



## **CITY OF LYNN, MASSACHUSETTS**

Financial Statements  
For the Year Ended June 30, 2020

(With Independent Auditors' Report Thereon)

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## INDEPENDENT AUDITORS' REPORT

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

### 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, 2020 (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, 2019), and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial



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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lynn, Massachusetts, as of June 30, 2020 (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, 2019), and the respective changes in financial position and, where applicable, cash flows thereof 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 25 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, the Budgetary Comparison for the General Fund, and certain Pension and Other Post-Employment Benefits (OPEB) schedules, 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 December 21, 2020 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.

A stylized, handwritten signature of the word "Melanson" in a dark blue color.

Andover, MA  
December 21, 2020



## 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, 2020.

### **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 required 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, deferred outflows of resources, liabilities, and deferred 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.

### ***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, or (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. Specifically, enterprise funds are used to account for marina operations, which is considered to be a major fund.

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.



***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.

***Required Supplementary Information (Other than MD&A)***

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.

**Financial Highlights**

- As of the close of the current fiscal year, net position in governmental activities was \$(549,470,735) a change of \$19,950,311, as further discussed on page 8, and net position in business-type activities was \$1,309,091, a change of \$454,720, as further discussed on page 9.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$73,028,240, a change of \$18,188,425 in comparison to the prior year, as further discussed on pages 9 – 11.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$24,703,734, a change of \$8,008,204 in comparison to the prior year, as further discussed on pages 9 and 10.

## Government-Wide Financial Analysis

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

	NET POSITION					
	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 115,119,235	\$ 94,326,413	\$ 463,981	\$ 238,553	\$ 115,583,216	\$ 94,564,966
Capital assets	279,633,901	272,702,759	2,917,740	1,815,762	282,551,641	274,518,521
Other noncurrent assets	<u>3,037,180</u>	<u>3,520,370</u>	-	-	<u>3,037,180</u>	<u>3,520,370</u>
Total assets	397,790,316	370,549,542	3,381,721	2,054,315	401,172,037	372,603,857
Deferred outflows of resources:						
Related to pensions	17,128,000	22,680,000	-	-	17,128,000	22,680,000
Related to OPEB	78,636,697	-	-	-	78,636,697	-
Long-term liabilities	865,496,810	925,875,506	1,032,018	1,047,044	866,528,828	926,922,550
Other liabilities	<u>28,726,078</u>	<u>31,553,999</u>	<u>1,040,612</u>	<u>152,900</u>	<u>29,766,690</u>	<u>31,706,899</u>
Total liabilities	894,222,888	957,429,505	2,072,630	1,199,944	896,295,518	958,629,449
Deferred inflows of resources:						
Related to pensions	17,383,000	5,117,000	-	-	17,383,000	5,117,000
Related to OPEB	131,278,334	-	-	-	131,278,334	-
Taxes collected in advance	<u>141,526</u>	<u>104,083</u>	-	-	<u>141,526</u>	<u>104,083</u>
Total deferred inflows of resources	148,802,860	5,221,083	-	-	148,802,860	5,221,083
Net investment in capital assets	217,646,918	209,308,133	988,064	886,087	218,634,982	210,194,220
Restricted	40,919,843	35,378,246	-	-	40,919,843	35,378,246
Unrestricted	<u>(808,037,496)</u>	<u>(814,107,425)</u>	<u>321,027</u>	<u>(31,716)</u>	<u>(807,716,469)</u>	<u>(814,139,141)</u>
Total net position	\$ <u>(549,470,735)</u>	\$ <u>(569,421,046)</u>	\$ <u>1,309,091</u>	\$ <u>854,371</u>	\$ <u>(548,161,644)</u>	\$ <u>(568,566,675)</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$(548,161,644), a change of \$20,405,031 in comparison to the prior year.

The largest portion of net position, \$218,634,982, 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, \$40,919,843, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position reflects a deficit of \$(807,716,469) primarily resulting from unfunded pension and Other Post-Employment Benefits (OPEB) liabilities.

