<u>380,182</u>	<u>397</u>	<u>515</u>	<u>388,623</u>	<u>380,697</u>
Expenses:						
General government	14,578	12,671	-	-	14,578	12,671
Public safety	41,006	41,317	-	-	41,006	41,317
Education	216,574	201,693	-	-	216,574	201,693
Public works	15,164	21,037	-	-	15,164	21,037
Health and human services	6,228	5,324	-	-	6,228	5,324
Culture and recreation	4,960	4,725	-	-	4,960	4,725
Employee benefits	88,507	96,310	-	-	88,507	96,310
Interest on long-term debt	1,699	2,902	-	-	1,699	2,902
Intergovernmental	2,385	2,350	-	-	2,385	2,350
Marina	-	-	533	480	533	480
Total expenses	<u>391,101</u>	<u>388,329</u>	<u>533</u>	<u>480</u>	<u>391,634</u>	<u>388,809</u>
Increase (Decrease) in net position	(2,875)	(8,147)	(136)	35	(3,011)	(8,112)
Net position - beginning of year	<u>(218,285)</u>	<u>(210,138)</u>	<u>1,043</u>	<u>1,008</u>	<u>(217,242)</u>	<u>(209,130)</u>
Net position - end of year	<u>\$ (221,160)</u>	<u>\$ (218,285)</u>	<u>\$ 907</u>	<u>\$ 1,043</u>	<u>\$ (220,253)</u>	<u>\$ (217,242)</u>

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$(2,875). Key elements of this change are as follows:

Marshall Middle School MSBA state grant funding	\$ 14,169
Increase in net OPEB obligation over prior year	(16,709)
Increase in net pension liability	(30,826)
Increase in pension related deferred outflows	27,910
Additional MSBA funding	1,496
Internal service fund expenses exceeding revenues	(4,099)
Capital assets purchased with current year revenue	3,952
Other	<u>1,232</u>
Total	<u>\$ (2,875)</u>

**Business-type activities.** Business-type activities for the year resulted in a change in net position of \$(136). In addition, the Marina Enterprise fund has not made any principal or interest payments on a loan outstanding with the National Oceanic and Atmospheric Administration (NOAA) since fiscal year 2010. The City does not consider themselves to be in default, as they have requested repayment assistance from NOAA, per the loan agreement, and have yet to hear back.

#### **D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

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

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$46,809, a change of \$(6,804) in comparison to the prior year. Key elements of this change are as follows:

General fund revenues and other financing sources in excess of expenditures	\$ 4,402
Capital project fund expenditures and other financing uses in excess of revenues and bond proceeds	(9,596)
Special revenue fund expenditures and other financing uses in excess of revenues and bond proceeds	(1,811)
Other	<u>201</u>
Total	<u>\$ (6,804)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$8,093, while total fund balance was \$19,201. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 8,093	\$ 8,988	\$ (895)	2.6%
Total fund balance	\$ 19,201	\$ 14,799	\$ 4,402	6.1%

On December 16, 2016, the City voted to appropriate its certified free cash totaling \$2,586 to reduce the fiscal year 2017 tax rate.

The total fund balance of the general fund changed by \$4,402 during the current fiscal year. Key factors in this change are as follows:

Use of free cash as a funding source	\$ (6,700)
Prior year deficits raised in the current year	1,883
Revenues greater than budget	2,277
Expenditures less than budget	1,763
Timing issues regarding encumbrances	5,222
Other	<u>(43)</u>
Total	<u>\$ 4,402</u>

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

Unrestricted net position of the enterprise fund at the end of the year amounted to a deficit balance of \$(599), a decrease of \$(3) 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.

Unrestricted net position of the internal service fund at the end of the year amounted to a deficit balance of \$(1,898), after an operating loss of \$(4,099). Fiscal year 2016 is the second year in a row that the fund incurred a substantial operating loss as claims have significantly exceeded funding. The City raised the June 30, 2016 unrestricted net position deficit with the setting of the fiscal year 2017 tax rate.

## **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$5,205. Major reasons for these amendments include:

- \$2,440 School capital renovations
- \$1,700 Additional school appropriations
- \$650 Additional employee benefits
- \$363 Additional general government appropriations
- \$30 Additional police appropriations
- \$22 Additional public works appropriations

The increases were funded from free cash, overlay surplus 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 \$279,179 (net of accumulated depreciation), an increase of \$34,612 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

School construction projects	\$ 31,612
School energy efficiency upgrades	3,952
New school equipment	2,844
Street and sidewalks repaving	1,873
Park and field improvements	1,317
School building repairs	1,217
Other miscellaneous projects	692
New IT equipment	668
Parking lot projects	527
New public safety vehicles	486
School HVAC projects	463
New public works vehicles	376
Marina infrastructure	72
Depreciation	<u>(11,487)</u>
Total	<u>\$ 34,612</u>

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

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$76,495, all of which was backed by the full faith and credit of the government.

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

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

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

### **Fiscal Year 2017**

#### **Projected Health Insurance Trust Fund deficit for FY2017**

Based on monthly claims through 2/28/2017, the City is projecting that total claims will exceed the total of the City's budgeted insurance contribution plus employee contributions by about \$3.3 million. The final figure is subject to change based on the final four months of claims yet accounted for.

The City is also considering moving from being self-insured to a premium-based plan for FY2018. The City has found that the uncertainty and volatility of being self-insured creates uncertainty in the budgeting process, as the City must project future claims three to fifteen months before claims actually occur. A premium-based plan would allow the City to accurately budget its insurance costs prior to the start of a fiscal year, minimizing the likelihood of future deficits.

#### **Collective Bargaining Contracts**

The City reached agreement with all City bargaining units during FY2017. (The only exception is the teachers' union, whose contract expired 6/30/2016. A new contract is currently under negotiation.) All settled contracts are effective through 6/30/2018, and effective commencing on 7/1/2014.

The cumulative impact of these contracts for FY2015 through FY2017 is approximately \$3 million dollars. All contract costs have been funded through 6/30/2017, using a combination of the elimination of funded, but unfilled, positions, other budget line item cuts, reorganization of departmental operations to absorb salary increases within the FY2017 budget appropriation, and supplemental appropriations from reserves or undesignated revolving fund balances.

### **Net School Spending Deficiency**

The City's 2016 Department of Elementary and Secondary Education (DESE) End-of-Year Report (EOYR) reports approximately \$7.4 million in unexpended Net School Spending (NNS) requirements. Schedule 19 (fiscal year 2017 budget)

as reported on the City's 2016 DESE EOYR projects the fiscal year 2017 unexpended NSS requirement to increase by \$1.2 million to a projected spending deficiency of \$8.6 million, thereby placing the City's fiscal year 2017 and 2018 state aid at risk for withholding by the Commissioner of DESE.

## **Economic Development**

### **Overview**

Program year 2016 marked ongoing forward momentum in the area of economic development as the City continues implementation of recently completed economic development strategies. Most notably, we have completed, adopted, and are moving forward on goals put forth by our Waterfront Master Plan/Master Harbor Plan. The City's combined decade-long redevelopment efforts within our downtown core and the waterfront are translating into significant new construction projects on the horizon. This redevelopment renaissance will position the City of Lynn in a positive economic direction for not only the next twenty to thirty years but also for generations to come.

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

With regard to the economic state of the City, this past calendar year's most pressing concern revolves around short- and long-term operational and capital uncertainty. While our ability to grow and support job creation on the small business side remains positive, trends in local manufacturing and other sectors point towards continued optimistic short- and long-term outlooks. The City has experienced growth since the great recession but we are cognizant the current growth period at some point will slow, if not level off, in the not-too-distant future. The City unemployment rate fell below 5 percent for the first time in over a decade, averaging at 4.1 percent for the most recent calendar year. The City is encouraged to see the job market slowly improve; we are optimistic we will see the unemployment number return to pre-recession percentages prior to the end of

the 2017 fourth quarter or early in the first two quarters of 2018. On a specific positive note, investment by the Federal Government continues in the aircraft engine division of the General Electric Company, Lynn's largest, single employer. Additionally, the City has recently become involved with a new public engagement team including federal, state, and local stakeholders all working together to encourage GE to begin the process of improving infrastructure at the Lynn plant in hopes of additional growth and new manufacturing jobs at the Lynn facility. The result of these efforts has been an additional 100 new hires in 2016, the first new hires in over a decade. On the local level, via strong leadership from the Mayor and her economic development team, the former "factory of the future" manufacturing site, which has remained fallow for over 30 years, will be redeveloped into a commercial reuse anchored by a local supermarket chain and creating 400 local jobs. The City is confident this project will be completed and opened by the end of 2017. Related to the General Electric main plant site, a former section of the plant, the "Gear Plant" facility, a total of 65 acres, has been sold to a private developer with the intent of building over 1200 units of market-rate housing. Plans for this project are currently under state review with the expectation of permits being applied for in 2017.

