

CITY OF LYNN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2018

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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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lynn, Massachusetts, as of and for the year ended June 30, 2018 (except for the Lynn Contributory Retirement System and the Economic Development and Industrial Corporation of Lynn which are as of and for the year ended December 31, 2017), 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 did not audit the financial statements of the Economic Development and Industrial Corporation of Lynn, which represents 100 percent of the discretely presented component units. The financial statements of Economic Development and Industrial Corporation of Lynn (the EDIC) were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the EDIC is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lynn, Massachusetts, as of June 30, 2018 (except for the Lynn Contributory Retirement System and the Economic Development and Industrial Corporation of Lynn, which are as of and for the year ending December 31, 2017), and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 18 to the financial statements, in March 2018, special legislation was filed with the Commonwealth of Massachusetts to, among other items, permit the City to borrow up to \$14,000,000 in bonds to balance the budgets for fiscal years 2018 and 2019. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and the Pension and OPEB Schedules appearing on pages 70 through 74 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 November 28, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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.



November 28, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Lynn, Massachusetts (the City), we offer readers this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018.

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 comprise 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, and debt service interest. The business-type activities include the marina activities.

The discretely presented component unit is a legally separate entity for which the City has financial accountability but functions independent of the City. For the most part, this entity operates similar to a private sector business. The City's only component unit is the Economic Development and Industrial Corporation of Lynn (EDIC).

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 funds balance sheet and the governmental funds 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 fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds.

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs such as depreciation or debt service. The primary focus on these criteria is on fees charged to external users. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail.

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 enterprise fund, 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 City. 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 of resources were less than liabilities and deferred inflows of resources by \$(558,472,720) (i.e., net position), a change of \$(18,777,209) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$50,644,381, a change of \$8,821,996 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$9,788,160, a change of \$5,241,262 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.

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 71,688,649	\$ 57,647,097	\$ 220,787	\$ 192,573	\$ 71,909,436	\$ 57,839,670
Capital assets	270,724,027	276,144,905	2,022,406	2,229,050	272,746,433	278,373,955
Other noncurrent assets	2,868,810	3,157,189	-	-	2,868,810	3,157,189
Total assets	345,281,486	336,949,191	2,243,193	2,421,623	347,524,679	339,370,814
Deferred outflows of resources:						
Related to pensions	16,375,000	23,352,000	-	-	16,375,000	23,352,000
Long-term liabilities	884,464,324	589,978,782	1,061,410	1,075,145	885,525,734	591,053,927
Other liabilities	17,787,772	12,613,297	152,893	666,195	17,940,665	13,279,492
Total liabilities	902,252,096	602,592,079	1,214,303	1,741,340	903,466,399	604,333,419
Deferred inflows of resources:						
Related to pensions	18,906,000	1,555,000	-	-	18,906,000	1,555,000
Net position:						
Net investment in capital assets	205,471,620	214,793,009	1,092,731	1,299,375	206,564,351	216,092,384
Restricted	33,262,743	30,361,690	-	-	33,262,743	30,361,690
Unrestricted	(798,235,973)	(489,000,587)	(63,841)	(619,092)	(798,299,814)	(489,619,679)
Total net position	\$ (559,501,610)	\$ (243,845,888)	\$ 1,028,890	\$ 680,283	\$ (558,472,720)	\$ (243,165,605)

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 \$(558,472,720), a change of \$(18,777,209) from the prior year.

The largest portion of net position, \$206,564,351, reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and furnishings, and infrastructure); 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, \$33,262,743, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$(798,299,814), results in a deficit. This deficit balance is caused primarily from recording the City's total OPEB liability and net pension liability, which are discussed further in Notes 21 and 19 respectively.

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

	CHANGES IN NET POSITION					
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues:						
Charges for services	\$ 15,095,659	\$ 12,436,747	\$ 337,818	\$ 358,270	\$ 15,433,477	\$ 12,795,017
Operating grants and contributions	226,805,691	224,851,640	-	-	226,805,691	224,851,640
Capital grants and contributions	3,535,605	770,099	-	-	3,535,605	770,099
General revenues:						
Property taxes	125,940,080	121,414,058	-	-	125,940,080	121,414,058
Excises	8,130,359	7,738,233	-	-	8,130,359	7,738,233
Penalties, interest, and other taxes	1,995,452	1,147,168	-	-	1,995,452	1,147,168
Grants and contributions not restricted to specific programs	31,500,255	27,341,272	-	-	31,500,255	27,341,272
Investment income	133,254	377,294	20	24	133,274	377,318
Other	1,857,402	1,507,664	-	-	1,857,402	1,507,664
Total revenues	414,993,757	397,584,175	337,838	358,294	415,331,595	397,942,469
Expenses						
General government	21,142,291	22,125,772	-	-	21,142,291	22,125,772
Public safety	62,710,487	64,538,051	-	-	62,710,487	64,538,051
Education	317,289,399	300,627,849	-	-	317,289,399	300,627,849
Public works	21,549,559	19,811,404	-	-	21,549,559	19,811,404
Health and human services	3,432,747	5,198,452	-	-	3,432,747	5,198,452
Culture and recreation	5,706,486	5,388,797	-	-	5,706,486	5,388,797
Debt service interest	2,288,604	2,579,308	-	-	2,288,604	2,579,308
Marina services	-	-	569,503	585,523	569,503	585,523
Total expenses	434,119,573	420,269,633	569,503	585,523	434,689,076	420,855,156
Increase (Decrease) in net position before special item	(19,125,816)	(22,685,458)	(231,665)	(227,229)	(19,357,481)	(22,912,687)
Special Item						
Accrued interest adjustment	-	-	580,272	-	580,272	-
Increase (Decrease) in net position after special item	(19,125,816)	(22,685,458)	348,607	(227,229)	(18,777,209)	(22,912,687)
Net position - beginning of year, as restated	(540,375,794)	(221,160,430)	680,283	907,512	(539,695,511)	(220,252,918)
Net position - end of year	\$ (559,501,610)	\$ (243,845,888)	\$ 1,028,890	\$ 680,283	\$ (558,472,720)	\$ (243,165,605)

Fiscal year 2017 amounts were not restated as the City applied GASB 75 prospectively.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(19,125,816). Key elements of this change are as follows:

General fund expenses in excess of revenues	\$ (6,459,602)
Grants for capital asset acquisition	6,637,468
Increase in total OPEB liability over prior year	(20,299,758)
Decrease in net pension liability, net of related deferrals	344,000
Other	652,076
Total	\$ (19,125,816)

Business-type activities. Business-type activities for the year resulted in a change in net position of \$348,607. This change is mainly attributable to the City's reporting of a special item in fiscal year 2018 as further discussed in Note 23.

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 CITY’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 \$50,644,381, a change of \$8,821,996 in comparison to the prior year. Key elements of this change are as follows:

Proceeds of general fund deficit financing	\$ 9,500,000
Funding of prior year internal service fund deficit	(2,170,425)
Other general fund operating results	(3,433,277)
MSBA reimbursements received	4,078,498
Nonmajor fund revenues and other financing sources in excess of expenditures and other uses, net of MSBA	608,798
Other	<u>238,402</u>
Total	<u>\$ 8,821,996</u>

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$9,788,160, while total fund balance was \$18,110,927. Total fund balance in the general fund increased by \$3,896,298 which is partially a result of the City issuing \$9,500,000 in deficit bonds in fiscal year 2018. In accordance with Governmental Accounting Standards Board’s Statement No. 54, the City has classified the \$9,500,000 as a component of unassigned fund balance because the deficit bonds do not contain any specific spending purpose constraints.

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 as outlined in the table below:

<u>General Fund</u>	<u>6/30/18</u>	<u>6/30/17</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 9,788,160	\$ 4,546,898	\$ 5,241,262	2.76%
Total fund balance	\$ 18,110,927	\$ 14,214,629	\$ 3,896,298	5.10%

The total fund balance of the general fund changed by \$3,896,298 during the current fiscal year. Key factors in this change are as follows:

Use of free cash as a funding source	\$ (1,081,084)
Prior year deficits raised in the current year	1,497,466
Chapter 70 aid withheld	(2,421,022)
Other revenues exceeding budgeted amounts	7,858,734
Fiscal year 2018 snow and ice overage	(1,885,152)
Other expenditures less than budgeted amounts	1,236,447
Change in encumbrances	<u>(1,309,091)</u>
Total	<u>\$ 3,896,298</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 Marina enterprise fund at the end of the year amounted to a deficit balance of \$(63,841), an increase of \$555,251 in comparison to the prior year. This change is mainly attributable to the City's reporting of a special item in fiscal year 2018 as further discussed in Note 23.

Unrestricted net position of the internal service fund at the end of the year amounted to a deficit balance of \$(638,974), after an operating loss of \$(638,974). Fiscal year 2018 is the fourth year in a row that the fund incurred an operating loss, as claims have exceeded funding. The City plans on raising the June 30, 2018 unrestricted net position deficit with the setting of the fiscal year 2019 tax rate.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$6,688,174. The majority of the fiscal year 2018 increases were for additional education and public safety appropriations. These increases were funded from free cash of approximately \$1 million, transfers from related special revenue funds of approximately \$960,000,

transfers from capital projects of approximately \$460,000, as well as additional property taxes and state aid of approximately \$4.2 million.

Property tax revenues exceeded the tax levy by approximately \$2 million primarily due to the collection of tax title funds. In addition, Intergovernmental revenue exceeded the budget by approximately \$1.4 million mainly due to Chapter 70 cuts of \$2.4 million combined with additional lottery surplus funds of \$3.5 million and the budgetary transfer in surplus of \$861,049 was to move FEMA funds into the general fund where expenses had been incurred. Total expenditures exceeded appropriations by \$648,705 driven by an approximately \$1.8 million snow and ice deficit which will be raised in the fiscal year 2019 tax levy.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$272,746,433 (net of accumulated depreciation), a change of \$(5,627,522) from the prior year. This investment in capital assets includes land, buildings, machinery, equipment, and furnishings, and infrastructure.