CHANGES IN NET POSITION						
	Governmental		Business-Type		Total	
	Activities		Activities			
	2020	2019	2020	2019	2020	2019
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 14,137,127	\$ 19,871,440	\$ 299,776	\$ 339,137	\$ 14,436,903	\$ 20,210,577
Operating grants and contributions	272,561,059	249,018,672	-	-	272,561,059	249,018,672
Capital grants and contributions	3,334,823	1,673,435	-	-	3,334,823	1,673,435
General revenues:						
Property taxes	136,077,927	129,899,557	-	-	136,077,927	129,899,557
Excises	9,202,386	9,230,207	-	-	9,202,386	9,230,207
Penalties, interest, and other taxes	1,180,548	1,316,492	-	-	1,180,548	1,316,492
Grants and contributions not restricted to specific programs	29,434,378	24,680,735	-	-	29,434,378	24,680,735
Investment income	1,421,605	1,120,860	276	220	1,421,881	1,121,080
Other	1,141,750	1,497,231	-	-	1,141,750	1,497,231
<b>Total revenues</b>	<b>468,491,603</b>	<b>438,308,629</b>	<b>300,052</b>	<b>339,357</b>	<b>468,791,655</b>	<b>438,647,986</b>
<b>Expenses</b>						
General government	22,507,155	21,016,172	-	-	22,507,155	21,016,172
Public safety	65,126,365	65,420,471	-	-	65,126,365	65,420,471
Education	327,966,893	327,939,562	-	-	327,966,893	327,939,562
Public works	21,815,537	21,592,002	-	-	21,815,537	21,592,002
Health and human services	2,364,992	2,993,771	-	-	2,364,992	2,993,771
Culture and recreation	5,593,740	6,549,906	-	-	5,593,740	6,549,906
Debt service interest	2,533,176	2,716,181	-	-	2,533,176	2,716,181
Marina services	-	-	478,766	513,876	478,766	513,876
<b>Total expenses</b>	<b>447,907,858</b>	<b>448,228,065</b>	<b>478,766</b>	<b>513,876</b>	<b>448,386,624</b>	<b>448,741,941</b>
Change in net position before transfers	20,583,745	(9,919,436)	(178,714)	(174,519)	20,405,031	(10,093,955)
Transfers in (out)	(633,434)	-	633,434	-	-	-
<b>Change in net position</b>	<b>19,950,311</b>	<b>(9,919,436)</b>	<b>454,720</b>	<b>(174,519)</b>	<b>20,405,031</b>	<b>(10,093,955)</b>
Net position - beginning of year	(569,421,046)	(559,501,610)	854,371	1,028,890	(568,566,675)	(558,472,720)
<b>Net position - end of year</b>	<b>\$ (549,470,735)</b>	<b>\$ (569,421,046)</b>	<b>\$ 1,309,091</b>	<b>\$ 854,371</b>	<b>\$ (548,161,644)</b>	<b>\$ (568,566,675)</b>

### **Governmental Activities**

Governmental activities for the year resulted in a change in net position of \$19,950,311. Key elements of this change are as follows:

Increase in total OPEB liability, net of related deferrals	\$ (12,237,559)
Increase in net pension liability, net of related deferrals	(1,281,000)
General fund operations	17,346,350
Internal service fund operations	5,030,102
MSBA reimbursements	4,351,297
State grant fund changes	2,277,552
Circuit breaker revenues in excess of expenditures	1,304,788
Other grant and revolving fund changes	1,514,475
Other	1,644,306
<b>Total</b>	<b>\$ 19,950,311</b>

**Business-Type Activities**

Business-type activities for the year resulted in a change in net position of \$454,720. This change is mainly attributable to FEMA funds received to reconstruct the docks at the marina combined with unbudgeted depreciation expense in the Marina fund.

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.

**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 the City's net resources available for spending at the end of the fiscal year.

*General Fund*

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 \$24,703,734, while total fund balance was \$41,088,551. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to general fund expenditures. Refer to the table below:

<u>General Fund</u>	<u>6/30/20</u>	<u>6/30/19</u>	<u>Change</u>	<u>% of General Fund Expenditures*</u>
Unassigned fund balance	\$ 24,703,734	\$ 16,695,530	\$ 8,008,204	6.96%
Total fund balance	\$ 41,088,551	\$ 23,742,201	\$ 17,346,350	11.57%

\*Expenditure amounts used to calculate the above percentages have been adjusted to exclude the on-behalf payment from the Commonwealth to the Massachusetts Teachers Retirement System of \$20,425,005.

Our unassigned fund balance at June 30, 2020 increased by approximately \$8 million. The increase primarily results from favorable budgetary results of \$13.7 million, less \$1.2 million used for a legal settlement and \$4.6 million of free cash voted to be used for fiscal year 2021.

The total fund balance of the general fund changed by \$17,346,350 during the current fiscal year. Key factors in this change are as follows:

Use of free cash as a funding source	\$ (1,200,000)
Revenues exceeding budgeted amounts	4,186,173
Expenditures less than budgeted amounts	9,521,989
Increase in encumbrances	3,408,832
Increase to fiscal stability fund	1,000,000
Other	<u>429,356</u>
Total	<u>\$ 17,346,350</u>

See further discussion of budgetary results on page 11.