The Central Square area of the City, our downtown core, continued to see a renaissance and resurgence as the number of retail/commercial businesses take hold and activity increases. Of recent note, the Blue Ox, an award-winning "Best of Boston" recipient, continues to draw people into our downtown and has demonstrated outstanding success leading to four new restaurant openings since 2016, translating into at least 100 additional jobs. As reported in the past, the City continues to strongly support downtown revival as evident by efforts to grow the Creative Economy Sector, actions accomplished in part through the Massachusetts Cultural Arts district overlay designation and the City retaining a fulltime Director for said district. To date, over 250 newer residents call downtown home, and this marks the half way point in the City's goal to create 500 new units in the center of the City. Additional efforts by the Mayor and her economic development team are hoping to spur even more new growth and opportunities which will ignite the necessary critical mass of activity to sustain a more vibrant downtown. To further assist this goal, the Economic Development & Industrial Corporation of Lynn (EDIC-Lynn) and the Neighborhood Development Associates, Inc. (NDA) have completed a 2 million dollar investment constructing 8 artist loft units as well as retail space in the heart of the downtown. Another noteworthy project initiated this year is the Beyond Walls project. When completed, this effort will provide 10 new murals in the downtown, install and support over 22,000 square feet of dynamic LED lighting to enhance safety and aesthetics, as well as, the deployment of the first jet engine manufactured at General Electric Lynn as a public sculpture for all to enjoy. Furthermore, the City's recently enhanced partnership with MassDevelopment is directly impacting the downtown core through our TDI Partnership Grant. This grant and subsequently "fellow"/staffer attached to this funding source will look to advance the work we have done and extends until the end of 2018. The ultimate goal of this effort will be the investment of nearly 1 million dollars of tangible resources targeted for economic development and improvement in the City's downtown.

Another positive trend in the City's downtown was the growth of the health care industry within this compressed geographical area. Lynn Community Health Center and Greater Lynn Senior Services are in new space with the possibility of additional regional healthcare growth in the downtown neighborhood. This expansion project created more than 100 new jobs and invested over 6 million dollars in new infrastructure in the downtown. The projects have spurred the redevelopment of additional office space, necessitating the lease and now nearly full occupancy of a dormant and vacant office building in the heart of our downtown. The result, reuse of 21 Central Avenue, the former central school administration building, is now active with over 75 employees utilizing the space during the work week. Additionally, there was a strong commitment by North Shore Medical Center, the major community hospital and employer, to maintain a presence in the City as part of their strategic long-term plans for the region by supporting our combined efforts in downtown. Just across the street from this redevelopment project are plans for 40 additional market-rate apartments to come online in 2017, an investment of nearly 10 million dollars by a private developer.

Locally and nationally the real estate marketplace remains an issue of concern for the upcoming fiscal year. As of 2012, over 350 homes were in or completed foreclosure, the highest foreclosure rate in the history of the Commonwealth. The impact has transcended the state and morphed into a national problem. The City is exploring ways to help impact homeowners. On a more positive note, as affordable housing opportunities and increasing rental costs continue in and around the Boston Metropolitan area, Lynn's role as an alternative investment choice continued to gain momentum. The City is proud of the joint role the Commonwealth and our local NDA made in the construction of a 35 million-dollar, mixed-use, working families' housing development project within the Washington Street corridor, adjacent to our downtown and North Shore Community College. This Gateway project is an important compliment to the additional market-rate units currently being proposed or constructed. The end result will be additional housing units and additional disposable income directed toward our local downtown economy and small business owners. These efforts are in combination with our post-secondary educational partner, North Shore Community College. NSCC is expanding their campus adjacent to the downtown; this 35 million-dollar project, when completed, will not only expand educational opportunities but also increase and enhance disposable income dollars of these students directly in our downtown.

#### Lynn Assessed Values

FY	Commercial	% Chg	Total All Classes	% Chg
2001	\$257,805,301	14.9%	\$3,151,034,450	12.2%
2002	293,909,090	14.0%	3,854,700,111	22.3%
2003	330,581,516	12.5%	4,656,277,295	20.8%
2004	352,109,922	6.5%	5,508,583,433	18.3%
2005	440,961,667	25.2%	6,249,264,921	13.4%
2006	460,329,322	4.4%	6,774,769,631	8.4%
2007	489,356,651	6.3%	7,030,173,447	3.8%

### Lynn Assessed Values

2008	529,546,785	8.2%	7,042,423,768	0.2%
2009	507,754,589	-4.1%	6,208,089,401	-11.8%
2010	464,501,219	-12.0%	5,246,831,500	-6.5%
2011	433,672,455	-6.6%	5,261,064,310	0.3%
2012	460,650,260	6.2%	5,388,175,382	2.4%
2013	459,801,701	-2.1%	5,285,703,328	-1.9%
2014	450,348,575	-0.1%	5,431,137,085	2.8%
2015	458,931,005	1.9%	5,837,592,724	7.5%
2016	470,749,296	2.6%	6,396,561,177	9.6%
2017	490,123,659	4.1%	6,932,503,732	8.4%

Commercial and residential real estate valuation are hopefully stabilizing from their historic highs and then lows of the 2000s. The City of Lynn continues a reliance on the residential sector based on volume; however, within the parameters set forth, local tax rate allocation with regard to tax levy increase does impact our commercial rates more than our residential. If continued stabilization takes place, we are hopeful 2017 will see an ongoing increase translating into reinvestment or ongoing stabilization of current budget projections.

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

Single-family home median sales appear to be regaining values from the prolonged negative trend and the historic highs of the early 2000s. Median sales have reverted close to near 2001 sales; however, continued foreclosures and short sales have only recently seemed less burdensome on the local real estate marketplace.

FY	Average Value	% Chng	Calendar Year	Median Sale Price	% Chng
1999	\$111,459	12.9%	1999	\$135,000	16.2%
2000	124,571	11.8%	2000	155,000	19.0%
2001	139,174	11.7%	2001	184,900	18.8%
2002	168,817	21.3%	2002	226,500	28.9%
2003	198,415	17.5%	2003	250,000	9.3%
2004	229,600	15.7%	2004	269,900	4.6%
2005	256,992	11.9%	2005	290,000	6.8%
2006	276,031	7.4%	2006	283,000	-3.0%
2007	286,007	3.6%	2007	259,000	-10.3%
2008	286,002	0.0 %	2008	206,000	-23.1%
2009	260,462	-11.2%	2009	196,000	-20.6%
2010	223,153	-14.3%	2010	194,000	-1.0%
2011	223,882	0.3%	2011	180,000	-7.2%

<b>FY</b>	<b>Average Value</b>	<b>% Chng</b>	<b>Calendar Year</b>	<b>Median Sale Price</b>	<b>% Chng</b>
2012	225,414	0.7%	2012	185,000	2.8%
2013	215,637	-4.3%	2013	225,000	21.6%
2014	217,936	1.1%	2014	243,000	8.0%
2015	234,567	7.6%	2015	261,000	7.4%
2016	253,678	8.1%	2016	287,000	10.0%
2017	273,637	7.9%			

Source: a) Mass. Dept. of Revenue  
b) Town Stats, the Warren Group  
Information is based on Single Family Homes

### Infrastructure

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

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

Lynn’s proactive stance toward infrastructure improvements and land-use regulations enables it to react immediately to development opportunities as they arise. The redevelopment of the Blossom Street public access pier and 6 million-dollar investment into our local economy provide a long-term opportunity for a water shuttle service from Lynn to Boston. In addition, the City’s stable population and wide range of community and economic development services create an ideal environment for business investment and development. Lynn possesses numerous assets and resources that have helped it to emerge once again as one of the North Shore’s most up-and-coming and attractive communities.

The City, using CDBG funding, continued to make investments in the downtown through its antique street re-lighting along the downtown linear spine of Union, Exchange, and Broad Streets. Additional re-lighting projects located on Monroe Street and a revitalization project planned for leased MBTA space will be completed in 2017. These efforts at beautification and revitalization have been well accepted by both the existing downtown community and investors alike. This trend will continue as 2017 will bring about an additional \$1,000,000 via CDBG and EDIC funds.

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

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

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

In 2017 EDIC again applied for Federal grants/assistance to update the City's entire Brownfield's inventory, as well as targeted grants to help fund cleanup efforts. As additional funding opportunities present themselves, the City will look for new sites for continued Brownfield redevelopment opportunities.

The City of Lynn and EDIC are very proud and hopeful that recent work to recruit and establish Kettle Cuisine, a local and fresh food manufacture, in the City and create 140 plus new jobs, will encourage and spur additional development in this targeted area.

### **Employment**

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

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

## Employment and Unemployment Rates

<b>Annual</b>	<b>Year</b>	<b>Labor Force</b>	<b>Employed</b>	<b>Unemployed</b>	<b>Unemployment Rate</b>
Average	2016	46,493	44,567	1,926	4.1
Average	2015	46,546	43,937	2,609	5.6
Average	2014	46,584	43,548	3,036	6.5
Average	2013	43,190	39,718	3,472	8.0
Average	2012	43,266	39,819	3,447	8.0
Average	2011	43,338	39,700	3,638	8.4
Average	2010	43,328	39,314	4,014	9.3
Average	2009	42,023	38,032	3,991	9.5
Average	2008	41,607	38,947	2,660	6.4
Average	2007	41,232	38,969	2,263	5.5
Average	2006	41,699	39,212	2,487	6.0
Average	2005	41,674	39,095	2,579	6.2
Average	2004	42,114	39,330	2,784	6.6
Average	2003	42,879	39,714	3,165	7.4
Average	2002	42,845	40,169	2,676	6.2

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

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

<b>Largest Employers</b>	<b>Product</b>	<b>Employment</b>
General Electric	Manufacturer-Jet Engines	3,250
Partners Healthcare	Healthcare/Hospital	1,125
Garelick Farms	Creamery/Milk Products	492
Visiting Nurse Association	Healthcare/Nursing	630
Greater Lynn Senior Services	Elderly Services	629
Eastern Bank	Banking	462
Lynn Community Health Center	Healthcare Services	620
Wal-Mart	Retail Store	250
North Shore Community College	Education	400
Old Neighborhood Foods	Food Production	350
Kettle Cuisine	Food Production	140
Verizon	Utility	100

## **Organizational Structures**

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

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

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

## **Conclusion**

The City possesses an excellent economic infrastructure, especially in telecommunications. Among other assets this infrastructure includes: New England's first and only transatlantic fiber optic hub; an abundance of inexpensive commercial office space; close geographic proximity to Boston, Cambridge, and Logan Airport; regular commuter rail service to downtown Boston; three miles of open and unobstructed ocean waterfront within easy walking distance from the heart of downtown; and a 2,200-acre forested urban park, LynnWoods – the second largest in the United States.