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

School construction projects	\$ 666,074
Road construction projects	2,274,321
Other construction projects	336,257
New vehicles and equipment	3,957,532
Depreciation	<u>(12,861,706)</u>
Total	<u>\$ (5,627,522)</u>

Additional information on capital assets can be found in Note 8 of the Notes to Financial Statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$68,915,979, all of which was backed by the full faith and credit of the City.

Additional information on long-term debt can be found in Note 14 of the Notes to Financial Statements.

Credit rating. During the fiscal year, Moody’s Investor Service downgraded the City’s underlying rating to Baa1 from A3 with a negative outlook.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Lynn, Massachusetts', 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, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current:				
Cash and short-term investments	\$ 48,213,791	\$ 205,890	\$ 48,419,681	\$ 4,187,952
Investments	7,262,892	-	7,262,892	-
Receivables, net of allowance for uncollectibles:				
Property taxes	4,021,791	-	4,021,791	-
Excises	1,452,886	-	1,452,886	-
Departmental and other	1,991,401	-	1,991,401	-
Intergovernmental	5,638,816	-	5,638,816	-
Loans	287,072	-	287,072	342,797
Other assets	2,820,000	14,897	2,834,897	204,320
Noncurrent:				
Receivables, net of allowance for uncollectibles:				
Property taxes	285,160	-	285,160	-
Loans	2,583,650	-	2,583,650	1,481,495
Capital assets, non-depreciable	9,669,202	-	9,669,202	1,497,847
Capital assets, depreciable, net of accumulated depreciation	<u>261,054,825</u>	<u>2,022,406</u>	<u>263,077,231</u>	<u>1,693,927</u>
Total Assets	345,281,486	2,243,193	347,524,679	9,408,338
Deferred Outflows of Resources				
Related to pensions	<u>16,375,000</u>	<u>-</u>	<u>16,375,000</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>16,375,000</u>	<u>-</u>	<u>16,375,000</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	361,656,486	2,243,193	363,899,679	9,408,338
Liabilities				
Current:				
Warrants payable	6,182,478	-	6,182,478	124,647
Accrued payroll	3,004,174	-	3,004,174	-
Accrued liabilities	8,537,602	1,893	8,539,495	-
Other current liabilities	63,518	151,000	214,518	279,369
Current portion of long-term liabilities:				
Bonds payable	4,769,419	14,366	4,783,785	102,248
Other liabilities	1,830,186	-	1,830,186	-
Noncurrent:				
Bonds payable, net of current portion	63,085,150	1,047,044	64,132,194	243,582
Net pension liability	260,860,000	-	260,860,000	-
Total OPEB liability	539,993,664	-	539,993,664	-
Other liabilities, net of current portion	<u>13,925,905</u>	<u>-</u>	<u>13,925,905</u>	<u>-</u>
Total Liabilities	902,252,096	1,214,303	903,466,399	749,846
Deferred Inflows of Resources				
Related to pensions	<u>18,906,000</u>	<u>-</u>	<u>18,906,000</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>18,906,000</u>	<u>-</u>	<u>18,906,000</u>	<u>-</u>
Total Liabilities and Deferred Inflows of Resources	921,158,096	1,214,303	922,372,399	749,846
Net Position				
Net investment in capital assets	205,471,620	1,092,731	206,564,351	-
Restricted for:				
Grants and other statutory restrictions	25,106,588	-	25,106,588	797,177
Permanent funds:				
Nonexpendable	7,558,735	-	7,558,735	-
Expendable	597,420	-	597,420	-
Unrestricted	<u>(798,235,973)</u>	<u>(63,841)</u>	<u>(798,299,814)</u>	<u>7,861,315</u>
Total Net Position	<u>\$ (559,501,610)</u>	<u>\$ 1,028,890</u>	<u>\$ (558,472,720)</u>	<u>\$ 8,658,492</u>

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

CITY OF LYNN, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Unit
Governmental Activities								
General government	\$ 21,142,291	\$ 5,190,406	\$ 355,401	\$ -	\$ (15,596,484)	\$ -	\$ (15,596,484)	\$ -
Public safety	62,710,487	1,276,777	3,703,019	-	(57,730,691)	-	(57,730,691)	-
Education	317,289,399	1,299,713	215,929,958	-	(100,059,728)	-	(100,059,728)	-
Public works	21,549,559	3,703,400	4,098,500	3,535,605	(10,212,054)	-	(10,212,054)	-
Health and human services	3,432,747	234,587	2,535,096	-	(663,064)	-	(663,064)	-
Culture and recreation	5,706,486	3,390,776	183,717	-	(2,131,993)	-	(2,131,993)	-
Debt service interest	<u>2,288,604</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,288,604)</u>	<u>-</u>	<u>(2,288,604)</u>	<u>-</u>
Total Governmental Activities	434,119,573	15,095,659	226,805,691	3,535,605	(188,682,618)	-	(188,682,618)	-
Business-Type Activities								
Marina services	<u>569,503</u>	<u>337,818</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(231,685)</u>	<u>(231,685)</u>	<u>-</u>
Total Business-Type Activities	<u>569,503</u>	<u>337,818</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(231,685)</u>	<u>(231,685)</u>	<u>-</u>
Total Primary Government	<u>\$ 434,689,076</u>	<u>\$ 15,433,477</u>	<u>\$ 226,805,691</u>	<u>\$ 3,535,605</u>	<u>(188,682,618)</u>	<u>(231,685)</u>	<u>(188,914,303)</u>	<u>-</u>
Component Unit								
Economic Development and Industrial Corporation of Lynn	<u>\$ 2,603,024</u>	<u>\$ 2,001,880</u>	<u>\$ 32,097</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(569,047)</u>
Total Component Unit	<u>\$ 2,603,024</u>	<u>\$ 2,001,880</u>	<u>\$ 32,097</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(569,047)</u>
General Revenues								
Property taxes					125,940,080	-	125,940,080	-
Excises					8,130,359	-	8,130,359	-
Penalties, interest, and other taxes					1,995,452	-	1,995,452	-
Grants and contributions not restricted to specific programs					31,500,255	-	31,500,255	-
Investment income					133,254	20	133,274	107,092
Other					<u>1,857,402</u>	<u>-</u>	<u>1,857,402</u>	<u>35,582</u>
Total General Revenues					<u>169,556,802</u>	<u>20</u>	<u>169,556,822</u>	<u>142,674</u>
Change in net position, before special item					(19,125,816)	(231,665)	(19,357,481)	(426,373)
Special item, accrued interest adjustment					<u>-</u>	<u>580,272</u>	<u>580,272</u>	<u>-</u>
Change in Net Position					(19,125,816)	348,607	(18,777,209)	(426,373)
Net Position								
Beginning of year, as restated					<u>(540,375,794)</u>	<u>680,283</u>	<u>(539,695,511)</u>	<u>9,084,865</u>
End of year					<u>\$ (559,501,610)</u>	<u>\$ 1,028,890</u>	<u>\$ (558,472,720)</u>	<u>\$ 8,658,492</u>

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

CITY OF LYNN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2018

	General Fund	HOME Program	Permanent Funds	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and short-term investments	\$ 22,660,467	\$ 324,240	\$ 922,788	\$ 20,119,222	\$ 44,026,717
Investments	-	-	7,262,892	-	7,262,892
Receivables:					
Property taxes	6,644,114	-	-	-	6,644,114
Excises	2,725,739	-	-	-	2,725,739
User fees	1,160,525	-	-	-	1,160,525
Departmental and other	830,876	-	-	-	830,876
Intergovernmental	-	-	-	5,638,816	5,638,816
Loans	-	2,537,054	-	333,668	2,870,722
Due from other funds	29,525	-	-	-	29,525
Total Assets	<u>\$ 34,051,246</u>	<u>\$ 2,861,294</u>	<u>\$ 8,185,680</u>	<u>\$ 26,091,706</u>	<u>\$ 71,189,926</u>
Liabilities					
Warrants payable	\$ 4,812,243	\$ -	\$ -	\$ 1,363,103	\$ 6,175,346
Accrued payroll	2,889,882	-	-	114,292	3,004,174
Accrued liabilities	-	14,817	-	407,767	422,584
Due to other funds	-	-	29,525	-	29,525
Other liabilities	63,518	-	-	-	63,518
Total Liabilities	7,765,643	14,817	29,525	1,885,162	9,695,147
Deferred Inflows of Resources					
Unavailable revenues	8,174,676	2,537,054	-	138,668	10,850,398
Fund Balances					
Nonspendable	929,675	-	7,558,736	-	8,488,411
Restricted	-	309,423	597,419	22,121,443	23,028,285
Committed	-	-	-	2,212,682	2,212,682
Assigned	7,393,092	-	-	-	7,393,092
Unassigned	9,788,160	-	-	(266,249)	9,521,911
Total Fund Balances	<u>18,110,927</u>	<u>309,423</u>	<u>8,156,155</u>	<u>24,067,876</u>	<u>50,644,381</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 34,051,246</u>	<u>\$ 2,861,294</u>	<u>\$ 8,185,680</u>	<u>\$ 26,091,706</u>	<u>\$ 71,189,926</u>

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

CITY OF LYNN, MASSACHUSETTS

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

JUNE 30, 2018

Total governmental fund balances	\$ 50,644,381
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	270,724,027
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	7,240,382
• 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.	(638,974)
• Deferred outflows of resources related to pensions will be recognized as an increase to pension expense in future periods.	16,375,000
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(67,854,569)
Net pension liability	(260,860,000)
Total OPEB liability	(539,993,664)
Other (compensated absences, capital leases, etc.)	(15,756,091)
• Deferred inflows of resources related to pensions will be recognized as a decrease to pension expense in future periods.	(18,906,000)
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	<u>(476,102)</u>
Net position of governmental activities	<u>\$ (559,501,610)</u>