Included in the total general fund balance are the City's stabilization accounts with the following balances:

	<u>6/30/20</u>	<u>6/30/19</u>	<u>Change</u>	<u>Fund Balance Classification</u>
General stabilization	\$ 1,000,000	\$ 1,000,000	\$ -	Unassigned
Capital stabilization	<u>500,000</u>	<u>500,000</u>	<u>-</u>	Committed
Total	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>	<u>\$ -</u>	

Also included in the total general fund balance is a supplemental reserve fund to ensure fiscal stability (fiscal stability fund), which is required by special legislation. At June 30, 2020, the fund contained \$1,847,564 which was reported as restricted fund balance. See Note 25 for additional information on the fiscal stability fund.

The total fund balance of the capital projects fund changed by \$(3,031,837) primarily due to current construction projects which have not been permanently financed yet.

The total fund balance of the revolving fund changed by \$1,514,475 primarily due to timing differences between the receipt and disbursement of grants.

*Non-Major Governmental Funds*

The non-major fund balance changed by \$2,359,437 primarily due to timing differences between the receipt and disbursement of grants.

**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 \$321,027, an increase of \$352,743 in comparison to the prior year, resulting primarily from FEMA funds received combined with depreciation of previously capitalized assets.

Unrestricted net position of the internal service fund at the end of the year amounted to a balance of \$8,016,268, a change of \$5,030,102 primarily due to lower than anticipated medical claims.

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

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$7,551,025. The majority of the fiscal year 2020 increases were to fund prior year carryforwards of approximately \$4.2 million with prior year funds, a legal settlement of \$1.2 million funded by free cash, and an additional appropriation of approximately \$1.8 million from property taxes and state aid mainly to fund the City's reserve account.

Intergovernmental revenues exceeded the estimate by approximately \$1.6 million primarily due to charter reimbursements coming in in excess of budget and homeless transportation reimbursements received not being budgeted for. Total expenditures were less than appropriations by \$9,521,989 driven by an approximately \$4 million surplus in Education expenses due to transportation contracts not being funded after schools transitioned to remote learning in March. Employee benefits expenditures also had a surplus of approximately \$1.5 million due to the City's share of health insurance being calculated at actual rather than estimated amounts as well as the City's share of the premiums being reduced. Public safety expenditures had a surplus of approximately \$1.5 million due to unfilled positions combined with a SAFER grant received to cover new hire salaries. Public Works expenditures had a surplus of approximately \$1.2 million due to staff turnover, lower than expected snow and ice expenditures and lower sanitation expenditures due to cancelled events.

### **Capital Asset and Debt Administration**

#### ***Capital Assets***

Total investment in capital assets for governmental and business-type activities at year-end amounted to \$282,551,641 (net of accumulated depreciation), a change of \$8,033,120 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	\$ 10,139,121
Road construction projects	2,615,338
Other construction projects	1,945,745
School equipment	3,989,639
City vehicles and equipment	1,140,878
Seaport reconstruction	1,308,621
Depreciation	<u>(13,106,222)</u>
Total	<u>\$ 8,033,120</u>

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

***Change In Credit Rating***

During fiscal year 2020, S&P affirmed the City's underlying credit rating of A-. The outlook was revised to positive from stable.

***Long-Term Debt***

At the end of the current fiscal year, total bonded debt outstanding was \$65,994,006, all of which was backed by the full faith and credit of the City.

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

**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, 2020

	Primary Government			
	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>	Discretely Presented Component <u>Unit</u>
<b>Assets</b>				
Current:				
Cash and short-term investments	\$ 92,543,025	\$ 455,193	\$ 92,998,218	\$ 7,034,288
Investments	8,417,411	-	8,417,411	-
Receivables, net of allowance for uncollectibles:				
Property taxes	5,154,514	-	5,154,514	-
Excises	1,804,703	-	1,804,703	-
Departmental and other	1,048,579	-	1,048,579	-
Intergovernmental	2,834,722	-	2,834,722	-
Loans	261,281	-	261,281	388,415
Other assets	<u>3,055,000</u>	<u>8,788</u>	<u>3,063,788</u>	<u>62,269</u>
Total Current Assets	115,119,235	463,981	115,583,216	7,484,972
Noncurrent:				
Receivables, net of allowance for uncollectibles:				
Property taxes	505,647	-	505,647	-
Loans	2,531,533	-	2,531,533	1,385,837
Capital assets:				
Capital assets, non-depreciable	10,051,834	-	10,051,834	1,314,347
Capital assets, depreciable, net of accumulated depreciation	<u>269,582,067</u>	<u>2,917,740</u>	<u>272,499,807</u>	<u>539,931</u>
Total Noncurrent Assets	<u>282,671,081</u>	<u>2,917,740</u>	<u>285,588,821</u>	<u>3,240,115</u>
Total Assets	397,790,316	3,381,721	401,172,037	10,725,087
<b>Deferred Outflows of Resources</b>				
Related to pensions	17,128,000	-	17,128,000	-
Related to OPEB	<u>78,636,697</u>	<u>-</u>	<u>78,636,697</u>	<u>-</u>
Total Deferred Outflows of Resources	95,764,697	-	95,764,697	-