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

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

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Lynn's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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

## CITY OF LYNN, MASSACHUSETTS

## STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>Assets</b>			
Current:			
Cash and short-term investments	\$ 48,213,625	\$ 132,500	\$ 48,346,125
Investments	7,469,997	-	7,469,997
Receivables, net of allowance for uncollectibles:			
Property taxes	3,537,362	-	3,537,362
Excises	1,203,999	-	1,203,999
Departmental and other	815,539	10,342	825,881
Intergovernmental	6,974,770	-	6,974,770
Loans	405,455	-	405,455
Other assets	2,840,000	18,371	2,858,371
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental	897,167	-	897,167
Property taxes	148,646	-	148,646
Loans	3,649,092	-	3,649,092
Capital assets, non-depreciable	9,669,202	-	9,669,202
Capital assets, depreciable, net of accumulated depreciation	<u>267,073,804</u>	<u>2,435,694</u>	<u>269,509,498</u>
<b>Total Assets</b>	<b>352,898,658</b>	<b>2,596,907</b>	<b>355,495,565</b>
<b>Deferred Outflows of Resources</b>			
Related to pensions	<u>29,678,000</u>	<u>-</u>	<u>29,678,000</u>
Total Deferred Outflows of Resources	<u>29,678,000</u>	<u>-</u>	<u>29,678,000</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>382,576,658</b>	<b>2,596,907</b>	<b>385,173,565</b>
<b>Liabilities</b>			
Current:			
Warrants payable	5,234,427	-	5,234,427
Accounts payable	1,209,788	-	1,209,788
Accrued liabilities	7,108,444	450,118	7,558,562
Tax refunds payable	1,029,169	-	1,029,169
Other current liabilities	4,112,711	151,000	4,263,711
Current portion of long-term liabilities:			
Bonds payable	10,546,085	942,807	11,488,892
Other liabilities	1,424,868	-	1,424,868
Noncurrent:			
Bonds payable, net of current portion	64,860,654	145,470	65,006,124
Other liabilities, net of current portion	14,747,942	-	14,747,942
Net OPEB obligation	206,238,000	-	206,238,000
Net pension liability	<u>285,870,000</u>	<u>-</u>	<u>285,870,000</u>
<b>Total Liabilities</b>	<b>602,382,088</b>	<b>1,689,395</b>	<b>604,071,483</b>
<b>Deferred Inflows of Resources</b>			
Related to pensions	<u>1,355,000</u>	<u>-</u>	<u>1,355,000</u>
Total Deferred Inflows of Resources	<u>1,355,000</u>	<u>-</u>	<u>1,355,000</u>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>603,737,088</b>	<b>1,689,395</b>	<b>605,426,483</b>
<b>Net Position</b>			
Net investment in capital assets	209,652,958	1,506,019	211,158,977
Restricted for:			
Grants and other statutory restrictions	17,965,423	-	17,965,423
Permanent funds:			
Nonexpendable	7,352,754	-	7,352,754
Expendable	542,701	-	542,701
Unrestricted	<u>(456,674,266)</u>	<u>(598,507)</u>	<u>(457,272,773)</u>
<b>Total Net Position</b>	<b>\$ <u>(221,160,430)</u></b>	<b>\$ <u>907,512</u></b>	<b>\$ <u>(220,252,918)</u></b>

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

CITY OF LYNN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Governmental Activities:</b>							
General government	\$ 14,577,506	\$ 3,588,511	\$ 1,706,900	\$ -	\$ (9,282,095)	\$ -	\$ (9,282,095)
Public safety	41,005,958	1,804,879	2,670,154	-	(36,530,925)	-	(36,530,925)
Education	216,573,952	757,640	196,708,067	-	(19,108,245)	-	(19,108,245)
Public works	15,164,451	3,149,517	4,728,496	1,048,308	(6,238,130)	-	(6,238,130)
Health and human services	6,227,825	444,197	4,911,932	-	(871,696)	-	(871,696)
Culture and recreation	4,960,076	3,236,550	187,014	-	(1,536,512)	-	(1,536,512)
Employee benefits	88,507,496	-	952,544	-	(87,554,952)	-	(87,554,952)
Interest	1,699,130	-	-	-	(1,699,130)	-	(1,699,130)
Intergovernmental	2,385,132	-	-	-	(2,385,132)	-	(2,385,132)
<b>Total Governmental Activities</b>	<b>391,101,526</b>	<b>12,981,294</b>	<b>211,865,107</b>	<b>1,048,308</b>	<b>(165,206,817)</b>	<b>-</b>	<b>(165,206,817)</b>
<b>Business-Type Activities:</b>							
Marina services	533,173	325,110	-	71,950	-	(136,113)	(136,113)
Total Business-Type Activities	533,173	325,110	-	71,950	-	(136,113)	(136,113)
<b>Total</b>	<b>\$ 391,634,699</b>	<b>\$ 13,306,404</b>	<b>\$ 211,865,107</b>	<b>\$ 1,120,258</b>	<b>(165,206,817)</b>	<b>(136,113)</b>	<b>(165,342,930)</b>
<b>General Revenues:</b>							
Property taxes					115,680,523	-	115,680,523
Excises					7,458,056	-	7,458,056
Penalties, interest and other taxes					1,178,604	-	1,178,604
Grants and contributions not restricted to specific programs					36,329,999	-	36,329,999
Investment income					399,906	25	399,931
Other					1,284,275	-	1,284,275
<b>Total general revenues</b>					<b>162,331,363</b>	<b>25</b>	<b>162,331,388</b>
<b>Change in Net Position</b>					<b>(2,875,454)</b>	<b>(136,088)</b>	<b>(3,011,542)</b>
<b>Net Position:</b>							
<b>Beginning of year</b>					<b>(218,284,976)</b>	<b>1,043,600</b>	<b>(217,241,376)</b>
<b>End of year</b>					<b>\$ (221,160,430)</b>	<b>\$ 907,512</b>	<b>\$ (220,252,918)</b>

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

CITY OF LYNN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	<u>General</u>	<u>HOME Program</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and short-term investments	\$ 25,582,416	\$ 28,505	\$ 19,429,604	\$ 45,040,525
Investments	-	-	7,469,997	7,469,997
Receivables:				
Property taxes	5,833,660	-	-	5,833,660
Excises	2,328,383	-	-	2,328,383
Departmental and other	770,267	-	45,272	815,539
Intergovernmental	-	-	3,475,017	3,475,017
Loans	-	2,929,729	1,124,818	4,054,547
Due from other funds	29,525	-	-	29,525
<b>Total Assets</b>	<b>\$ 34,544,251</b>	<b>\$ 2,958,234</b>	<b>\$ 31,544,708</b>	<b>\$ 69,047,193</b>
<b>Liabilities</b>				
Warrants payable	\$ 3,742,311	\$ -	\$ 1,492,116	\$ 5,234,427
Accounts payable	-	3,574	1,206,214	1,209,788
Accrued liabilities	2,667,924	-	-	2,667,924
Tax refunds payable	1,029,169	-	-	1,029,169
Due to other funds	-	-	29,525	29,525
Other liabilities	48,931	-	-	48,931
<b>Total Liabilities</b>	<b>7,488,335</b>	<b>3,574</b>	<b>2,727,855</b>	<b>10,219,764</b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenues	7,854,857	2,932,168	1,231,859	12,018,884
<b>Fund Balances</b>				
Nonspendable	929,675	-	7,352,754	8,282,429
Restricted	-	22,492	21,320,937	21,343,429
Committed	-	-	766,994	766,994
Assigned	10,178,683	-	-	10,178,683
Unassigned (see Note 17)	8,092,701	-	(1,855,691)	6,237,010
<b>Total Fund Balances</b>	<b>19,201,059</b>	<b>22,492</b>	<b>27,584,994</b>	<b>46,808,545</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 34,544,251</b>	<b>\$ 2,958,234</b>	<b>\$ 31,544,708</b>	<b>\$ 69,047,193</b>

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

CITY OF LYNN, MASSACHUSETTS

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

JUNE 30, 2016

<b>Total governmental fund balances</b>	\$ 46,808,545
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	276,743,006
• 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.	4,396,920
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	8,746,848
• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.	(1,897,909)
• Deferred outflows and inflows of resources related to pensions will be recognized as an increase to the pension expense in the years ending June 30, 2017 through June 30, 2020.	28,323,000
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(593,291)
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(75,406,739)
Net OPEB obligation	(206,238,000)
Net pension liability	(285,870,000)
Other (compensated absences, capital leases, etc.)	<u>(16,172,810)</u>
<b>Net position of governmental activities</b>	<b><u>\$ (221,160,430)</u></b>