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

CITY OF LYNN, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	HOME Program	Permanent Funds	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 127,714,348	\$ -	\$ -	\$ -	\$ 127,714,348
Excises	8,088,639	-	-	-	8,088,639
Penalties, interest, and other taxes	1,995,452	-	-	-	1,995,452
Charges for services	2,302,636	301,585	-	6,885,482	9,489,703
Intergovernmental	203,585,390	166,782	-	41,466,861	245,219,033
Contributions and donations	-	-	65,500	1,017,220	1,082,720
Licenses and permits	2,954,106	-	-	3,050	2,957,156
Fines and forfeitures	1,808,792	-	-	7,808	1,816,600
Investment income	102,718	-	30,511	25	133,254
Insurance recoveries	-	-	-	856,962	856,962
Miscellaneous	22,003	-	-	622,356	644,359
Total Revenues	348,574,084	468,367	96,011	50,859,764	399,998,226
Expenditures					
Current:					
General government	11,077,329	-	-	986,925	12,064,254
Public safety	40,776,747	-	-	2,715,234	43,491,981
Education	181,887,605	-	-	27,007,248	208,894,853
Public works	12,871,187	-	-	8,066,460	20,937,647
Health and human services	1,286,553	323,500	-	1,695,885	3,305,938
Culture and recreation	1,321,476	-	2,476	3,493,015	4,816,967
Employee benefits	73,671,789	-	-	-	73,671,789
Debt service	8,461,376	-	-	-	8,461,376
Intergovernmental	23,679,624	-	-	-	23,679,624
Total Expenditures	355,033,686	323,500	2,476.00	43,964,767	399,324,429
Excess (deficiency) of revenues over expenditures	(6,459,602)	144,867	93,535	6,894,997	673,797
Other Financing Sources (Uses)					
Bond proceeds	9,500,000	-	-	-	9,500,000
Lease proceeds	818,624	-	-	-	818,624
Transfers in	2,284,781	-	-	77,080	2,361,861
Transfers out	(2,247,505)	-	-	(2,284,781)	(4,532,286)
Total Other Financing Sources (Uses)	10,355,900	-	-	(2,207,701)	8,148,199
Change in Fund Balances	3,896,298	144,867	93,535	4,687,296	8,821,996
Fund Balance at Beginning of Year, as restated	14,214,629	164,556	8,062,620	19,380,580	41,822,385
Fund Balance at End of Year	\$ 18,110,927	\$ 309,423	\$ 8,156,155	\$ 24,067,876	\$ 50,644,381

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, 2018

Net changes in fund balances - total governmental funds	\$	8,821,996																																										
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 70%;">Capital outlay</td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">7,259,749</td> </tr> <tr> <td>Loss on disposal of capital assets</td> <td></td> <td style="text-align: right;">(25,565)</td> </tr> <tr> <td>Depreciation</td> <td></td> <td style="text-align: right;">(12,655,062)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue. (900,354) • 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: 70%;">Issuance of long-term debt</td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">(9,500,000)</td> </tr> <tr> <td>Repayments of general obligation and refunding bonds</td> <td></td> <td style="text-align: right;">6,150,000</td> </tr> <tr> <td>Proceeds of capital leases</td> <td></td> <td style="text-align: right;">(818,624)</td> </tr> <tr> <td>Payments of capital leases</td> <td></td> <td style="text-align: right;">1,033,434</td> </tr> </table> • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. This amount represents the change in accrued interest 22,772 • Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. 1,531,451 • Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 70%;">Amortization of bond premium</td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">356,085</td> </tr> <tr> <td>Change in net pension liability</td> <td></td> <td style="text-align: right;">24,672,000</td> </tr> <tr> <td>Change in deferred outflows related to pensions</td> <td></td> <td style="text-align: right;">(6,977,000)</td> </tr> <tr> <td>Change in deferred inflows related to pensions</td> <td></td> <td style="text-align: right;">(17,351,000)</td> </tr> <tr> <td>Change in total OPEB liability</td> <td></td> <td style="text-align: right;">(20,299,758)</td> </tr> <tr> <td>Change in compensated absences liability</td> <td></td> <td style="text-align: right;">(59,513)</td> </tr> <tr> <td>Change in workers compensation liability</td> <td></td> <td style="text-align: right;">510,740</td> </tr> </table> • Reimbursements from the Massachusetts School Building Authority for principal payments on long-term debt provide current financial resources to governmental funds but have no effect on changes in net position, therefore are excluded from net position. (897,167) 			Capital outlay		7,259,749	Loss on disposal of capital assets		(25,565)	Depreciation		(12,655,062)	Issuance of long-term debt		(9,500,000)	Repayments of general obligation and refunding bonds		6,150,000	Proceeds of capital leases		(818,624)	Payments of capital leases		1,033,434	Amortization of bond premium		356,085	Change in net pension liability		24,672,000	Change in deferred outflows related to pensions		(6,977,000)	Change in deferred inflows related to pensions		(17,351,000)	Change in total OPEB liability		(20,299,758)	Change in compensated absences liability		(59,513)	Change in workers compensation liability		510,740
Capital outlay		7,259,749																																										
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Change in compensated absences liability		(59,513)																																										
Change in workers compensation liability		510,740																																										
Change in net position of governmental activities	\$	<u>(19,125,816)</u>																																										

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

CITY OF LYNN, MASSACHUSETTS
GENERAL FUND
STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES
AND OTHER USES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues and Transfers				
Taxes	\$ 125,626,324	\$ 125,624,063	\$ 127,714,348	\$ 2,090,285
Excise	8,045,936	8,045,936	8,088,639	42,703
Penalties, interest, and other taxes	1,828,085	1,828,085	1,995,452	167,367
Charges for services	2,095,124	2,095,124	2,302,636	207,512
Intergovernmental	180,317,694	184,498,212	185,973,632	1,475,420
Licenses and permits	2,538,059	2,538,059	2,954,106	416,047
Fines and forfeits	1,643,341	1,643,341	1,808,792	165,451
Investment income	75,797	75,797	102,718	26,921
Miscellaneous	31,945	37,046	22,003	(15,043)
Transfers in	-	1,423,732	2,284,781	861,049
Total Revenues and Transfers	<u>322,202,305</u>	<u>327,809,395</u>	<u>333,247,107</u>	<u>5,437,712</u>
Expenditures and Transfers				
General government	12,449,298	11,429,854	11,189,149	240,705
Public safety	38,086,325	40,017,507	39,801,190	216,317
Education	159,061,156	163,462,422	163,067,293	395,129
Public works	11,045,688	11,199,900	12,817,659	(1,617,759)
Health and human services	1,344,325	1,341,985	1,283,837	58,148
Culture and recreation	1,348,727	1,353,076	1,325,396	27,680
Debt service	8,566,378	8,466,378	8,461,376	5,002
Intergovernmental	23,393,403	23,393,403	23,679,624	(286,221)
Employee benefits	72,739,114	73,980,983	73,668,689	312,294
Transfers out	2,170,425	2,247,505	2,247,505	-
Total Expenditures and Transfers	<u>330,204,839</u>	<u>336,893,013</u>	<u>337,541,718</u>	<u>(648,705)</u>
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(8,002,534)	(9,083,618)	(4,294,611)	4,789,007
Other Financing Sources (Uses)				
Bond proceeds	9,500,000	9,500,000	9,500,000	-
Use of fund balance:				
For pay raises	-	990,000	-	(990,000)
For retirement buyouts	-	91,084	-	(91,084)
Raise prior year deficits	(1,497,466)	(1,497,466)	-	1,497,466
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,205,389</u>	<u>\$ 5,205,389</u>

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

CITY OF LYNN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2018

	Business-Type Activities <u>Enterprise Fund</u>	Governmental <u>Activities</u>
	Marina <u>Fund</u>	Internal Service <u>Fund</u>
Assets		
Current:		
Cash and short-term investments	\$ 205,890	\$ 4,187,074
Inventory	14,897	-
Working deposit	-	2,820,000
	<u>220,787</u>	<u>7,007,074</u>
Total Current Assets		
Noncurrent:		
Capital assets being depreciated, net of accumulated depreciation	<u>2,022,406</u>	<u>-</u>
Total Noncurrent Assets	<u>2,022,406</u>	<u>-</u>
Total Assets	2,243,193	7,007,074
Liabilities		
Current:		
Warrants payable	-	7,132
Accrued payroll	1,893	-
Accrued health claims payable	-	7,638,916
Other current liabilities	151,000	-
Current portion of long-term liabilities:		
Bonds payable	<u>14,366</u>	<u>-</u>
Total Current Liabilities	167,259	7,646,048
Noncurrent:		
Bonds payable, net of current portion	<u>1,047,044</u>	<u>-</u>
Total Noncurrent Liabilities	<u>1,047,044</u>	<u>-</u>
Total Liabilities	1,214,303	7,646,048
Net Position		
Net investment in capital assets	1,092,731	-
Unrestricted	<u>(63,841)</u>	<u>(638,974)</u>
Total Net Position	<u>\$ 1,028,890</u>	<u>\$ (638,974)</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, 2018

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	Marina <u>Fund</u>	Internal Service <u>Fund</u>
Operating Revenues		
Charges for services	\$ 337,818	\$ -
Employee and employer contributions	<u>-</u>	<u>56,044,744</u>
Total Operating Revenues	337,818	56,044,744
Operating Expenses		
Salaries and wages	111,303	-
Other operating expenses	180,214	-
Depreciation	206,644	-
Medical claims	<u>-</u>	<u>56,683,718</u>
Total Operating Expenses	<u>498,161</u>	<u>56,683,718</u>
Operating Income (Loss)	(160,343)	(638,974)
Nonoperating Revenues (Expenses)		
Investment income	20	-
Interest expense	(71,342)	-
Transfers in	<u>-</u>	<u>2,170,425</u>
Total Nonoperating Revenues (Expenses), Net	<u>(71,322)</u>	<u>2,170,425</u>
Change in Net Position, Before Special Item	(231,665)	1,531,451
Special Item		
Accrued interest adjustment	<u>580,272</u>	<u>-</u>
Change in Net Position	348,607	1,531,451
Net Position at Beginning of Year	<u>680,283</u>	<u>(2,170,425)</u>
Net Position at End of Year	<u>\$ 1,028,890</u>	<u>\$ (638,974)</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, 2018