(continued)

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



**CITY OF LYNN, MASSACHUSETTS**

Statement of Net Position  
June 30, 2020

(continued)

	Primary Government			
	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>	Discretely Presented Component <u>Unit</u>
<b>Liabilities</b>				
Current:				
Warrants payable	5,569,270	-	5,569,270	-
Accrued payroll	4,397,937	-	4,397,937	-
Accrued liabilities	8,732,174	1,967	8,734,141	-
Tax refunds payable	912,698	-	912,698	-
Notes payable	8,350,000	1,000,000	9,350,000	-
Other current liabilities	763,999	38,645	802,644	-
Current portion of long-term liabilities:				
Bonds and notes payable	5,123,629	15,716	5,139,345	88,261
Compensated absences	306,246	-	306,246	-
Capital leases	988,414	-	988,414	-
Workers compensation	104,943	-	104,943	-
Total Current Liabilities	35,249,310	1,056,328	36,305,638	88,261
Noncurrent:				
Bonds and notes payable, net of current portion	59,838,359	1,016,302	60,854,661	239,068
Net pension liability	267,271,000	-	267,271,000	-
Total OPEB liability	520,687,091	-	520,687,091	-
Compensated absences	2,756,210	-	2,756,210	-
Capital leases	7,476,427	-	7,476,427	-
Workers compensation	944,491	-	944,491	-
Total Noncurrent Liabilities	858,973,578	1,016,302	859,989,880	239,068
Total Liabilities	894,222,888	2,072,630	896,295,518	327,329
<b>Deferred Inflows of Resources</b>				
Related to pensions	17,383,000	-	17,383,000	-
Related to OPEB	131,278,334	-	131,278,334	-
Taxes collected in advance	141,526	-	141,526	-
Total Deferred Inflows of Resources	148,802,860	-	148,802,860	-
<b>Net Position</b>				
Net investment in capital assets	217,646,918	988,064	218,634,982	1,854,278
Restricted for:				
Grants and other statutory restrictions	32,017,661	-	32,017,661	1,992,618
Permanent funds:				
Nonexpendable	8,201,387	-	8,201,387	-
Expendable	700,795	-	700,795	-
Unrestricted	(808,037,496)	321,027	(807,716,469)	6,550,862
Total Net Position	\$ (549,470,735)	\$ 1,309,091	\$ (548,161,644)	\$ 10,397,758

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

**CITY OF LYNN, MASSACHUSETTS**

Statement of Activities  
For the Year Ended June 30, 2020

		Program Revenues			Net (Expenses) Revenues
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities</b>					
General government	\$ 22,507,155	\$ 4,679,260	\$ 1,366,652	\$ -	\$ (16,461,243)
Public safety	65,126,365	1,173,196	4,950,161	-	(59,003,008)
Education	327,966,893	514,354	257,929,949	-	(69,522,590)
Public works	21,815,537	4,406,230	5,508,876	3,334,823	(8,565,608)
Health and human services	2,364,992	510,318	2,619,421	-	764,747
Culture and recreation	5,593,740	2,853,769	186,000	-	(2,553,971)
Debt service interest	<u>2,533,176</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,533,176)</u>
Total Governmental Activities	447,907,858	14,137,127	272,561,059	3,334,823	(157,874,849)
<b>Business-Type Activities</b>					
Marina services	<u>478,766</u>	<u>299,776</u>	<u>-</u>	<u>-</u>	<u>(178,990)</u>
Total Primary Government	\$ <u>448,386,624</u>	\$ <u>14,436,903</u>	\$ <u>272,561,059</u>	\$ <u>3,334,823</u>	<u>(158,053,839)</u>
<b>Component Unit</b>					
Economic Development and Industrial Corporation of Lynn	\$ <u>3,326,403</u>	\$ <u>1,154,813</u>	\$ <u>1,373,556</u>	\$ <u>-</u>	<u>(798,034)</u>

(continued)

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

**CITY OF LYNN, MASSACHUSETTS**

Statement of Activities  
For the Year Ended June 30, 2020

(continued)