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

CITY OF LYNN, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>HOME Program</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 116,086,344	\$ -	\$ -	\$ 116,086,344
Excises	7,522,767	-	-	7,522,767
Penalties, interest and other taxes	1,178,604	-	-	1,178,604
Charges for services	2,517,626	326,540	6,337,030	9,181,196
Intergovernmental	179,368,927	797,159	49,199,276	229,365,362
Contributions and donations	-	-	1,240,657	1,240,657
Licenses and permits	1,976,624	-	4,150	1,980,774
Fines and forfeitures	1,959,024	-	18,431	1,977,455
Investment income	192,685	-	207,222	399,907
Miscellaneous	827	-	959,640	960,467
<b>Total Revenues</b>	<u>310,803,428</u>	<u>1,123,699</u>	<u>57,966,406</u>	<u>369,893,533</u>
<b>Expenditures:</b>				
Current:				
General government	25,427,125	-	2,263,280	27,690,405
Public safety	38,237,598	-	2,496,492	40,734,090
Education	155,942,121	-	56,428,519	212,370,640
Public works	10,803,281	-	7,307,677	18,110,958
Health and human services	1,305,000	1,140,511	3,727,100	6,172,611
Culture and recreation	1,210,919	-	3,827,633	5,038,552
Employee benefits	64,988,673	-	-	64,988,673
Debt service	12,899,898	-	-	12,899,898
Intergovernmental	2,385,132	-	-	2,385,132
<b>Total Expenditures</b>	<u>313,199,747</u>	<u>1,140,511</u>	<u>76,050,701</u>	<u>390,390,959</u>
<b>Excess (deficiency) of revenues over expenditures</b>	(2,396,319)	(16,812)	(18,084,295)	(20,497,426)
<b>Other Financing Sources (Uses):</b>				
Bond proceeds	-	-	9,000,000	9,000,000
Lease proceeds	3,951,938	-	-	3,951,938
Bond premium	741,987	-	-	741,987
Transfers in	2,104,641	-	-	2,104,641
Transfers out	-	-	(2,104,641)	(2,104,641)
<b>Total Other Financing Sources (Uses)</b>	<u>6,798,566</u>	<u>-</u>	<u>6,895,359</u>	<u>13,693,925</u>
<b>Change in Fund Balance</b>	4,402,247	(16,812)	(11,188,936)	(6,803,501)
<b>Fund Balance, at Beginning of Year, as reclassified</b>	<u>14,798,812</u>	<u>39,304</u>	<u>38,773,930</u>	<u>53,612,046</u>
<b>Fund Balance, at End of Year</b>	<u>\$ 19,201,059</u>	<u>\$ 22,492</u>	<u>\$ 27,584,994</u>	<u>\$ 46,808,545</u>

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

CITY OF LYNN, MASSACHUSETTS  
RECONCILIATION OF THE STATEMENT OF REVENUES  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016

<b>Net changes in fund balances - total governmental funds</b>	<b>\$ (6,803,501)</b>																												
<ul style="list-style-type: none"> <li>• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Capital outlay purchases, net of disposals</td> <td style="text-align: right;">46,027,632</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(11,281,581)</td> </tr> </table> </li> <li>• Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue. <span style="float: right;">(1,687,701)</span></li> <li>• The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Repayments of debt</td> <td style="text-align: right;">10,065,000</td> </tr> <tr> <td>Proceeds of bonds</td> <td style="text-align: right;">(9,000,000)</td> </tr> <tr> <td>Bond premium</td> <td style="text-align: right;">(741,987)</td> </tr> <tr> <td>Amortization of bond premium</td> <td style="text-align: right;">323,825</td> </tr> <tr> <td>Proceeds of capital leases</td> <td style="text-align: right;">(3,951,938)</td> </tr> <tr> <td>Payments of capital leases</td> <td style="text-align: right;">1,150,124</td> </tr> <tr> <td>Change in accrued interest on bonds payable</td> <td style="text-align: right;">154,006</td> </tr> </table> </li> <li>• Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. <span style="float: right;">(4,098,999)</span></li> <li>• Some expenses reported in the Statement of Activities, such as certain employee benefits, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Change in compensated absences liability</td> <td style="text-align: right;">(110,756)</td> </tr> <tr> <td>Change in workers compensation liability</td> <td style="text-align: right;">205,176</td> </tr> <tr> <td>Change in net OPEB obligation</td> <td style="text-align: right;">(16,709,000)</td> </tr> <tr> <td>Change in net pension liability</td> <td style="text-align: right;">(30,826,000)</td> </tr> <tr> <td>Change in deferred inflows and outflows related to pensions</td> <td style="text-align: right;">27,910,000</td> </tr> </table> </li> <li>• Reimbursements from the Massachusetts School Building Authority for principal payments on long-term debt provide current financial resources to governmental funds but have no effect on changes in net assets, therefore are excluded from net assets. <span style="float: right;"><u>(3,499,754)</u></span></li> </ul>		Capital outlay purchases, net of disposals	46,027,632	Depreciation	(11,281,581)	Repayments of debt	10,065,000	Proceeds of bonds	(9,000,000)	Bond premium	(741,987)	Amortization of bond premium	323,825	Proceeds of capital leases	(3,951,938)	Payments of capital leases	1,150,124	Change in accrued interest on bonds payable	154,006	Change in compensated absences liability	(110,756)	Change in workers compensation liability	205,176	Change in net OPEB obligation	(16,709,000)	Change in net pension liability	(30,826,000)	Change in deferred inflows and outflows related to pensions	27,910,000
Capital outlay purchases, net of disposals	46,027,632																												
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Change in net OPEB obligation	(16,709,000)																												
Change in net pension liability	(30,826,000)																												
Change in deferred inflows and outflows related to pensions	27,910,000																												
<b>Change in net position of governmental activities</b>	<b>\$ <u>(2,875,454)</u></b>																												

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

CITY OF LYNN, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
<b>Revenues and Transfers:</b>				
Taxes	\$ 116,129,262	\$ 116,129,262	\$ 116,129,262	\$ -
Excise	7,080,000	7,080,000	7,522,767	442,767
Penalties, interest and other taxes	1,390,000	1,390,000	1,178,604	(211,396)
Charges for services	2,065,942	2,065,942	2,517,626	451,684
Intergovernmental	178,622,538	178,622,538	179,368,927	746,389
Licenses and permits	1,794,000	1,794,000	1,976,624	182,624
Fines and forfeits	1,952,000	1,952,000	1,959,024	7,024
Investment income	196,808	196,808	192,685	(4,123)
Transfers in	-	2,104,641	2,104,641	-
Miscellaneous	7,500	7,500	669,654	662,154
<b>Total Revenues and Transfers</b>	<b>309,238,050</b>	<b>311,342,691</b>	<b>313,619,814</b>	<b>2,277,123</b>
<b>Expenditures:</b>				
General government	26,551,689	28,610,099	27,922,602	687,497
Public safety	38,158,231	38,895,690	38,455,696	439,994
Education	152,870,557	154,570,911	154,161,004	409,907
Public works	10,466,002	10,525,146	11,117,574	(592,428)
Health and human services	1,347,636	1,346,642	1,317,922	28,720
Culture and recreation	1,274,546	1,274,444	1,217,803	56,641
Debt service	13,055,000	13,055,000	12,826,738	228,262
Intergovernmental	2,385,141	2,385,141	2,385,132	9
Employee benefits	64,846,157	65,496,527	64,992,335	504,192
<b>Total Expenditures</b>	<b>310,954,959</b>	<b>316,159,600</b>	<b>314,396,806</b>	<b>1,762,794</b>
<b>Excess (deficiency) of revenues and transfers in over expenditures</b>	<b>(1,716,909)</b>	<b>(4,816,909)</b>	<b>(776,992)</b>	<b>4,039,917</b>
<b>Other Financing Sources/(Uses):</b>				
Use of fund balance:				
To reduce the tax levy	3,600,000	3,600,000	-	(3,600,000)
For school purposes	-	567,000	-	(567,000)
For general government purposes	-	300,000	-	(300,000)
For school construction	-	2,233,000	-	(2,233,000)
Raise prior year deficits	(1,883,091)	(1,883,091)	-	1,883,091
<b>Excess of expenditures and other uses over revenues and other sources</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (776,992)</b>	<b>\$ (776,992)</b>

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

CITY OF LYNN, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2016

	Business-Type Activities <u>Enterprise Fund</u>	Governmental <u>Activities</u>
	Marina <u>Fund</u>	Internal Service <u>Fund</u>
<b>Assets</b>		
Current:		
Cash and short-term investments	\$ 132,500	\$ 3,173,100
User fees, net of allowance for uncollectibles	10,342	-
Inventory	18,371	-
Other assets	<u>-</u>	<u>2,840,000</u>
Total current assets	161,213	6,013,100
Noncurrent:		
Capital assets, net of accumulated depreciation	<u>2,435,694</u>	<u>-</u>
Total noncurrent assets	<u>2,435,694</u>	<u>-</u>
<b>Total Assets</b>	2,596,907	6,013,100
<b>Liabilities</b>		
Current:		
Accrued liabilities	450,118	3,847,229
Other current liabilities	151,000	4,063,780
Current portion of long-term liabilities:		
Bonds payable	<u>942,807</u>	<u>-</u>
Total current liabilities	1,543,925	7,911,009
Noncurrent:		
Bonds payable, net of current portion	<u>145,470</u>	<u>-</u>
Total noncurrent liabilities	<u>145,470</u>	<u>-</u>
<b>Total Liabilities</b>	1,689,395	7,911,009
<b>Net Position</b>		
Net investment in capital assets	1,506,019	-
Unrestricted	<u>(598,507)</u>	<u>(1,897,909)</u>
<b>Total Net Position</b>	<u>\$ 907,512</u>	<u>\$ (1,897,909)</u>