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	Marina <u>Fund</u>	Internal Service <u>Fund</u>
Cash Flows From Operating Activities		
Receipts from customers and users	\$ 357,134	\$ -
Payments to vendors and employees	(289,231)	-
Receipts from employees and employer	-	56,031,481
Payments of employee benefits and related expenses	-	<u>(55,925,016)</u>
Net Cash Provided By Operating Activities	67,903	106,465
Cash Flows From Noncapital Financing Activities		
Transfers in	-	2,170,425
Net Cash Provided by Noncapital Financing Activities	-	2,170,425
Cash Flows From Capital and Related Financing Activities		
Principal payments on bonds	(13,735)	-
Interest expense	<u>(6,265)</u>	<u>-</u>
Net Cash (Used For) Capital and Related Financing Activities	(20,000)	-
Cash Flows From Investing Activities		
Investment income	<u>20</u>	<u>-</u>
Net Cash Provided by Investing Activities	<u>20</u>	<u>-</u>
Net Change in Cash and Short-Term Investments	47,923	2,276,890
Cash and Short-Term Investments, Beginning of Year	<u>157,967</u>	<u>1,910,184</u>
Cash and Short-Term Investments, End of Year	<u>\$ 205,890</u>	<u>\$ 4,187,074</u>
Reconciliation of Operating (Loss) to Net Cash Provided By Operating Activities		
Operating (loss)	\$ (160,343)	\$ (638,974)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	206,644	-
Changes in assets and liabilities:		
User fees	19,316	-
Other assets	393	13,263
Accrued liabilities	1,893	1,144,238
Other liabilities	<u>-</u>	<u>(412,062)</u>
Net Cash Provided By Operating Activities	<u>\$ 67,903</u>	<u>\$ 106,465</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, 2018

	Pension Trust Fund (As of December 31, 2017)	Private Purpose Trust Fund	Agency Funds
Assets			
Cash and short-term investments	\$ 2,208,487	\$ 135,866	\$ 983,592
Investments	352,980,561	-	-
Accounts receivable	<u>1,802,767</u>	<u>-</u>	<u>-</u>
Total Assets	356,991,815	135,866	983,592
 Liabilities			
Other liabilities	<u>-</u>	<u>-</u>	<u>983,592</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>983,592</u>
 Net Position			
Total net position restricted for:			
Pension benefits and other purposes	<u>\$ 356,991,815</u>	<u>\$ 135,866</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 JUNE 30, 2018

	Pension Trust Fund (For the Year Ended December 31, 2017)	Private Purpose Trust Fund
Additions		
Contributions:		
Employers	\$ 31,966,245	\$ -
Plan members	7,642,740	-
Other systems and Commonwealth of Massachusetts	510,265	-
Gifts and donations	-	202,128
Other	95,158	-
Total Contributions	40,214,408	202,128
Investment Income:		
Appreciation in fair value of investments	51,162,037	-
Less: management fees	(1,725,991)	-
Net Investment Income	49,436,046	-
Total Additions	89,650,454	202,128
Deductions		
Benefit payments to plan members and beneficiaries	38,441,965	-
Refunds to plan members	229,238	-
Transfers to other systems	81,765	-
Administrative expenses	219,165	-
Scholarships	-	119,122
Total Deductions	38,972,133	119,122
Net Increase	50,678,321	83,006
Net position		
Beginning of year, as restated	306,313,494	52,860
End of year	\$ 356,991,815	\$ 135,866

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 Governmental Accounting Standards Board (GASB) is the standard setting body for governmental accounting and financial reporting. The following is a summary of the more significant policies:

A. Reporting Entity

The City is a municipal corporation governed by an elected Mayor and City 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.

Fiduciary Component Unit

The following component unit provides services or benefits exclusively or almost exclusively to the City or its employees and is therefore blended and reported as if it were part of the City:

The Lynn Contributory Retirement System (the System) was established to provide retirement benefits to City of Lynn employees (except teachers and administrators under contract employed by the School Department), the Lynn Housing Authority, and Lynn Water & Sewer Commission and their respective beneficiaries. 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 (PERAC). The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

The System issues separate audited financial statements and additional financial information of the System can be obtained by contacting the System located at 3 City Hall Square, Lynn, Massachusetts 01901.

Discretely Presented Component Unit

The following component unit is discretely presented in the government-wide financial statements because of the nature and/or significance of their relationship with the City:

The Economic Development and Industrial Corporation of Lynn (the EDIC) was created by Chapter 778 of the Massachusetts Legislative Acts of 1977 on November 30, 1977. The EDIC is legally separate from the City and a body politic and corporate and an instrumentality of the Commonwealth. The EDIC is governed by a seven-member board, all of whom are appointed by the Mayor and confirmed by the City Council. The defined mission of the EDIC is to promote economic development in the City of Lynn.

The EDIC issues separately audited financial statements which can be obtained by contacting the EDIC at 3 City Hall Square, Lynn, Massachusetts 01901.

Related Organizations

The Mayor is also responsible for appointing members of the governing bodies of the Lynn Housing Authority & Neighborhood Development and Lynn Water and Sewer Commission; however, the City's accountability for these organizations does not extend beyond making these appointments.

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 inter-governmental 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. All remaining governmental funds are aggregated and reported in a separate column.

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. Revenue from grants, entitlements, and donations is recognized when all eligibility requirements have been satisfied and they are measurable and available. 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, certain expenditures

such as debt service, claims and judgments, compensated absences, OPEB, and pension are recorded only when payment is due.

The City reports the following major governmental funds:

- The *General Fund* is the City'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 Fund* is used to account for activities related to the HOME program grant designed to implement local housing strategies to increase affordable housing opportunities for low- and very low-income families.
- The *Permanent Fund* is used to account for cemetery perpetual care and other permanent fund activities.

The proprietary fund financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

Proprietary funds (which include both enterprise and internal service funds) distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with 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 City reports the following major proprietary funds:

- The *Marina Fund* is used to account for the operations of the seaport landing marina.

Internal service funds of the City are presented, in summary form, as part of the proprietary funds financial statements. Since the principal users of the internal services are the City's governmental activities, financial statements of the internal service funds are presented in the governmental activities column when presented at the government-wide level. Additionally, the costs of these services are allocated to the appropriate function in the statement of activities.

The fiduciary fund financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Under

this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

The City reports the following fiduciary funds:

- The *Pension Trust Fund* accounts for the activities of the Lynn Contributory Retirement System, which includes individuals employed by the City of Lynn (except teachers and administrators under contract employed by the School Department), the Lynn Housing Authority, and Lynn Water and Sewer Commission. The fund accumulates resources for pension benefit payments to qualified employees.
- The *Private-Purpose Trust Fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.
- The *Agency Fund* accounts for fiduciary assets held by the City in a custodial capacity as an agent on behalf of another. This fund primarily is used for student activity funds, developer escrow funds, and employee 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. Municipalities having such funds in the custody of the treasurer in an aggregate amount in excess of two hundred and fifty thousand dollars may also invest such funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the commonwealth; provided, that not more than fifteen percent of any such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than one and one-half percent of such funds be invested in the stock of any one bank or insurance company.

Investments for the Contributory Retirement System and Trust Funds consist of marketable securities, bonds, and short-term money market investments. Investments are carried at fair value, with the exception of certificates of deposit, money market mutual funds, and external investment pools which are reported at amortized cost.

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 2018 tax levy reflected an excess capacity of approximately \$29,660.

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). While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

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 acquisition 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.

Capital assets 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 City’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 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/deferred outflows of resources and current liabilities/deferred inflows of resources. 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.

When an expenditure is uncured 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/deferred outflows of resources and liabilities/deferred inflows of resources. 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. The remaining 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 fund 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)	\$ 348,574,084	\$ 355,033,686
Other financing sources/uses (GAAP Basis)	<u>12,603,405</u>	<u>2,247,505</u>
Subtotal (GAAP Basis)	361,177,489	357,281,191
Reverse beginning of year appropriation carryforwards from expenditures	-	(8,176,729)
Add end-of-year appropriation carryforwards from expenditures	-	6,867,638
To reverse the effect of non- budgeted State contributions for teachers retirement	(17,611,758)	(17,611,758)
To reverse lease proceeds	<u>(818,624)</u>	<u>(818,624)</u>
Budgetary Basis	<u>\$ 342,747,107</u>	<u>\$ 337,541,718</u>

D. Excess of Expenditures Over Appropriations

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

<u>Function</u>	<u>Amount</u>
Public works:	
Snow and ice	\$ 1,885,152
Intergovernmental	\$ 286,221

E. Deficit Fund Equity

Certain individual funds reflected deficit balances as of June 30, 2018. It is anticipated that the deficits in the other funds will be eliminated through future departmental or intergovernmental revenues, bond proceeds, and transfers from other funds. The deficit in the Internal Service Fund will be funded in our fiscal year 2019 tax levy.

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." Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The City and System do not have a deposit policy for custodial credit risk.

As of June 30, 2018 and December 31, 2017, \$10,985,285 and \$2,003,217 of the City's and System's bank balances of \$54,503,567 and \$2,375,326 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. Additionally, of the System's total exposed balance, the entirety was invested in the Massachusetts Pension Reserves Investment Trust (PRIT or State Investment Pool).