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>	<u>Discretely Presented Component Unit</u>
Change in net (expenses) revenues from previous page	(157,874,849)	(178,990)	(158,053,839)	(798,034)
<b>General Revenues and Transfers:</b>				
Property taxes	136,077,927	-	136,077,927	-
Excises	9,202,386	-	9,202,386	-
Penalties, interest, and other taxes	1,180,548	-	1,180,548	-
Grants and contributions not restricted to specific programs	29,434,378	-	29,434,378	-
Investment income	1,421,605	276	1,421,881	136,777
Other	1,141,750	-	1,141,750	110,882
Transfers, net	<u>(633,434)</u>	<u>633,434</u>	<u>-</u>	<u>-</u>
Total General Revenues and Transfers	<u>177,825,160</u>	<u>633,710</u>	<u>178,458,870</u>	<u>247,659</u>
Change in Net Position	19,950,311	454,720	20,405,031	(550,375)
<b>Net Position:</b>				
Beginning of Year	<u>(569,421,046)</u>	<u>854,371</u>	<u>(568,566,675)</u>	<u>10,948,133</u>
End of Year	<u>\$ (549,470,735)</u>	<u>\$ 1,309,091</u>	<u>\$ (548,161,644)</u>	<u>\$ 10,397,758</u>

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

**CITY OF LYNN, MASSACHUSETTS**

Governmental Funds

Balance Sheet

June 30, 2020

	General <u>Fund</u>	Capital Projects <u>Fund</u>	Revolving <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Assets</b>					
Cash and short-term investments	\$ 48,835,658	\$ 7,751,790	\$ 11,398,617	\$ 11,763,340	\$ 79,749,405
Investments	-	-		8,417,411	8,417,411
Receivables:					
Property taxes	8,336,046	-	-	-	8,336,046
Excises	3,342,530	-	-	-	3,342,530
User fees	264,531	-	-	-	264,531
Departmental and other	784,048	-	-	-	784,048
Intergovernmental	-	-	26,190	2,808,532	2,834,722
Loans	-	-	-	2,792,814	2,792,814
Due from other funds	29,525	-	-	-	29,525
Other assets	250,000	-		-	250,000
Total Assets	<u>\$ 61,842,338</u>	<u>\$ 7,751,790</u>	<u>\$ 11,424,807</u>	<u>\$ 25,782,097</u>	<u>\$ 106,801,032</u>
<b>Liabilities</b>					
Warrants payable	\$ 4,468,057	\$ 259,577	\$ 12,143	\$ 759,989	\$ 5,499,766
Accrued payroll	4,249,598	-	12,900	135,439	4,397,937
Accrued liabilities	127,913	-	-	861,618	989,531
Notes payable	-	8,350,000	-	-	8,350,000
Due to other funds	-	-		29,525	29,525
Other liabilities	265,885	-	-	-	265,885
Total Liabilities	9,111,453	8,609,577	25,043	1,786,571	19,532,644
<b>Deferred Inflows of Resources</b>					
Unavailable revenues	11,500,808	-	-	2,597,814	14,098,622
Taxes collected in advance	141,526	-	-	-	141,526
<b>Fund Balances</b>					
Nonspendable	929,675	-		8,201,386	9,131,061
Restricted	1,847,564	5,435,267	11,401,410	13,283,965	31,968,206
Committed	4,204,245	1,151,182	-	-	5,355,427
Assigned	9,403,333	-	-	-	9,403,333
Unassigned	24,703,734	(7,444,236)	(1,646)	(87,639)	17,170,213
Total Fund Balances	<u>41,088,551</u>	<u>(857,787)</u>	<u>11,399,764</u>	<u>21,397,712</u>	<u>73,028,240</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 61,842,338</u>	<u>\$ 7,751,790</u>	<u>\$ 11,424,807</u>	<u>\$ 25,782,097</u>	<u>\$ 106,801,032</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, 2020

<b>Total governmental fund balances</b>	\$	73,028,240
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		279,633,901
Revenues are reported on the accrual basis of accounting and are not deferred until collection.		9,884,910
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.		8,016,268
Deferred outflows of resources related to pensions will be recognized as an increase to pension expense in future periods.		17,128,000
Deferred outflows of resources related to OPEB will be recognized as an increase to OPEB expense in future periods.		78,636,697
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds and notes payable, including unamortized premium		(64,961,988)
Net pension liability		(267,271,000)
Total OPEB liability		(520,687,091)
Other (compensated absences, capital leases, etc.)		(12,576,731)
Deferred inflows of resources related to pensions will be recognized as a decrease to pension expense in future periods.		(17,383,000)
Deferred inflows of resources related to OPEB will be recognized as a decrease to OPEB expense in future periods.		(131,278,334)
In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.		(727,909)
Other		(912,698)
<b>Net position of governmental activities</b>	<b>\$</b>	<b><u>(549,470,735)</u></b>

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

**CITY OF LYNN, MASSACHUSETTS**

Governmental Funds  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
For the Year Ended June 30, 2020