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

CITY OF LYNN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	Marina <u>Fund</u>	Internal Service <u>Fund</u>
<b>Operating Revenues:</b>		
Charges for services	\$ 325,110	\$ -
Employee and employer contributions	<u>-</u>	<u>46,700,007</u>
<b>Total Operating Revenues</b>	325,110	46,700,007
<b>Operating Expenses:</b>		
Personnel expenses	111,092	-
Non personnel expenses	143,514	-
Depreciation	206,044	-
Employee benefits	<u>-</u>	<u>50,799,006</u>
<b>Total Operating Expenses</b>	<u>460,650</u>	<u>50,799,006</u>
Operating income (loss)	(135,540)	(4,098,999)
<b>Nonoperating Revenues (Expenses):</b>		
Investment income	25	-
Interest expense	<u>(72,523)</u>	<u>-</u>
<b>Total Nonoperating Revenues (Expenses), Net</b>	<u>(72,498)</u>	<u>-</u>
<b>Other Financing Sources:</b>		
Capital contribution	<u>71,950</u>	<u>-</u>
<b>Total Other Financing Sources</b>	<u>71,950</u>	<u>-</u>
<b>Change in net position</b>	(136,088)	(4,098,999)
<b>Net Position at Beginning of Year</b>	<u>1,043,600</u>	<u>2,201,090</u>
<b>Net Position at End of Year</b>	<u>\$ 907,512</u>	<u>\$ (1,897,909)</u>

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

CITY OF LYNN, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u> Internal Service <u>Fund</u>
	Marina <u>Fund</u>	
<b>Cash Flows From Operating Activities:</b>		
Receipts from customers and users	\$ 325,017	\$ -
Payments to vendors and employees	(192,864)	-
Receipts from employees and employer	-	46,700,007
Payments of employee benefits and expenses	<u>-</u>	<u>(54,217,113)</u>
<b>Net Cash Provided By (Used For) Operating Activities</b>	132,153	(7,517,106)
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Principal payments on bonds	(12,555)	-
Interest expense	<u>(72,523)</u>	<u>-</u>
<b>Net Cash (Used For) Capital and Related Financing Activities</b>	(85,078)	-
<b>Cash Flows From Investing Activities:</b>		
Investment income	<u>25</u>	<u>-</u>
<b>Net Cash Provided by Investing Activities</b>	<u>25</u>	<u>-</u>
Net Change in Cash and Short-Term Investments	47,100	(7,517,106)
<b>Cash and Short-Term Investments, Beginning of Year</b>	<u>85,400</u>	<u>10,690,206</u>
<b>Cash and Short-Term Investments, End of Year</b>	<u>\$ 132,500</u>	<u>\$ 3,173,100</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</b>		
Operating (loss)	\$ (135,540)	\$ (4,098,999)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	206,044	-
Changes in assets and liabilities:		
User fees	(93)	-
Other assets	(3,231)	-
Accrued liabilities	64,973	(1,418,107)
Other liabilities	<u>-</u>	<u>(2,000,000)</u>
<b>Net Cash Provided By (Used For) Operating Activities</b>	<u>\$ 132,153</u>	<u>\$ (7,517,106)</u>

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

CITY OF LYNN, MASSACHUSETTS  
 FIDUCIARY FUNDS  
 STATEMENT OF FIDUCIARY NET POSITION  
 JUNE 30, 2016

	Pension Trust Fund (As of <u>December 31, 2015</u> )	Agency Funds
<b>Assets</b>		
Cash and short term investments	\$ 2,272,859	\$ 738,238
Investments	279,146,062	-
Accounts receivable	<u>1,738,632</u>	<u>-</u>
<b>Total Assets</b>	283,157,553	738,238
 <b>Liabilities</b>		
Other liabilities	<u>88</u>	<u>738,238</u>
<b>Total Liabilities</b>	<u>88</u>	<u>738,238</u>
 <b>Net Position</b>		
Total net position restricted for pension benefits	\$ <u><u>283,157,465</u></u>	\$ <u><u>-</u></u>

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

CITY OF LYNN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Pension Trust Fund</u>
<b>Additions:</b>	
Contributions:	
Employers	\$ 29,554,590
Plan members	7,121,348
Other	<u>(705,754)</u>
Total contributions	35,970,184
Investment Income:	
Change in fair value of investments	5,006,536
Less: management fees	<u>(1,602,522)</u>
Net investment income	<u>3,404,014</u>
<b>Total additions</b>	<b>39,374,198</b>
<b>Deductions:</b>	
Benefit payments to plan members and beneficiaries	35,681,116
Refunds to plan members	129,345
Transfers to other systems	73,592
Administrative expenses	<u>302,481</u>
<b>Total deductions</b>	<b><u>36,186,534</u></b>
<b>Net increase</b>	<b>3,187,664</b>
<b>Net position:</b>	
<b>Beginning of year</b>	<u>279,969,801</u>
<b>End of year</b>	<b><u><u>\$ 283,157,465</u></u></b>

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

# CITY OF LYNN, MASSACHUSETTS

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

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

#### A. Reporting Entity

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

The Lynn Contributory Retirement System was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at 3 City Hall Square, Lynn, MA 01901.

#### B. Government-wide and Fund Financial Statements

##### Government-wide Financial Statements

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

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

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

#### Fund Financial Statements

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

### C. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

#### Government-wide Financial Statements

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

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

#### Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City 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 City. 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 City reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *home program fund* is used to account for the home program grant.

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

The government reports the following major proprietary funds:

- Seaport Marina Operations

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

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

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

#### D. Cash and Short-Term Investments

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

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

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

*E. Investments*

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

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

*F. Property Tax Limitations*

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2016 tax levy reflected an excess capacity of \$18,481.

*G. Interfund Receivables and Payables*

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

*H. Inventories*

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

*I. Capital Assets*

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

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

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

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

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

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

*J. Compensated Absences*

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

*K. Long-Term Obligations*

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

*L. Fund Equity*

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

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The City reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and, therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

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

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

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

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

### *M. Use of Estimates*

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

## **2. Stewardship, Compliance, and Accountability**

### *A. Budgetary Information*

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by City Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at City Council 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)	\$ 310,803,428	\$ 313,199,747
Other financing sources/uses (GAAP Basis)	<u>6,798,566</u>	<u>-</u>
Subtotal (GAAP Basis)	317,601,994	313,199,747
Adjust tax revenue to accrual basis	42,918	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(3,956,316)
Add end-of-year appropriation carryforwards from expenditures	-	9,178,473
To reverse lease proceeds	(3,951,938)	(3,951,938)
Other	<u>(73,160)</u>	<u>(73,160)</u>
Budgetary Basis	<u>\$ 313,619,814</u>	<u>\$ 314,396,806</u>

D. Excess of Expenditures Over Appropriations

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

Snow and ice	\$ (760,734)
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*E. Deficit Fund Equity*

The following funds had deficits as of June 30, 2016:

Non-major Governmental Funds:	
School capital projects	\$ (1,000,210)
Title I	(675,204)
JAG ARRA grant	(52,320)
State 911 training	(44,910)
Hardscrabble	(41,496)
After school meals	(11,640)
School sale	(6,900)
Peer education	(6,078)
Mass Family Network	(5,301)
EMPG grant	(4,024)
MAPC bike patrols	(3,866)
School achievement	(1,542)
Curriculum, instruction, assessment	(1,000)
911 fire support	(736)
Cops hiring	(187)
MKEA	(109)
Reading first	(99)
Assistance to firefighters	(69)
Total Non-major Governmental Funds	\$ (1,855,691)
Internal Service Funds	\$ (1,897,909)
Agency Funds:	
Uncollectible details	\$ (227,061)
Fire detail	\$ (23,914)
Electrical detail	\$ (10,033)
Division of Fish & Wildlife	\$ (1,875)

The school capital projects deficit of \$(1,000,210) and the internal service fund deficit of \$(1,897,909) were funded in fiscal year 2017 when the tax rate was established. The deficits in the other 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, 2016 and December 31, 2015, \$28,531,644 and \$2,143,831 of the City’s and System’s bank balances of \$53,279,942 and \$2,643,831 respectively, were exposed to custodial credit risk as uninsured or uncollateralized. However, the City has a system in place to verify the creditworthiness of the financial institutions in which it has placed its funds.

Of the System’s total exposed balance, \$1,750,735 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	\$ 417
Corporate bonds	3,668
Corporate equities	2,027
Mutual funds	503
Federal agency securities	<u>855</u>
Total investments	<u>\$ 7,470</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, 2015 (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>
Pooled funds	\$ 16,599
State investment pool*	<u>262,547</u>
Total investments	<u>\$ 279,146</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 \$279,146,062 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, \$262,546,994 is invested in the State Investment Pool (PRIT).

All the City's investments of \$7,469,997 were subject to custodial credit risk exposure because the related securities are uninsured, unregistered and/or held by the City's brokerage firm, which is also the Counterparty to these securities. The City manages this custodial credit risk with SIPC and excess SIPC.

C. Concentration of Credit Risk

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City and System do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>				<u>Average Rating</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater Than 10</u>	
Debt-related Securities:						
Corporate bonds	\$ 3,668	\$ 101	\$ 2,602	\$ 965	\$ -	A1
U.S. Treasury notes	417	101	316	-	-	Aaa
Federal agency securities	855	-	16	-	839	Aaa
Total	<u>\$ 4,940</u>	<u>\$ 202</u>	<u>\$ 2,934</u>	<u>\$ 965</u>	<u>\$ 839</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.