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 is the actual rating as of year-end for each investment type of the City:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt from Disclosure</u>	<u>Rating as of Year-End</u>		
			<u>AAA</u>	<u>Aa1-A3</u>	<u>Baa1 - Lower</u>
U.S. Treasury notes	\$ 101,328	\$ -	\$ 101,328	\$ -	\$ -
Corporate bonds	4,719,731	-	262,386	3,936,098	521,247
Corporate equities	1,899,993	1,899,993	-	-	-
Federal agency securities	541,840	-	541,840	-	-
Total investments	<u>\$ 7,262,892</u>	<u>\$ 1,899,993</u>	<u>\$ 905,554</u>	<u>\$ 3,936,098</u>	<u>\$ 521,247</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.

Presented below are the investments of the Lynn Contributory Retirement System as of December 31, 2017:

<u>Investment Type</u>	<u>Fair Value</u>
Pooled funds	\$ 15,548,340
State investment pool*	<u>337,432,221</u>
Total investments	<u>\$ 352,980,561</u>

* 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.

All the City's investments of \$7,262,892 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 by investing in counter-party's that participate in the Securities Investor Protection Corporation (SIPC) and excess SIPC coverages.

The System's investments of \$15,548,340 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. Investments in the State Investment Pool (PRIT) are not subject to custodial credit risk as investments in external investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

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:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Duration</u>
Debt-related Securities:		
Corporate bonds	\$ 4,719,731	4.25
U.S. Treasury notes	101,328	1.13
Federal agency securities	<u>541,840</u>	12.85
Total	<u>\$ 5,362,899</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 the Governmental Accounting Standards Board Statement No. 72 Fair Value Measurement and Application (GASB 72). The fair value hierarchy is based on the valuation inputs used to measure the fair value of the asset. The fair value hierarchy categorizes the inputs

to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – Inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2 – Inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as Level 2.
- Level 3 – Unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

The City has the following fair value measurements as of June 30, 2018:

Description	Fair Value	Fair Value Measurements Using:		
		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				
Corporate bonds	\$ 4,719,731	\$ -	\$ 4,719,731	\$ -
U.S. Treasury notes	101,328	-	101,328	-
Federal agency securities	541,840	-	541,840	-
Equity securities:				
Financials	365,811	365,811	-	-
Industrials	319,982	319,982	-	-
Healthcare	319,872	319,872	-	-
Information technology	322,273	322,273	-	-
Domestic EFT	131,108	131,108	-	-
Consumer staples	131,406	131,406	-	-
Consumer discretionary	118,646	118,646	-	-
Energy	15,679	15,679	-	-
Utilities	67,990	67,990	-	-
Materials	44,403	44,403	-	-
Telecommunications	30,790	30,790	-	-
Other	32,033	32,033	-	-
Subtotal	\$ 7,262,892	\$ 1,899,993	\$ 5,362,899	\$ -
Lynn Contributory Retirement System				
Investments measured at the net asset value (NAV):				
Pooled investments	\$ 15,548,340	\$ 468,000	Not Eligible	N/A
State investment pool (PRIT)	337,432,221	-	Quarterly	30 days
Total	\$ 352,980,561			

5. Property Taxes and Excises 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.

The day after the final tax bill is due, 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.

Property tax and motor vehicle excise receivables at June 30, 2018 consist of the following:

<u>Receivables</u>	Gross Amount (fund basis)	Allowance for Doubtful Accounts	Net Amount (accrual basis)
Real estate taxes	\$ 3,001,092	\$ (326,273)	\$ 2,674,819
Personal property taxes	1,545,008	(1,470,759)	74,249
Tax liens	1,361,594	(136,159)	1,225,435
Foreclosures	448,857	(403,972)	44,885
Deferred taxes	<u>287,563</u>	<u>-</u>	<u>287,563</u>
Total property taxes	\$ <u>6,644,114</u>	\$ <u>(2,337,163)</u>	4,306,951
Less: current portion			<u>4,021,791</u>
Noncurrent taxes receivable			\$ <u>285,160</u>
Excises	\$ <u>2,725,739</u>	\$ <u>(1,272,853)</u>	\$ <u>1,452,886</u>
Total excises	\$ <u>2,725,739</u>	\$ <u>(1,272,853)</u>	\$ <u>1,452,886</u>

6. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2018.

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, 2018 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	\$ -
Permanent 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 2018:

<u>Governmental Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,284,781	\$ 2,247,505
Nonmajor Governmental Funds:		
Special Revenue Funds:		
Insurance reimbursements fund	-	333,962
Insurance losses fund	-	553,070
Precinct officers fund	-	46,395
FEMA	-	861,049
Other	-	30,000
Capital Project Funds:		
Hood feasibility study	77,080	-
Marshall Middle School	-	50,293
Harrington elementary school project	-	239,889
Connery elementary school project	-	170,123
Internal Service Fund	<u>2,170,425</u>	<u>-</u>
Total	<u>\$ 4,532,286</u>	<u>\$ 4,532,286</u>

Of the transfers into the general fund, \$963,427 was to fund additional appropriations, \$861,049 was to reimburse the general fund for storm related expenditures covered by FEMA, and \$460,305 was to close out old completed capital projects. Of the transfers out of the general fund, \$2,170,425 was to fund the prior year deficit in the internal service fund which was raised on the fiscal year 2018 recap, and \$77,080 was to fund a portion of the Hood school feasibility study.

8. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Governmental Activities				
Capital assets, depreciable:				
Buildings and improvements	\$ 360,044,959	\$ 903,052	\$ -	\$ 360,948,011
Machinery, equipment, and furnishings	39,513,126	3,750,975	(298,043)	42,966,058
Land improvements	8,117,971	331,401	-	8,449,372
Infrastructure	<u>27,677,680</u>	<u>2,274,321</u>	<u>-</u>	<u>29,952,001</u>
Total capital assets, depreciable	435,353,736	7,259,749	(298,043)	442,315,442
Less accumulated depreciation for:				
Buildings and improvements	(126,174,684)	(7,820,167)	-	(133,994,851)
Machinery, equipment, and furnishings	(24,981,495)	(3,453,848)	272,478	(28,162,865)
Land improvements	(3,227,481)	(350,175)	-	(3,577,656)
Infrastructure	<u>(14,494,373)</u>	<u>(1,030,872)</u>	<u>-</u>	<u>(15,525,245)</u>
Total accumulated depreciation	<u>(168,878,033)</u>	<u>(12,655,062)</u>	<u>272,478</u>	<u>(181,260,617)</u>
Total capital assets, depreciable, net	266,475,703	(5,395,313)	(25,565)	261,054,825
Capital assets, non-depreciable:				
Land	<u>9,669,202</u>	<u>-</u>	<u>-</u>	<u>9,669,202</u>
Total capital assets, non-depreciable	<u>9,669,202</u>	<u>-</u>	<u>-</u>	<u>9,669,202</u>
Governmental activities capital assets, net	<u>\$ 276,144,905</u>	<u>\$ (5,395,313)</u>	<u>\$ (25,565)</u>	<u>\$ 270,724,027</u>
	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Business-Type Activities				
Capital assets, depreciable:				
Buildings and improvements	\$ 2,075,483	\$ -	\$ -	\$ 2,075,483
Machinery, equipment, and furnishings	434,355	-	-	434,355
Land improvements	37,908	-	-	37,908
Infrastructure	<u>1,851,420</u>	<u>-</u>	<u>-</u>	<u>1,851,420</u>
Total capital assets, depreciable	4,399,166	-	-	4,399,166
Less accumulated depreciation for:				
Buildings and improvements	(912,590)	(41,947)	-	(954,537)
Machinery, equipment, and furnishings	(413,685)	(5,905)	-	(419,590)
Land improvements	(37,908)	-	-	(37,908)
Infrastructure	<u>(805,933)</u>	<u>(158,792)</u>	<u>-</u>	<u>(964,725)</u>
Total accumulated depreciation	<u>(2,170,116)</u>	<u>(206,644)</u>	<u>-</u>	<u>(2,376,760)</u>
Total capital assets, depreciable, net	<u>2,229,050</u>	<u>(206,644)</u>	<u>-</u>	<u>2,022,406</u>
Business-type activities capital assets, net	<u>\$ 2,229,050</u>	<u>\$ (206,644)</u>	<u>\$ -</u>	<u>\$ 2,022,406</u>

Depreciation expense was charged to functions of the City as follows:

Governmental Activities

General government	\$ 2,533,202
Public safety	1,115,328
Education	7,113,553
Public works	1,490,971
Culture and recreation	<u>402,008</u>
Total depreciation expense - governmental activities	<u>\$ 12,655,062</u>

Business-Type Activities

Marina	<u>\$ 206,644</u>
Total depreciation expense - business-type activities	<u>\$ 206,644</u>

9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the City that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions, in accordance with *GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (GASB 68)*, are more fully discussed in Note 19.

10. Warrants Payable

Warrants payable represent fiscal year 2018 expenses/expenditures paid by July 15, 2018.

11. Accrued Payroll

Accrued payroll represents payroll related to fiscal year 2018 due to employees at year end.

12. Accrued Liabilities

Accrued liabilities primarily represents accrued interest, accrued health claims payable, and other expenses/expenditures related to fiscal year 2018 paid subsequent to July 15, 2018.