	General Fund	Capital Projects Fund	Revolving Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property taxes	\$ 135,349,556	\$ -	\$ -	\$ -	\$ 135,349,556
Excises	8,825,996	-	-	-	8,825,996
Penalties, interest, and other taxes	1,180,548	-	-	-	1,180,548
Charges for services	4,691,137	-	4,197,828	1,578,895	10,467,860
Intergovernmental	236,127,457	4,351,297	3,828,552	36,453,226	280,760,532
Contributions and donations	-	512,784	678,123	293,066	1,483,973
Licenses and permits	3,380,068	-	975	-	3,381,043
Fines and forfeitures	1,744,160	-	16,608	-	1,760,768
Investment income	1,245,340	35	-	176,230	1,421,605
Insurance recoveries	-	-	235,884	-	235,884
Miscellaneous	300,365	-	187,496	283,586	771,447
<b>Total Revenues</b>	<b>392,844,627</b>	<b>4,864,116</b>	<b>9,145,466</b>	<b>38,785,003</b>	<b>445,639,212</b>
<b>Expenditures</b>					
General government	12,304,906	185,098	1,091,463	326,482	13,907,949
Public safety	41,647,666	47,000	14,181	4,328,916	46,037,763
Education	192,838,596	9,036,571	3,279,770	20,805,580	225,960,517
Public works	13,143,053	418,368	503,326	8,583,296	22,648,043
Health and human services	1,028,412	-	17,437	1,181,163	2,227,012
Culture and recreation	1,298,631	708,916	2,667,193	556,495	5,231,235
Employee benefits	78,774,435	-	-	-	78,774,435
Debt service:					
Principal	5,085,000	-	68,000	-	5,153,000
Interest	2,456,913	-	-	-	2,456,913
Intergovernmental	27,011,698	-	-	-	27,011,698
<b>Total Expenditures</b>	<b>375,589,310</b>	<b>10,395,953</b>	<b>7,641,370</b>	<b>35,781,932</b>	<b>429,408,565</b>
Excess (Deficiency) of Revenues over (under) Expenditures	17,255,317	(5,531,837)	1,504,096	3,003,071	16,230,647
<b>Other Financing Sources (Uses)</b>					
Issuance of general obligation bonds	-	2,250,000	-	-	2,250,000
Issuance of refunding bonds	5,330,000	-	-	-	5,330,000
Payment to refunded bond escrow agent	(6,053,045)	-	-	-	(6,053,045)
Bond premium	723,045	250,000	91,212	-	1,064,257
Transfers in	91,033	-	-	-	91,033
Transfers out	-	-	(80,833)	(643,634)	(724,467)
<b>Total Other Financing Sources (Uses)</b>	<b>91,033</b>	<b>2,500,000</b>	<b>10,379</b>	<b>(643,634)</b>	<b>1,957,778</b>
Change in fund balances	17,346,350	(3,031,837)	1,514,475	2,359,437	18,188,425
Fund Balance, at Beginning of Year, as reclassified	23,742,201	2,174,050	9,885,289	19,038,275	54,839,815
Fund Balance, at End of Year	\$ 41,088,551	\$ (857,787)	\$ 11,399,764	\$ 21,397,712	\$ 73,028,240

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, 2020

<b>Net changes in fund balances - total governmental funds</b>	<b>\$</b>	<b>18,188,425</b>
<p>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:</p>		
Capital outlay		19,830,720
Depreciation		(12,899,578)
<p>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.</p>		
		417,165
<p>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:</p>		
Issuance of general obligation bonds		(2,250,000)
Repayments of general obligation bonds and notes		5,153,000
Issuance of refunding bonds		(5,330,000)
Repayments of refunding bonds		5,980,000
Payments of capital leases		1,347,897
Receipt of bond premium		(1,064,257)
<p>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.</p>		
		(3,218)
<p>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.</p>		
		5,030,102
<p>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:</p>		
Amortization of bond premium		134,419
Change in net pension liability, net of related deferrals		(1,281,000)
Change in total OPEB liability, net of related deferrals		(12,237,559)
Change in compensated absences liability		(459,655)
Change in workers compensation liability		(73,786)
Change in tax refunds payable liability		(532,364)
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b><u>19,950,311</u></b>