F. Fair Value

The City categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following fair value measurements as of June 30, 2016  
(in thousands):

<u>Description</u>	<u>Fair Value Measurements Using:</u>		
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level:			
City of Lynn			
U.S. Treasury securities	\$ 417	\$ 417	\$ -
Corporate bonds	3,668	-	3,668
Equity securities	2,027	2,027	-
Mutual funds	503	-	503
Federal agency securities	855	855	-
Lynn Contributory Retirement System			
Pooled investments	16,599	-	16,599
Investments measured at the net asset value (NAV):			
External investment pool (PRIT)	<u>262,547</u>		
Total	<u>\$ 286,616</u>		

<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
External investment pool (PRIT)	\$ 262,547	\$ -	Monthly	30 days

## **5. Taxes and Motor Vehicle 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.

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles annually calculates the value of all registered motor vehicles for the purpose of excise assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25 per \$1,000 of value.

Tax and motor vehicle excise receivables at June 30, 2016 consist of the following (in thousands):

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Real estate taxes	\$ 2,220	\$ (270)	\$ 1,950
Personal property taxes	1,495	(1,347)	148
Tax Liens	1,265	(127)	1,138
Foreclosures	449	(404)	45
Deferred taxes	<u>405</u>	<u>-</u>	<u>405</u>
Total property taxes	5,834	(2,148)	3,686
Motor vehicle excise	<u>2,328</u>	<u>(1,124)</u>	<u>1,204</u>
Grand total	<u>\$ 8,162</u>	<u>\$ (3,272)</u>	<u>\$ 4,890</u>

## 6. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2016. Of the \$7,871,937 of intergovernmental receivables, \$4,396,920 is due from the Massachusetts School Building Authority for reimbursement of school construction projects.

## 7. 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, 2016 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 29,525	\$ -
Nonmajor Governmental Funds:		
Permanent Funds:		
Library trust fund	<u>-</u>	<u>29,525</u>
Total	<u>\$ 29,525</u>	<u>\$ 29,525</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 2016:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,104,641	\$ -
Nonmajor Governmental Funds:		
Special Revenue Funds:		
Insurance reimbursements fund	-	650,000
Insurance losses fund	-	237,192
Precinct officers fund	-	62,962
Waste zero overflow bags fund	-	21,131
Capital Project Funds:		
Tech roof and Breed windows project	-	1,133,356
Total	<u>\$ 2,104,641</u>	<u>\$ 2,104,641</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) close out surplus funds.

## 8. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 309,631	\$ 43,723	\$ -	\$ 353,354
Machinery, equipment, and furnishings	32,142	4,781	(26)	36,897
Land improvements	6,101	1,731	-	7,832
Infrastructure	24,967	1,772	-	26,739
Total capital assets, being depreciated	<u>372,841</u>	<u>52,007</u>	<u>(26)</u>	<u>424,822</u>
Less accumulated depreciation for:				
Buildings and improvements	(111,834)	(6,666)	-	(118,500)
Machinery, equipment, and furnishings	(19,545)	(3,367)	22	(22,890)
Land improvements	(2,599)	(291)	-	(2,890)
Infrastructure	(12,511)	(957)	-	(13,468)
Total accumulated depreciation	<u>(146,489)</u>	<u>(11,281)</u>	<u>22</u>	<u>(157,748)</u>
Total capital assets, being depreciated, net	226,352	40,726	(4)	267,074
Capital assets, not being depreciated:				
Land	9,669	-	-	9,669
Construction in progress	5,976	-	(5,976)	-
Total capital assets, not being depreciated	<u>15,645</u>	<u>-</u>	<u>(5,976)</u>	<u>9,669</u>
Governmental activities capital assets, net	<u>\$ 241,997</u>	<u>\$ 40,726</u>	<u>\$ (5,980)</u>	<u>\$ 276,743</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 2,076	\$ -	\$ -	\$ 2,076
Machinery, equipment, and furnishings	434	-	-	434
Land improvements	38	-	-	38
Infrastructure	<u>1,779</u>	<u>72</u>	<u>-</u>	<u>1,851</u>
Total capital assets, being depreciated	4,327	72	-	4,399
Less accumulated depreciation for:				
Buildings and improvements	(829)	(42)	-	(871)
Machinery, equipment, and furnishings	(402)	(6)	-	(408)
Land improvements	(38)	-	-	(38)
Infrastructure	<u>(488)</u>	<u>(158)</u>	<u>-</u>	<u>(646)</u>
Total accumulated depreciation	<u>(1,757)</u>	<u>(206)</u>	<u>-</u>	<u>(1,963)</u>
Total capital assets, being depreciated, net	<u>2,570</u>	<u>(134)</u>	<u>-</u>	<u>2,436</u>
Business-type activities capital assets, net	<u>\$ 2,570</u>	<u>\$ (134)</u>	<u>\$ -</u>	<u>\$ 2,436</u>

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

Governmental Activities:	
General government	\$ 2,378
Public safety	1,159
Education	6,058
Public works	975
Culture and recreation	<u>711</u>
Total depreciation expense - governmental activities	<u>\$ 11,281</u>
Business-Type Activities:	
Marina	<u>\$ 206</u>
Total depreciation expense - business-type activities	<u>\$ 206</u>

## 9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net assets by the City that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. The City reports deferred outflows of resources which is attributable to changes in the

net pension liability. These deferred outflows of resources will be recognized in pension expense over the next four years and is more fully described in Note 20.

**10. Warrants and Accounts Payable**

Warrants payable represent 2016 expenditures paid by July 15, 2016. Accounts payable represent additional 2016 expenditures paid after July 15, 2016.

**11. Tax Refunds Payable**

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

**12. Capital Lease Obligations**

The City is the lessee of certain equipment under capital leases expiring in various years through 2030. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2016:

<u>Fiscal Year</u>	Present Value of Minimum Lease <u>Payments</u>	Interest <u>Payments</u>	Total Lease <u>Payments</u>
2017	\$ 994,359	\$ 347,915	\$ 1,342,274
2018	1,016,454	315,208	1,331,662
2019	913,298	282,052	1,195,350
2020	759,704	254,437	1,014,141
2021	781,374	232,767	1,014,141
2022 - 2026	4,254,368	816,337	5,070,705
2027 - 2030	<u>3,148,162</u>	<u>208,435</u>	<u>3,356,597</u>
Total	<u>\$ 11,867,719</u>	<u>\$ 2,457,151</u>	<u>\$ 14,324,870</u>

### 13. Long-Term Debt

#### A. General Obligation Bonds

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

	Serial Maturities <u>Through</u>	Interest Rate(s) % <u>Rate(s) %</u>	Amount Outstanding as of <u>6/30/16</u>
<u>Governmental Activities:</u>			
Lynn Arts CCMC <sup>(1)</sup>	08/01/16	4.95 - 6.59	\$ 50,000
New Police Station, Manning Field	09/01/16	4.0 - 6.0	450,000
School Gen Obligation Refunding bonds	09/01/17	2.0 - 4.0	2,830,000
General Obligation Refunding bonds	12/01/17	2.0 - 5.0	6,910,000
Public Improvements Refunding	09/01/19	3.0	35,540
Recreational Facilities Refunding	09/01/19	3.0	927,900
Police Station Refunding	09/01/20	2.0 - 3.0	665,000
Police Station Refunding	09/01/24	2.0 - 4.0	6,623,460
Police Station Refunding	09/01/25	2.0 - 4.0	1,168,100
General Obligation bonds	06/01/26	2.25 - 3.9	1,005,000
Remodeling	07/15/27	4.0 - 6.0	5,840,000
Pine Grove Cemetery	03/01/28	3.0 - 5.0	660,000
General Obligation bonds	06/01/28	2.0 - 3.0	1,935,000
Power Lines	09/01/28	2.0 - 4.0	2,340,000
Classical High School	03/01/29	3.0 - 5.0	2,730,000
General Obligation School Bond	09/01/38	2.0 - 5.0	9,000,000
Marshall Middle School	06/01/39	3.0 - 5.0	<u>29,750,000</u>
Total Governmental Activities:			\$ <u><u>72,920,000</u></u>

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

	Serial Maturities <u>Through</u>	Interest Rate(s) % <u>Rate(s) %</u>	Amount Outstanding as of <u>6/30/16</u>
<u>Business-Type Activities:</u>			
Marina	2/1/2014*	7.0	\$ 929,675
Marina	04/14/26	4.5	<u>158,602</u>
Total Business-Type Activities:			\$ <u><u>1,088,277</u></u>

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

**B. Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2016 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 10,190,000	\$ 2,644,843	\$ 12,834,843
2018	6,150,000	2,311,376	8,461,376
2019	3,805,000	2,116,657	5,921,657
2020	3,835,000	1,967,538	5,802,538
2021	3,550,000	1,819,248	5,369,248
2022 - 2026	16,670,000	6,962,319	23,632,319
2027 - 2031	10,925,000	4,204,981	15,129,981
2032 - 2036	10,535,000	2,459,856	12,994,856
2037 - 2039	7,260,000	531,372	7,791,372
Total	\$ <u>72,920,000</u>	\$ <u>25,018,190</u>	\$ <u>97,938,190</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 942,807	\$ 429,870	\$ 1,372,677
2018	13,735	6,265	20,000
2019	14,366	5,634	20,000
2020	15,026	4,974	20,000
2021	15,716	4,284	20,000
2022 - 2026	86,627	9,911	96,538
Total	\$ <u>1,088,277</u>	\$ <u>460,938</u>	\$ <u>1,549,215</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, 2016.