13. Capital Lease Obligations

The City is the lessee of certain equipment under capital leases expiring in various years through 2030. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2018:

<u>Fiscal Year</u>	<u>Present Value of of Minimum Lease Payments</u>		<u>Interest Payments</u>	<u>Total Lease Payments</u>
2019	\$	1,323,885	\$ 303,969	\$ 1,627,854
2020		1,162,651	265,845	1,428,496
2021		792,396	234,001	1,026,397
2022		815,289	211,108	1,026,397
2023		826,601	187,540	1,014,141
2024		850,195	163,946	1,014,141
2025		874,467	139,674	1,014,141
2026		899,438	114,703	1,014,141
2027		925,129	89,012	1,014,141
2028		951,558	62,582	1,014,140
2029 - 2030		<u>1,271,474</u>	<u>56,841</u>	<u>1,328,315</u>
Total	\$	<u>10,693,083</u>	\$ <u>1,829,221</u>	\$ <u>12,522,304</u>

14. Long-Term Debt

A. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. Additionally, the City issued general obligation deficit financing bonds in fiscal year 2018. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

	Serial Maturities	Interest Rate(s) %	Amount Outstanding as of 6/30/18
<u>Governmental Activities</u>			
Public improvements refunding	09/01/19	3.00%	\$ 20,140
Recreational facilities refunding	09/01/19	3.00%	612,900
Police station refunding	09/01/20	2.00 - 3.00%	395,000
Police station refunding	09/01/24	2.00 - 4.00%	4,954,860
Police station refunding	09/01/25	2.00 - 4.00%	1,032,100
General obligation bonds	06/01/26	2.25 - 3.90%	800,000
Remodeling	07/15/27	4.00 - 6.00%	4,740,000
Pine Grove Cemetery	03/01/28	3.00 - 5.00%	550,000
General obligation bonds	06/01/28	2.00 - 3.00%	1,485,000
General obligation deficit financing	06/30/28	3.00 - 5.00%	9,500,000
Power lines	09/01/28	2.00 - 4.00%	2,035,000
Classical High School	03/01/29	3.00 - 5.00%	2,310,000
General obligation school bond	09/01/38	2.00 - 5.00%	8,745,000
Marshall Middle School	06/01/39	3.00 - 5.00%	<u>28,900,000</u>
Total Governmental Activities			\$ <u>66,080,000</u>

	Serial Maturities	Interest Rate(s) %	Amount Outstanding as of 6/30/18
<u>Business-Type Activities</u>			
Marina	02/01/14*	7.00%	\$ 929,675
Marina	04/14/26	4.50%	<u>131,735</u>
Total Business-Type Activities			\$ <u>1,061,410</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, 2018 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 4,635,000	\$ 2,313,862	\$ 6,948,862
2020	4,690,000	2,270,988	6,960,988
2021	4,430,000	2,092,773	6,522,773
2022	4,375,000	1,923,673	6,298,673
2023	4,475,000	1,751,571	6,226,571
2024	4,535,000	1,565,379	6,100,379
2025	4,125,000	1,384,374	5,509,374
2026	3,965,000	1,224,747	5,189,747
2027	3,575,000	1,075,400	4,650,400
2028	3,530,000	952,619	4,482,619
2029 - 2033	9,955,000	3,483,925	13,438,925
2034 - 2038	11,280,000	1,710,353	12,990,353
2039	2,510,000	86,263	2,596,263
Total	<u>\$ 66,080,000</u>	<u>\$ 21,835,927</u>	<u>\$ 87,915,927</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 14,366	\$ 5,634	\$ 20,000
2020	15,026	4,974	20,000
2021	15,716	4,284	20,000
2022	16,438	3,562	20,000
2023	17,193	2,807	20,000
2024	17,983	2,017	20,000
2025	18,809	1,191	20,000
2026	16,204	334	16,538
Subtotal	<u>131,735</u>	<u>24,803</u>	<u>156,538</u>
NOAA ⁽¹⁾	<u>929,675</u>	<u>-</u>	<u>929,675</u>
Total	<u>1,061,410</u>	<u>24,803</u>	<u>1,086,213</u>

⁽¹⁾ 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.

The general fund has been designated as the source to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2018.

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2018, the following changes occurred in long-term liabilities:

	Total Balance 7/1/17	Additions	Reductions	Total Balance 6/30/18	Less Current Portion	Equals Long-Term Portion 6/30/18
<u>Governmental Activities</u>						
Bonds payable	\$ 62,730,000	\$ 9,500,000	\$ (6,150,000)	\$ 66,080,000	\$ (4,635,000)	\$ 61,445,000
Unamortized bond premium	2,130,654	-	(356,085)	1,774,569	(134,419)	1,640,150
Subtotal	64,860,654	9,500,000	(6,506,085)	67,854,569	(4,769,419)	63,085,150
Net pension liability	285,532,000	-	(24,672,000)	260,860,000	-	260,860,000
Total OPEB liability	519,693,906	20,299,758	-	539,993,664	-	539,993,664
Other:						
Capital leases	10,907,893	818,624	(1,033,434)	10,693,083	(1,323,885)	9,369,198
Accrued employee benefits	3,788,058	438,319	(378,806)	3,847,571	(384,757)	3,462,814
Workers compensation	1,726,177	-	(510,740)	1,215,437	(121,544)	1,093,893
Subtotal - other	16,422,128	1,256,943	(1,922,980)	15,756,091	(1,830,186)	13,925,905
Totals	\$ 886,508,688	\$ 31,056,701	\$ (33,101,065)	\$ 884,464,324	\$ (6,599,605)	\$ 877,864,719
<u>Business-Type Activities</u>						
Bonds payable	\$ 1,075,145	\$ -	\$ (13,735)	\$ 1,061,410	\$ (14,366)	\$ 1,047,044
Totals	\$ 1,075,145	\$ -	\$ (13,735)	\$ 1,061,410	\$ (14,366)	\$ 1,047,044

D. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2018 are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
May 1998	School construction	\$ 94,500,000
September 2013	Marshall Middle School construction	8,275,555
December 2015	Various capital projects	4,000,000
March 2018	Deficit Financing	4,500,000
June 2018	Hood Elementary roof and windows	5,882,193
	Total	<u>\$ 117,157,748</u>

15. Deferred Inflows of Resources

Deferred inflows of resources refer to the acquisition of net position 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 of 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 pensions will be recognized in pension expense in future years and is more fully described in Note 19.

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, 2018:

	<u>Governmental Funds</u>			<u>Total</u>
	<u>General Fund</u>	<u>Home Program</u>	<u>Nonmajor</u>	
Unavailable revenues				
Property taxes	\$ 4,037,185	\$ -	\$ -	\$ 4,037,185
Excises	2,725,739	-	-	2,725,739
Veterans benefits	580,876	-	-	580,876
Loans	-	2,537,054	138,668	2,675,722
Departmental and other	830,876	-	-	830,876
Total	<u>\$ 8,174,676</u>	<u>\$ 2,537,054</u>	<u>\$ 138,668</u>	<u>\$ 10,850,398</u>

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, Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), 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, 2018:

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 permanent 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, 2018:

	General Fund	HOME Program	Permanent Funds	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
NOAA Marina loan	\$ 929,675	\$ -	\$ -	\$ -	\$ 929,675
Nonspendable permanent funds	-	-	7,558,736	-	7,558,736
Total Nonspendable	929,675	-	7,558,736	-	8,488,411
Restricted					
Circuit breaker (special education)	-	-	-	2,435,325	2,435,325
School lunch	-	-	-	3,658,470	3,658,470
Other school revolving	-	-	-	911,828	911,828
Athletics	-	-	-	257,587	257,587
City federal grants	-	-	-	964,453	964,453
School federal grants	-	-	-	47,626	47,626
City state grants and contributions	-	-	-	1,353,467	1,353,467
School state grants and contributions	-	-	-	280,873	280,873
Cemetery	-	-	-	884,380	884,380
Golf course	-	-	-	997,137	997,137
Sale of public property	-	-	-	377,118	377,118
Insurance refunds	-	-	-	575,044	575,044
Parks and recreation	-	-	-	374,734	374,734
Memorial Auditorium	-	-	-	399,822	399,822
Cable access	-	-	-	906,647	906,647
Parking meter receipts	-	-	-	361,578	361,578
Other miscellaneous grants and contributions	-	-	-	1,866,035	1,866,035
Other school miscellaneous grants and contributions	-	-	-	1,021,949	1,021,949
Lynn Housing Authority	-	-	-	251,895	251,895
HOME Program	-	309,423	-	-	309,423
Other special revenue funds	-	-	-	22,535	22,535
School capital projects	-	-	-	4,159,107	4,159,107
Various city capital projects	-	-	-	13,833	13,833
Expendable permanent funds	-	-	597,419	-	597,419
Total Restricted	-	309,423	597,419	22,121,443	23,028,285
Committed					
Hood school capital project	-	-	-	2,044,707	2,044,707
Pickering Middle School capital project	-	-	-	109,248	109,248
Other city capital projects	-	-	-	58,727	58,727
Total Committed	-	-	-	2,212,682	2,212,682
Assigned					
For encumbrances:					
General government	324,242	-	-	-	324,242
Public safety	206,594	-	-	-	206,594
Education	6,429,021	-	-	-	6,429,021
Public works	428,608	-	-	-	428,608
Health and human services	3,122	-	-	-	3,122
Culture and recreation	1,505	-	-	-	1,505
Total Assigned	7,393,092	-	-	-	7,393,092
Unassigned	9,788,160	-	-	(266,249)	9,521,911
Total Fund Balance	\$ 18,110,927	\$ 309,423	\$ 8,156,155	\$ 24,067,876	\$ 50,644,381

17. Subsequent Events

Long-term Debt

The City is planning to issue the following long-term debt for the following purposes on or around December 14, 2018:

	<u>Amount</u>
Capital related debt	\$ 9,350,000
State qualified deficit financing bond anticipation notes	<u>4,500,000</u>
Total	<u>\$ 13,850,000</u>

Labor Settlement and Future Agreements

The City reached a tentative settlement with the Lynn Firefighters Local 739 on September 28, 2018. It is anticipated that the retro amount to be paid shall not exceed \$125,000 of which payment is deferred until July 1, 2019.

Additionally, all of the City's collective bargaining agreements expired on June 30, 2018. Negotiations with the City's labor unions are currently, or will be, being conducted over the ensuing months.