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

**CITY OF LYNN, MASSACHUSETTS**

Proprietary Funds  
Statement of Net Position  
June 30, 2020

	Business-Type Activities <u>Enterprise Fund</u>	Governmental <u>Activities</u>
	<u>Marina Fund</u>	<u>Internal Service Fund</u>
<b>Assets</b>		
Current:		
Cash and short-term investments	\$ 455,193	\$ 12,793,620
Inventory	8,788	-
Other assets	-	2,805,000
Total Current Assets	463,981	15,598,620
Noncurrent:		
Capital assets:		
Capital assets being depreciated, net of accumulated depreciation	2,917,740	-
Total Noncurrent Assets	2,917,740	-
Total Assets	3,381,721	15,598,620
<b>Liabilities</b>		
Current:		
Accrued payroll	1,967	-
Accrued health claims payable	-	7,084,238
Notes payable	1,000,000	-
Other current liabilities	38,645	498,114
Current portion of long-term liabilities:		
Bonds payable	15,716	-
Total Current Liabilities	1,056,328	7,582,352
Noncurrent:		
Bonds payable, net of current portion	1,016,302	-
Total Noncurrent Liabilities	1,016,302	-
Total Liabilities	2,072,630	7,582,352
<b>Net Position</b>		
Net investment in capital assets	988,064	-
Unrestricted	321,027	8,016,268
Total Net Position	\$ 1,309,091	\$ 8,016,268

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, 2020

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	Marina <u>Fund</u>	Internal Service <u>Fund</u>
<b>Operating Revenues</b>		
Charges for services	\$ 299,776	\$ -
Employee and employer contributions	-	60,320,144
Total Operating Revenues	<u>299,776</u>	<u>60,320,144</u>
<b>Operating Expenses</b>		
Salaries and benefits	115,826	-
Other operating expenses	151,322	-
Depreciation	206,644	-
Medical claims	-	55,290,042
Total Operating Expenses	<u>473,792</u>	<u>55,290,042</u>
Operating Income (Loss)	(174,016)	5,030,102
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	276	-
Interest expense	(4,974)	-
Total Nonoperating Revenues (Expenses), Net	<u>(4,698)</u>	<u>-</u>
Income (Loss) Before Transfers	(178,714)	5,030,102
Transfers in	<u>633,434</u>	<u>-</u>
Change in Net Position	454,720	5,030,102
Net Position, Beginning of Year	<u>854,371</u>	<u>2,986,166</u>
Net Position, End of Year	\$ <u><u>1,309,091</u></u>	\$ <u><u>8,016,268</u></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, 2020

	Business-Type Activities <u>Enterprise Funds</u> Nonmajor Marina <u>Fund</u>	Governmental <u>Activities</u> Internal Service <u>Fund</u>
<b>Cash Flows From Operating Activities</b>		
Receipts from customers and users	\$ 299,776	\$ -
Payments to employees	(115,826)	-
Receipts from employees and employer	-	60,320,144
Payments to vendors	<u>(257,801)</u>	<u>(54,779,331)</u>
Net Cash Provided By (Used For) Operating Activities	(73,851)	5,540,813
<b>Cash Flows From Capital and Related Financing Activities</b>		
Proceeds of notes/loans	1,000,000	-
Acquisition and construction of capital assets	(1,308,622)	-
Principal payments on bonds	(15,026)	-
Interest expense	(4,974)	-
Transfers in	<u>633,434</u>	<u>-</u>
Net Cash Provided By Capital and Related Financing Activities	304,812	-
<b>Cash Flows From Investing Activities</b>		
Investment income	<u>276</u>	<u>-</u>
Net Cash Provided By Investing Activities	<u>276</u>	<u>-</u>
Net Change in Cash and Short-Term Investments	231,237	5,540,813
Cash and Short-Term Investments, Beginning of Year	<u>223,956</u>	<u>7,252,807</u>
Cash and Short-Term Investments, End of Year	\$ <u><u>455,193</u></u>	\$ <u><u>12,793,620</u></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities</b>		
Operating income (loss)	\$ (174,016)	\$ 5,030,102
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	206,644	-
Changes in assets and liabilities:		
Other assets	5,809	-
Accrued liabilities	67	12,597
Other liabilities	<u>(112,355)</u>	<u>498,114</u>
Net Cash Provided By (Used For) Operating Activities	\$ <u><u>(73,851)</u></u>	\$ <u><u>5,540,813</u></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, 2020

	Pension Trust Fund (As of <u>December 31, 2019</u> )	Private Purpose <u>Trust Funds</u>	Agency <u>Funds</u>
<b>Assets</b>			
Cash and short-term investments	\$ 1,676,150	\$ 86,505	\$ 1,928,132
Investments			
External investment pool (PRIT)	386,796,289	-	-
Pooled investments	<u>16,239,729</u>	<u>-</u>	<u>-</u>
Total Investments	403,036,018	-	-
Accounts receivable	<u>2,002,879</u>	<u>-</u>	<u>-</u>
Total Assets	406,715,047	86,505	1,928,132
<b>Liabilities</b>			
Accrued payroll	-	-	41,600
Other liabilities	<u>-</u>	<u>-</u>	<u>1,886,532</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>\$ 1,928,132</u>
<b>Net Position</b>			
Restricted for pension purposes	406,715,047	-	
Restricted for other purposes	<u>-</u>	<u>86,505</u>	
Total Net Position	<u>\$ 406,715,047</u>	<u>\$ 86,505</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, 2020