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

During the year ended June 30, 2016, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/15	Additions	Reductions	Total Balance 6/30/16	Less Current Portion	Equals Long-Term Portion 6/30/16
<u>Governmental Activities</u>						
Bonds payable	\$ 73,985	\$ 9,000	\$ (10,065)	\$ 72,920	\$ (10,190)	\$ 62,730
Unamortized bond premium	2,069	742	(324)	2,487	(356)	2,131
Subtotal	<u>76,054</u>	<u>9,742</u>	<u>(10,389)</u>	<u>75,407</u>	<u>(10,546)</u>	<u>64,861</u>
Other:						
Capital leases	9,066	3,952	(1,150)	11,868	(994)	10,874
Accrued employee benefits	2,803	135	(24)	2,914	(292)	2,622
Workers compensation	1,596	392	(597)	1,391	(139)	1,252
Subtotal	<u>13,465</u>	<u>4,479</u>	<u>(1,771)</u>	<u>16,173</u>	<u>(1,425)</u>	<u>14,748</u>
Net OPEB obligation	189,529	33,143	(16,434)	206,238	-	206,238
Net pension liability	<u>255,044</u>	<u>30,826</u>	<u>-</u>	<u>285,870</u>	<u>-</u>	<u>285,870</u>
Totals	\$ <u>534,092</u>	\$ <u>78,190</u>	\$ <u>(28,594)</u>	\$ <u>583,688</u>	\$ <u>(11,971)</u>	\$ <u>571,717</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 1,101	\$ -	\$ (13)	\$ 1,088	\$ (943)	\$ 145
Totals	\$ <u>1,101</u>	\$ <u>-</u>	\$ <u>(13)</u>	\$ <u>1,088</u>	\$ <u>(943)</u>	\$ <u>145</u>

**14. Deferred Inflows of Resources**

Deferred inflows of resources are the acquisition of net assets by the City that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. The City reports two items as deferred inflows of resources, one which is attributable to changes in the net pension liability, and the other which arises from the current financial resources measurement focus and the modified accrual basis of accounting in governmental funds. Deferred inflows of resources related to pension will be recognized in pension expense in future years and is more fully described in Note 20. *Unavailable revenues* are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

The following is a summary of unavailable revenue balances as of June 30, 2016 (in thousands):

	Governmental Funds		
		Home	
	<u>General Fund</u>	<u>Program</u>	<u>Nonmajor</u>
Unavailable revenues			
Property taxes	\$ 3,083	\$ -	\$ -
Tax title	1,924	-	-
Excise	2,328	-	-
Veterans benefits	520	-	-
Loans	-	2,932	980
Intergovernmental	-	-	252
Total	<u>\$ 7,855</u>	<u>\$ 2,932</u>	<u>\$ 1,232</u>

**15. Restricted Net Position**

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

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

## 16. Governmental Funds - Balances

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

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

The following types of fund balances are reported at June 30, 2016:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for a NOAA Marina loan and 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 capital projects funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

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

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

Unassigned - Represents amounts that are available to be spent in future periods and deficit balances in nonmajor governmental funds.

Following is a breakdown of the City's fund balances at June 30, 2016:

	General Fund	HOME Program	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>				
NOAA Marina loan	\$ 929,675	\$ -	\$ -	\$ 929,675
Nonspendable permanent funds	-	-	7,352,754	7,352,754
<b>Total Nonspendable</b>	<b>929,675</b>	<b>-</b>	<b>7,352,754</b>	<b>8,282,429</b>
<b>Restricted</b>				
Circuit breaker	-	-	987,208	987,208
School lunch	-	-	3,856,982	3,856,982
Other school revolving	-	-	899,539	899,539
City federal grants	-	-	265,158	265,158
School federal grants	-	-	1,090,020	1,090,020
City state grants and contributions	-	-	1,921,401	1,921,401
School state grants and contributions	-	-	114,978	114,978
Cemetery	-	-	794,119	794,119
Golf course	-	-	545,882	545,882
Sale of public property	-	-	471,754	471,754
Insurance refunds	-	-	824,092	824,092
Parks and recreation	-	-	408,609	408,609
Memorial Auditorium	-	-	693,524	693,524
Cable access	-	-	424,019	424,019
Other miscellaneous grants and contributions	-	-	2,730,206	2,730,206
Other school miscellaneous grants and contributions	-	-	1,545,833	1,545,833
Lynn Housing Authority	-	-	369,608	369,608
HOME Program	-	22,492	-	22,492
School capital projects	-	-	2,474,820	2,474,820
Various city capital projects	-	-	360,484	360,484
Expendable permanent funds	-	-	542,701	542,701
<b>Total Restricted</b>	<b>-</b>	<b>22,492</b>	<b>21,320,937</b>	<b>21,343,429</b>
<b>Committed</b>				
Pickering MS capital project	-	-	613,460	613,460
Other city capital projects	-	-	153,534	153,534
<b>Total Committed</b>	<b>-</b>	<b>-</b>	<b>766,994</b>	<b>766,994</b>
<b>Assigned</b>				
For capital project deficit	1,000,210	-	-	1,000,210
For encumbrances:				
General government	3,442,585	-	-	3,442,585
Public safety	504,114	-	-	504,114
Education	4,721,552	-	-	4,721,552
Public works	484,543	-	-	484,543
Health and human services	13,223	-	-	13,223
Culture and recreation	8,794	-	-	8,794
Employee benefits	3,662	-	-	3,662
<b>Total Assigned</b>	<b>10,178,683</b>	<b>-</b>	<b>-</b>	<b>10,178,683</b>
<b>Unassigned</b>	<b>8,092,701</b>	<b>-</b>	<b>(1,855,691)</b>	<b>6,237,010</b>
<b>Total Fund Balance</b>	<b>\$ 19,201,059</b>	<b>\$ 22,492</b>	<b>\$ 27,584,994</b>	<b>\$ 46,808,545</b>

## 17. **Subsequent Events**

### Use of Free Cash

On December 16, 2016, the City voted to appropriate all of its free cash of \$2,585,509 to reduce the fiscal year 2017 tax rate.

## 18. **Commitments and Contingencies**

Outstanding Legal Issues – On an ongoing basis, there are typically pending legal issues in which the City is involved. The City's management is of the opinion that the potential future settlement of these issues would not materially affect its financial statements taken as a whole.

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

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

Net School Spending – The City's 2016 Department of Elementary and Secondary Education (DESE) End-of-Year Report (EOYR) reports approximately \$7.4 million in unexpended Net School Spending (NSS) requirements. Schedule 19 (fiscal year 2017 budget) as reported on the City's 2016 DESE EOYR projects the fiscal year 2017 unexpended NSS requirement to increase by \$1.2 million to a projected spending deficiency of \$8.6 million, thereby placing the City's fiscal year 2017 and 2018 state aid at risk for withholding by the Commissioner of DESE.

## 19. **Post-Employment Healthcare and Life Insurance Benefits**

### **Other Post-Employment Benefits**

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

A. Plan Description

In addition to providing the pension benefits described, the City provides post-employment healthcare and life insurance benefits for retired employees through the City's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2016, the actuarial valuation date, approximately 2,041 retirees and 1,906 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 2016 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, 2016, 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, 2016 (in thousands):

Annual Required Contribution (ARC)	\$ 32,395
Interest on net OPEB obligation	6,634
Adjustment to ARC	<u>(5,886)</u>
Annual OPEB cost	33,143
Contributions made	<u>(16,434)</u>
Increase in net OPEB obligation	16,709
Net OPEB obligation - beginning of year	<u>189,529</u>
Net OPEB obligation - end of year	<u>\$ 206,238</u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 33,143	49.59%	\$ 206,238
2015	\$ 44,699	33.71%	\$ 189,529
2014	\$ 42,683	39.70%	\$ 159,900
2013	\$ 43,414	35.83%	\$ 134,162
2012	\$ 41,444	33.36%	\$ 106,303

The City's net OPEB obligation as of June 30, 2016 is recorded as a noncurrent liability.

*E. Funded Status and Funding Progress*

The funded status of the plan as of June 30, 2016, the date of the most recent actuarial valuation, was as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 602,775
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>602,775</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	\$ <u>160,409</u>
UAAL as a percentage of covered payroll	<u>375.8%</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 OPEB 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, 2016 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined, as the City has not advance funded its obligation. The actuarial assumptions included a 3.5% investment rate of return and an initial annual healthcare cost trend rate of 6.0% which decreases to a 4.5% long-term rate for all healthcare benefits after five years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.0%.

## **20. Retirement System**

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

### **A. Plan Description**

The City is a member of the Lynn Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Because of the significance of its operational and financial relationship with the City, the System is included as a pension trust fund in the City's basic financial systems.

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

The System is governed by a five-member board. The five members include two appointed by the City, two elected by the members and retirees, and a fifth member chosen by the other four members with the approval of the Public Employee Retirement Administration Commission.

The System Retirement Board does not have the authority to amend benefit provisions.

Membership of each plan consisted of the following at January 1, 2015:

Retirees and beneficiaries receiving benefits	1,189
Terminated plan members entitled to but not yet receiving benefits	239
Active plan members	<u>1,307</u>
Total	<u>2,735</u>
Number of participating employers	3

### Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

A retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left City employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4

must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

### Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

### Participants Contributions

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

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

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

### Employer Contributions

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

The City's contribution to the System for the year ended June 30, 2016 was \$26,093,571, which was equal to its annual required contribution.