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 counsel, the probable outcome of these cases at the present time is indeterminable, although the City expects such amounts, if any, to be immaterial.

Net School Spending – In 2016 the City did not meet its required Net School Spending (NSS), resulting in a penalty of \$825,689 which was deducted from

Chapter 70 revenue received in fiscal year 2017. In 2017 the City did not meet its required NSS by \$2,421,022, which was deducted from Chapter 70 revenue in fiscal year 2018. The City has submitted information to the Department of Elementary and Secondary Education for fiscal year 2018 indicating that the required NSS has been met for this year and therefore no deductions of Chapter 70 revenue are anticipated for fiscal year 2019.

Financial Condition - On March 27, 2018, the Commonwealth approved Chapter 58 of the Acts of 2018, An Act Relative to the Financial Condition of the City of Lynn (the Law).

Among other items, the legislation authorizes the City, with the approval of the Director of Accounts in the Department of Revenue, to issue up to \$14 million in long-term debt to achieve a balanced budget for fiscal years 2018 and 2019. Section 14 of the Law requires the Secretary of Administration and Finance to appoint a fiscal stability officer for the City to advise the City on managing its fiscal challenges. Section 12 of the Law requires that the City establish a Special Reserve Fund for extraordinary and unforeseen expenditures known as the Supplemental Reserve Fund to Ensure Fiscal Stability. The Special Reserve Fund will be funded starting in fiscal year 2019 with an amount not less than 0.25% of the gross amount to be raised on the prior fiscal year as appearing on the City's tax rate recapitulation for that year. The amount funded in fiscal years 2020 and 2021 will be 0.50% and 0.75% of the gross amount to be raised respectively. For fiscal year 2022 and for each subsequent fiscal year during which the bonds or notes remain outstanding, the funding will be 1% of the gross amount to be raised. The City expects to raise approximately \$847,000 in fiscal year 2019 for the Special Reserve Fund.

In April 2018, the City issued \$9,500,000 in general obligation State Qualified Deficit Financing Bond Anticipation Notes to achieve a balanced budget for fiscal year 2018. Repayment of the Notes will be over a 10-year period. In December 2018, the City issued \$4,500,000 in general obligation State Qualified Deficit Financing Bond Anticipation Notes to achieve a balanced budget for fiscal year 2019. Repayment of the Notes will be over a 10-year period.

19. Retirement System

The City follows the provisions of *GASB Statement No. 67 Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25 (GASB 67)* and *GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (GASB 68)*, 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 statements.

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

Membership of the plan consisted of the following at December 31, 2017:

Retirees and beneficiaries receiving benefits	1,183
Terminated plan members entitled to but not yet receiving benefits	224
Active plan members	<u>1,342</u>
Total	<u>2,749</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.

If a participant was a member prior to February 1, 2012, 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.

The following table categorizes the three classes of membership in the System:

Group 1	General employees, including clerical, administrative, technical and all other employees not otherwise classified.
Group 2	Certain specified hazardous duty positions.
Group 4	Police officers, firefighters, and other specified hazardous positions.

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 3.00%.

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, 2018 was \$28,138,864, 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, 2018 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, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 16.71%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested throughout the year.

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 the 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.

C. Net Pension Liability of Participating Employers

The net pension liability was based on an actuarial valuation dated January 1, 2017 and rolled forward to December 31, 2017.

Net Pension Liability of Employers

The components of the net pension liability of the participating employers at June 30, 2018 were as follows:

Total pension liability	\$ 653,829,000
Plan fiduciary net position	<u>(356,991,815)</u>
Employers' net pension liability	\$ <u>296,837,185</u>
Plan fiduciary net position as a percentage of total pension liability	54.60%

Actuarial Assumptions

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

Valuation Date	January 1, 2017 rolled forward to December 31, 2017
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	7.40%
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	3.00% of first \$14,000

Actuarial valuations of the ongoing System involve 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.

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, the rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2012 (gender distinct).

Target Allocations

The long-term expected rate of return on pension plan investments was determined using the building block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) 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 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>
Global equity	40.00%	4.91%
Hedge funds & portfolio completion	13.00%	3.40%
Fixed income	12.00%	0.71%
Private equity	11.00%	6.50%
Value-Added fixed income	10.00%	3.64%
Real estate	10.00%	3.70%
Timber/natural resources	4.00%	3.25%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.40%. 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 7.40%, 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 (6.40%) or one percentage-point higher (8.40%) than the current rate:

1% Decrease (6.40%)	Current Discount Rate (7.40%)	1% Increase (8.40%)
\$ 325,756,000	\$ 260,860,000	\$ 205,934,000

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

At June 30, 2018, the City reported a liability of \$260,860,000 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017, rolled forward to December 31, 2017. 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, 2017, the City's proportion was 87.88%.

For the year ended June 30, 2018, the City recognized pension expense, net of amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions, of \$27,764,000. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences between expected and actual experience	\$ -	\$ (5,598,000)
Net difference between projected and actual investment earnings on pension plan investments	-	(11,623,000)
Changes in proportion and differences between employer contributions and proportionate share of contributions	269,000	(1,685,000)
Changes of assumptions	<u>16,106,000</u>	<u>-</u>
Total	<u>\$ 16,375,000</u>	<u>\$ (18,906,000)</u>

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2019	\$ 3,433,000
2020	2,151,000
2021	(3,773,000)
2022	<u>(4,342,000)</u>
Total	\$ <u>(2,531,000)</u>

20. **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 Statement No. 67, Financial Reporting for Pension Plans* (GASB 67). 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 Massachusetts General Laws. 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>Membership 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, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. 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 on the first \$13,000 per year.
- Salary increases are based on analyses of past experience, but range from 4.00% to 7.50%, depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
- Mortality rates were as follows:

- Pre-retirement - reflects RP-2014 White Collar Employees table projected generationally with Scale MP-2016 (gender distinct)
- Post-retirement - reflects RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (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, 2017 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%	5.0%
Portfolio completion strategies	13.0%	3.6%
Core fixed income	12.0%	1.1%
Private equity	11.0%	6.6%
Real estate	10.0%	3.6%
Value added fixed income	10.0%	3.8%
Timber/natural resources	4.0%	3.2%
Hedge funds	0.0%	3.6%
Total	<u>100.0%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.50%. 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>1% Decrease to (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase to (8.50%)</u>
\$ 28,424,300	\$ 22,885,391	\$ 18,193,400

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 2017 (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 \$326,221,839 and \$34,048,723 respectively, based on a proportionate share of 1.425459%. As required by GASB 68, the City has recognized its portion of the Commonwealth's contribution as both a revenue and expenditure in the general fund, and its portion of the collective pension expense as both a revenue and expense in the governmental activities.

21. Other Post-Employment Benefits (GASB 75)

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75), replaces the requirements of *Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45)*. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

All of the following OPEB disclosures are based on a measurement date of June 30, 2018.

A. General Information about the OPEB Plan

Plan Description

The City provides post-employment healthcare benefits for retired employees through the City's plan. The City provides health insurance coverage through Harvard Pilgrim Health Care. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. The OPEB plan is not administered through a trust that meets the criteria in paragraph 4 of GASB 75.

Benefits Provided

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

Plan Membership

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefit payments	2,258
Active employees	<u>1,903</u>
Total	<u><u>4,161</u></u>

B. Actuarial Assumptions and Other Inputs

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Interest	No prefunding: 3.75%, net of investment expenses
Actuarial cost method	Entry Age Normal
Discount rate	3.75%
Healthcare cost trend rates	5.50% for 2018, 5.00% for 2019, and 4.50% for 2020 and after
Retirees' share of benefit-related costs	15.00%, 18.50%, 25.00%, 30.00%, depending on plan election for members. 50.00% for widows.

The discount rate was based on the high-quality municipal bond rate for 20 year maturities as of June 30, 2018.

Mortality rates for non-teachers were assumed that both pre-retirement mortality and beneficiary mortality is represented by the RP-2014 Blue Collar Mortality Table with Scale MP-2015, fully generational. Mortality for retired members for Group 1 and 2 is represented by the RP-2014 Blue Collar Mortality Table set forward five years for males, and three years for females, fully generational. Mortality for retired members for Group 4 is represented by the RP-2014 Blue Collar Mortality Table set forward three years for males, and six years for females, fully generational. Mortality for disabled members for Group 1 and 2 is represented by the RP-2000 Mortality Table set forward six years. Mortality for disabled members for Group 4 is represented by the RP-2000 Mortality Table set forward two years. Generational adjusting is based on Scale MP-2015.

Mortality rates for teachers were assumed that pre-retirement mortality, retiree mortality, and beneficiary mortality is represented by the RP-2014 Blue Collar Mortality Table with Scale MP-2017, fully generational. For the period after disability retirement, the RP-2000 Combined Health Table set forward two years is used.

C. Discount Rate

The discount rate used to measure the total OPEB liability was 3.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

D. Total OPEB Liability

The City's total OPEB liability of \$539,993,664 was measured as of June 30, 2018, and was determined by an actuarial valuation as of June 30, 2018.

E. Changes in the Total OPEB Liability

	Total OPEB <u>Liability</u>
Balances at June 30, 2017	\$ 519,693,906
Changes for the year:	
Service cost	16,132,800
Interest	19,803,023
Benefit payments	<u>(15,636,065)</u>
Net Changes	<u>20,299,758</u>
Balances at June 30, 2018	\$ <u>539,993,664</u>

F. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
\$ 639,866,979	\$ 539,993,664	\$ 461,677,077

G. Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
\$ 453,594,917	\$ 539,993,664	\$ 653,350,726

H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City recognized an OPEB expense of \$20,299,758. At June 30, 2018, the City did not report any deferred inflows and outflows of resources related to OPEB.

22. Internal Service Fund (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 health claims payable liability for the year ended June 30, 2018 are as follows:

	<u>Health Coverage</u>
Health claims liability, beginning of year	\$ 6,913,872
Health claims incurred/recognized in fiscal year 2018	56,683,718
Health claims paid in fiscal year 2018	<u>(55,958,674)</u>
Health claims liability, end of year	<u>\$ 7,638,916</u>

Included in the health claims payable liability noted above, is the fiscal year 2018 estimate for claims incurred but not reported (IBNR) of \$2,878,672. This liability includes only an estimate for known loss events expected to later be presented as claims in future periods. 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. Special Item (Accrued Interest Adjustment)

The City has been accruing interest since fiscal year 2010 related to the loan outstanding with the National Oceanic and Atmospheric Administration (NOAA), previously discussed. Since the City has requested repayment assistance the balance to date has been adjust accordingly, as the City will recognize the related expense if the terms of the NOAA loan are adjusted.

24. Tax Abatements

The City provides property tax abatements authorized under Massachusetts General Law (MGL) Chapter 12A, Section 3E, *Economic Opportunity Areas*, and MGL Chapter 59, Section 5, Clause 51, *Property; exemptions*. The purpose of the program is to provide property tax assessment relief to stimulate job creation in distressed areas, attract new businesses, encourage business expansion, and increase overall economic development in Massachusetts. Tax Increment Financing (TIF) agreements are utilized as tools by which the difference between the beginning assessed value of the property and the value added by new construction or rehabilitation is exempted from taxation. Applicants may be granted property tax exemptions of up to 100% of the tax increment for a maximum term of 20 years and must initiate a TIF agreement by a vote of its governing body approving the TIF plan. A TIF Zone must be in an area approved by the Economic Assistance Coordinating Council (EACC) as an *Economic Opportunity Area* (EOA) or found to be an area “presenting exceptional opportunities for economic development” by the Director of Economic Development. Certification of the TIF Plan is issued by the EACC after the plan is accepted by municipal vote.

Property tax revenues were reduced by \$476,432 under agreements entered in to the City during fiscal year 2018.

25. Beginning Fund Balance Reclassification/Restatement

The beginning (July 1, 2017) fund balance/net position of the City’s has been restated as follows:

Government-Wide Financial Statements:

	<u>Governmental Activities</u>
As previously reported	\$ (243,793,028)
Implementation of GASB 75 (OPEB)	(296,529,906)
Reclassification of private purpose trusts	<u>(52,860)</u>
As restated	<u>\$ (540,375,794)</u>

Fund Basis Financial Statements:

	Permanent Funds	Nonmajor Governmental Funds	Private Purpose Trust Funds
	<u> </u>	<u> </u>	<u> </u>
As previously reported	\$ 7,504,355	\$ 19,991,705	\$ -
Reclassification of:			
Expendable permanent funds	558,265	(558,265)	-
Private purpose trust funds	<u>-</u>	<u>(52,860)</u>	<u>52,860</u>
As restated	<u>\$ 8,062,620</u>	<u>\$ 19,380,580</u>	<u>\$ 52,860</u>

CITY OF LYNN, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (GASB 68)
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018
(Unaudited)

Lynn Contributory Retirement System

Fiscal Year	Measurement Date	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2018	December 31, 2017	87.88%	\$ 260,860,000	\$ 66,577,888	391.81%	54.60%
June 30, 2017	December 31, 2016	88.45%	\$ 285,532,000	\$ 64,975,370	439.45%	48.69%
June 30, 2016	December 31, 2015	88.29%	\$ 285,870,000	\$ 64,857,834	440.76%	46.65%
June 30, 2015	December 31, 2014	88.63%	\$ 255,044,000	\$ 61,856,000	412.32%	49.31%

Massachusetts Teachers' Retirement System

Fiscal Year	Measurement Date	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the City	Total Net Pension Liability Associated with the City	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2018	June 30, 2017	1.425459%	\$ -	\$ 326,221,839	\$ 326,221,839	\$ 96,795,337	0.00%	54.25%
June 30, 2017	June 30, 2016	1.447012%	\$ -	\$ 323,521,810	\$ 323,521,810	\$ 95,179,457	0.00%	52.73%
June 30, 2016	June 30, 2015	1.457250%	\$ -	\$ 298,585,402	\$ 298,585,402	\$ 92,373,445	0.00%	55.38%
June 30, 2015	June 30, 2014	1.384225%	\$ -	\$ 220,041,360	\$ 220,041,360	\$ 84,873,673	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 (GASB 68)

REQUIRED SUPPLEMENTARY INFORMATION

**JUNE 30, 2018
(Unaudited)**

Lynn Contributory Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	December 31, 2017	\$ 28,138,864	\$ 28,138,864	\$ -	\$ 66,577,888	42.26%
June 30, 2017	December 31, 2016	\$ 27,227,177	\$ 27,227,177	\$ -	\$ 64,975,370	41.90%
June 30, 2016	December 31, 2015	\$ 26,093,571	\$ 26,093,571	\$ -	\$ 64,857,834	40.23%
June 30, 2015	December 31, 2014	\$ 25,192,615	\$ 25,192,615	\$ -	\$ 61,856,000	40.73%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution Provided by Commonwealth</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	June 30, 2017	\$ 17,611,758	\$ 17,611,758	\$ -	\$ 96,795,337	18.19%
June 30, 2017	June 30, 2016	\$ 16,272,846	\$ 16,272,846	\$ -	\$ 95,179,457	17.10%
June 30, 2016	June 30, 2015	\$ 14,892,079	\$ 14,892,079	\$ -	\$ 92,373,445	16.12%
June 30, 2015	June 30, 2014	\$ 12,975,441	\$ 12,975,441	\$ -	\$ 84,873,673	15.29%

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 (GASB 67)

(Unaudited)

(Amounts expressed in thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability				
Service cost	\$ 11,802	\$ 11,581	\$ 11,082	\$ 10,537
Interest on unfunded liability - time value of money	46,017	45,675	42,598	42,060
Differences between expected and actual experience	(7,239)	-	(1,950)	-
Changes of assumptions	12,280	-	24,100	-
Benefit payments, including refunds of member contributions	<u>(38,161)</u>	<u>(35,068)</u>	<u>(36,621)</u>	<u>(34,069)</u>
Net change in total pension liability	24,699	22,188	39,209	18,528
Total pension liability - beginning	<u>629,130</u>	<u>606,942</u>	<u>567,733</u>	<u>549,205</u>
Total pension liability - ending (a)	<u>\$ 653,829</u>	<u>\$ 629,130</u>	<u>\$ 606,942</u>	<u>\$ 567,733</u>
Plan fiduciary net position*				
Contributions - employer	\$ 32,056	\$ 30,824	\$ 29,642	\$ 28,433
Contributions - member	7,561	7,465	7,048	6,829
Net investment income	49,436	20,151	3,403	19,567
Benefit payments, including refunds of member contributions	(38,161)	(35,068)	(36,621)	(34,069)
Administrative expense	(219)	(260)	(302)	(386)
Other	<u>6</u>	<u>44</u>	<u>17</u>	<u>14</u>
Net change in plan fiduciary net position	50,679	23,156	3,187	20,388
Plan fiduciary net position - beginning	<u>306,313</u>	<u>283,157</u>	<u>279,970</u>	<u>259,582</u>
Plan fiduciary net position - ending (b)	<u>\$ 356,992</u>	<u>\$ 306,313</u>	<u>\$ 283,157</u>	<u>\$ 279,970</u>
Net pension liability (asset) - ending (a-b)	<u>\$ 296,837</u>	<u>\$ 322,817</u>	<u>\$ 323,785</u>	<u>\$ 287,763</u>

*May reflect certain rounding and immaterial classification differences from page 24.

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 (GASB 67)

(Unaudited)
(Amounts expressed in thousands)

Schedule of Net Pension Liability

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 653,829	\$ 629,130	\$ 606,942	\$ 567,733
Plan fiduciary net position	<u>(356,992)</u>	<u>(306,313)</u>	<u>(283,157)</u>	<u>(279,970)</u>
Net pension liability (asset)	<u>\$ 296,837</u>	<u>\$ 322,817</u>	<u>\$ 323,785</u>	<u>\$ 287,763</u>
Plan fiduciary net position as a percentage of the total pension liability	54.60%	48.69%	46.65%	49.31%
Covered payroll	\$ 75,760	\$ 73,460	\$ 73,460	\$ 69,791
Participating employer net pension liability (asset) as a percentage of covered employee payroll	391.81%	439.45%	440.76%	412.32%

Schedule of Contributions

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 30,839	\$ 29,609	\$ 29,555	\$ 29,555
Contributions in relation to the actuarially determined contribution	<u>30,839</u>	<u>29,609</u>	<u>29,555</u>	<u>29,555</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 75,760	\$ 73,460	\$ 73,460	\$ 69,791
Contributions as a percentage of covered payroll	40.71%	40.31%	40.23%	42.35%

Schedule of Investment Returns

Year Ended December 31

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money weighted rate of return, net of investment expense	16.71%	7.51%	0.75%	7.45%

*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
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedules of Changes in the Total OPEB Liability and Contributions (GASB 75)

(Unaudited)

Changes in Total OPEB Liability

	<u>2018</u>
Total OPEB liability	
Service cost	\$ 16,132,800
Interest on unfunded liability - time value of \$	19,803,023
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of member contributions	<u>(15,636,065)</u>
Net change in total OPEB liability	20,299,758
Total OPEB liability - beginning	<u>519,693,906</u>
Total OPEB liability - ending (a)	<u><u>\$ 539,993,664</u></u>
Covered employee payroll	\$ 117,475,704
Total OPEB liability as a percentage of covered employee payroll	459.66%

Schedule of Contributions

	<u>2018</u>
Actuarially determined contribution	\$ 15,636,065
Contributions in relation to the actuarially determined contribution	<u>15,636,065</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
Covered employee payroll	\$ 117,475,704
Contributions as a percentage of covered employee payroll	13.31%

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.