## B. Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended June 30, 2016 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

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

### Investments

#### *Investment Policy*

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

#### *Rate of Return*

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 0.75%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### Net Pension Liability

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

## C. Net Pension Liability of Participating Employers

The net pension liability was based on an actuarial valuation dated January 1, 2015, and rolled forward to December 31, 2015.

### Net Pension Liability of Employers

The components of the net pension liability of the participating employers at June 30, 2016 were as follows (in thousands):

Total pension liability	\$ 606,942
Plan fiduciary net position	<u>(283,157)</u>
Employers' net pension liability	<u>\$ 323,785</u>
Plan fiduciary net position as a percentage of total pension liability	46.65%

### Actuarial Assumptions

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

Valuation Date	January 1, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	7.60%
Projected salary increases	4.25% for Group 1 and 4.75% for Group 4
Inflation rate	Not explicitly assumed
Post-retirement cost-of-living adjustment	3% of first \$14,000

Actuarial valuation of the ongoing Systems involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the December 31, 2015 valuation were based on the results of the most recent actuarial experience study, dated January 1, 2015, which was for the period January 1, 2013 through December 31, 2014.

Mortality rates were based on pre-retirement rates that reflect the RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct). Post retirement rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct). For disabled retirees, this table is set forward 3 years.

Target Allocations

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	18.00%	7.60%
International equity	22.00%	8.60%
Fixed income	19.00%	5.20%
Private equity	10.00%	9.50%
Real estate	10.00%	6.50%
Timber/Natural Resources	4.00%	6.80%
Hedge funds	9.00%	6.80%
Private debt	4.00%	8.00%
Portfolio completion strategies	<u>4.00%</u>	NA
Total	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.60%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.60%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.60%) or one percentage-point higher (8.60%) than the current rate (in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.60%)</u>	<u>Current Discount Rate (7.60%)</u>	<u>1% Increase (8.60%)</u>
December 31, 2015	\$ 345,419	\$ 285,870	\$ 235,340

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

At June 30, 2016, the City reported a liability of \$ 285,870,000 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2015, the City's proportion was 88.29%.

For the year ended June 30, 2016, the City recognized pension expense of \$30,063,000. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,355
Net difference between projected and actual earnings on pension plan investments (2015)	12,619	-
Net difference between projected and actual earnings on pension plan investments (2014)	309	-
Changes of assumptions	<u>16,750</u>	<u>-</u>
Total	<u>\$ 29,678</u>	<u>\$ 1,355</u>

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Year ended June 30:		
2017	\$ 7,785	\$ 366
2018	7,785	366
2019	7,785	366
2020	<u>6,323</u>	<u>257</u>
Total	<u>\$ 29,678</u>	<u>\$ 1,355</u>

## 21. Massachusetts Teachers' Retirement System (MTRS)

### A. Plan Description

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

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

### B. Benefits Provided

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

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

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies.

The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

**C. Contributions**

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

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

**D. Actuarial Assumptions**

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015. This valuation used the following assumptions:

- (a) 7.50% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase per year.
- Salary increases are based on analyses of past experience, but range from 4.00% to 7.50% depending on length of service.
- Mortality rates were as follows:
  - Pre-retirement - reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct)
  - Post-retirement - reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct)
  - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 set forward 4 years.

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

expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.0%	6.9%
Core fixed income	13.0%	2.4%
Private equity	10.0%	8.5%
Real estate	10.0%	6.5%
Value added fixed income	10.0%	5.8%
Hedge funds	9.0%	5.8%
Portfolio completion strategies	4.0%	5.5%
Timber/natural resources	4.0%	6.6%
Total	<u>100.0%</u>	

*E. Discount Rate*

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*F. Sensitivity Analysis*

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

<u>Fiscal Year Ended</u>	<u>1% Decrease to 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase to 8.50%</u>
June 30, 2015	\$ 25,449,000	\$ 20,489,643	\$ 16,221,000

G. Special Funding Situation

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

H. City Proportions

In fiscal year 2015 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense that is associated with the City was \$298,585,402 and \$24,217,933 respectively, based on a proportionate share of 1.457250%. As required by GASB 68, the City has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities.

**22. 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 all claims. 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, 2016 are as follows:

	<u>Health Coverage</u>
Claims liability, beginning of year	\$ 11,329,116
Claims incurred/recognized in fiscal year 2016	50,799,006
Claims paid in fiscal year 2016	<u>(54,217,113)</u>
Claims liability, end of year	<u>\$ 7,911,009</u>

The \$4,063,780 estimated liability for claims incurred but not reported includes only an estimate for known loss events expected to later be presented as claims. The City is unable to estimate the amount of unknown loss events expected to become claims and expected future developments on claims already reported.

**23. Risk Management**

The City 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.

**24. Beginning Fund Balance Reclassification**

The City's major governmental funds for fiscal year 2016, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

Fund Basis Financial Statements:

	<u>HOME Program</u>	<u>School Capital Projects</u>	<u>Nonmajor Governmental Funds</u>
As previously reported	\$ -	\$ 9,720,783	\$ 29,092,451
Reclass major funds	<u>39,304</u>	<u>(9,720,783)</u>	<u>9,681,479</u>
As restated	<u>\$ 39,304</u>	<u>\$ -</u>	<u>\$ 38,773,930</u>

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

**June 30, 2016**

**(Unaudited)**

**(Amounts expressed in thousands)**

**Other Post-Employment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
06/30/16	\$ -	\$ 602,775	\$ 602,775	0.0%	\$ 160,409	375.8%
06/30/14	\$ -	\$ 653,803	\$ 653,803	0.0%	\$ 158,217	413.2%
06/30/12	\$ -	\$ 648,817	\$ 648,817	0.0%	\$ 150,247	431.8%
06/30/10	\$ -	\$ 531,170	\$ 531,170	0.0%	\$ 140,290	378.6%
06/30/08	\$ -	\$ 450,682	\$ 450,682	0.0%	\$ 149,762	300.9%

See Independent Auditors' Report.

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

**JUNE 30, 2016**  
**(Unaudited)**  
**(Amounts expressed in thousands)**

Lynn Contributory Retirement System

<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	88.29%	\$ 285,870	\$ 64,858	440.76%	46.65%
June 30, 2015	88.63%	\$ 255,044	\$ 61,856	412.32%	49.31%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the City</u>	<u>Total Net Pension Liability Associated with the City</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	1.457250%	\$ -	\$ 298,585	\$ 298,585	\$ 92,373	0.00%	55.38%
June 30, 2015	1.384225%	\$ -	\$ 220,041	\$ 220,041	\$ 84,874	0.00%	61.64%

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

See Independent Auditors' Report.

**CITY OF LYNN, MASSACHUSETTS**

**SCHEDULE OF PENSION CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016**

**(Unaudited)**

**(Amounts expressed in thousands)**

Lynn Contributory Retirement System					
<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2016	\$ 26,094	\$ 26,094	\$ -	\$ 64,858	40.23%
June 30, 2015	\$ 25,193	\$ 25,193	\$ -	\$ 61,856	40.73%

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

See Independent Auditors' Report.

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

**Schedule of Changes in the Net Pension Liability**

(Unaudited)

(Amounts expressed in thousands)

	<u>2015</u>	<u>2014</u>
<b>Total pension liability</b>		
Service cost	\$ 11,082	\$ 10,537
Interest on unfunded liability - time value of \$	42,598	42,060
Differences between expected and actual experience	(1,950)	-
Changes of assumptions	24,100	-
Benefit payments, including refunds of member contributions	<u>(36,621)</u>	<u>(34,069)</u>
Net change in total pension liability	39,209	18,528
Total pension liability - beginning	<u>567,733</u>	<u>549,205</u>
<b>Total pension liability - ending (a)</b>	<u><u>\$ 606,942</u></u>	<u><u>\$ 567,733</u></u>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 29,642	\$ 28,433
Contributions - member	7,048	6,829
Net investment income	3,403	19,567
Benefit payments, including refunds of member contributions	(36,621)	(34,069)
Administrative expense	(302)	(386)
Other	<u>17</u>	<u>14</u>
Net change in plan fiduciary net position	3,187	20,388
Plan fiduciary net position - beginning	<u>279,970</u>	<u>259,582</u>
<b>Plan fiduciary net position - ending (b)</b>	<u><u>\$ 283,157</u></u>	<u><u>\$ 279,970</u></u>
<b>Net pension liability (asset) - ending (a-b)</b>	<u><u>\$ 323,785</u></u>	<u><u>\$ 287,763</u></u>

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

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

See Independent Auditors' Report.

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

**Schedules of Net Pension Liability, Contributions, and Investment Returns**

(Unaudited)  
(Amounts expressed in thousands)

**Schedule of Net Pension Liability**

	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 606,942	\$ 567,733
Plan fiduciary net position	<u>(283,157)</u>	<u>(279,970)</u>
Net pension liability (asset)	<u>\$ 323,785</u>	<u>\$ 287,763</u>
Plan fiduciary net position as a percentage of the total pension liability	46.65%	49.31%
Covered payroll	\$ 73,460	\$ 69,791
Participating employer net pension liability (asset) as a percentage of covered employee payroll	440.76%	412.32%

**Schedule of Contributions**

	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 29,555	\$ 28,424
Contributions in relation to the actuarially determined contribution	<u>29,555</u>	<u>28,424</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 73,460	\$ 69,791
Contributions as a percentage of covered payroll	40.23%	40.73%

**Schedule of Investment Returns**

*Year Ended December 31*

	<u>2015</u>	<u>2014</u>
Annual money weighted rate of return, net of investment expense	0.75%	7.45%

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See Independent Auditors' Report.