	Pension Trust Fund (For the Year Ended <u>December 31, 2019</u> )	Private Purpose <u>Trust Funds</u>
<b>Additions</b>		
Contributions:		
Employers	\$ 34,600,915	\$ -
Plan members	8,129,461	-
Gifts and donations	-	75,649
Other	<u>26,332</u>	<u>-</u>
Total contributions	42,756,708	75,649
Investment income:		
Appreciation in fair value of investments	55,982,018	-
Less: management fees	<u>(1,966,485)</u>	<u>-</u>
Net investment income	<u>54,015,533</u>	<u>-</u>
Total Additions	96,772,241	75,649
<b>Deductions</b>		
Benefit payments to plan members and beneficiaries	41,192,157	-
Administrative expenses	276,598	-
Scholarships	<u>-</u>	<u>58,000</u>
Total Deductions	<u>41,468,755</u>	<u>58,000</u>
Net Increase	55,303,486	17,649
<b>Net Position Restricted for Pensions and Other Purposes</b>		
Beginning of year	<u>351,411,561</u>	<u>68,856</u>
End of year	\$ <u><u>406,715,047</u></u>	\$ <u><u>86,505</u></u>

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

## CITY OF LYNN, MASSACHUSETTS

### Notes to Financial Statements

#### 1. Summary of Significant Accounting Policies

The accounting policies of the City of Lynn, Massachusetts (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:

##### ***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 City and applicable component units for which the City is considered to be financially accountable.

##### ***Fiduciary Component Unit***

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 the 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 located 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.

### **Government-Wide and Fund Financial Statements**

#### ***Government-Wide Financial Statements***

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

#### ***Fund Financial Statements***

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

### **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*. 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, pension, and OPEB 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 *capital projects fund* is used to account for activity related to various capital construction projects in the City.
- The *revolving fund* is used to account for activity related to various special revenue funds including receipts reserved for appropriation, circuit breaker, memorial auditorium activity, and private grants and contributions.

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 Marina fund is considered a major enterprise fund.

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 funds* 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 therefore, have no measurement focus.

### ***Cash and 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. Generally, 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".

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be cash equivalents.

Investments, generally, are presented at fair value. Where applicable, fair values are based on quotations from national securities exchanges, except for certain investments that are required to be presented using the net asset value (NAV). The NAV per share is the amount of net assets attributable to each share of capital stock outstanding at the close of the period investments measured at the NAV for fair value are not subject to level classification.

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 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.

#### ***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% (excluding new growth), unless an override is voted. The actual fiscal year 2020 tax levy reflected an excess capacity of approximately \$29,671. Certain provisions of Proposition 2 ½ can be overridden by a referendum.

#### ***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.

***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.

***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.

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

***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.

***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.

### ***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.

### ***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**

### ***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 encumbrances which will be honored during the subsequent year.

#### ***Deficit Fund Equity***

Certain individual funds reflected deficit balances as of June 30, 2020.

It is anticipated that the deficits in these other funds will be eliminated through future departmental or intergovernmental revenues, bond proceeds, and transfers from other funds.

### **3. Deposits and Investments**

#### ***City (Excluding the Pension Trust Fund)***

State statutes (MGL Chapter 44, Section 55) place certain limitations on the nature of deposits and investments available to the City. Deposits, including demand deposits, money markets, certificates of deposits in any one financial institution, may not exceed 60% of the capital and surplus of such institution unless collateralized by the institution involved. Investments may be made in unconditionally guaranteed U.S. government obligations have maturities of a year or less from the date of purchase, or through repurchase agreements with maturities of no greater than 90 days in which the underlying securities consists of such obligations. Other allowable investments include certificates of deposits having a maturity date of up to 3 years from the date of purchase and investments with national banks. MGL Chapter 44, Section 54 provides additional investment options for certain special revenue and trust funds.

***Custodial Credit Risk – Deposits***

Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned. The City does not have formal deposit policies related to the custodial credit risk of deposits.

As of June 30, 2020, \$25,432,265 of the City’s bank balance of \$103,251,569 was exposed to custodial credit risk as uninsured and uncollateralized.

***Investment Summary***

The following is a summary of the City’s investments as of June 30, 2020:

<u>Investment Type</u>	<u>Amount</u>
Corporate bonds	\$ 5,384,103
Corporate equities	2,004,767
Fixed income mutual funds	637,706
U.S. Treasury and agencies	<u>390,835</u>
Total Investments	<u>\$ 8,417,411</u>

***Custodial Credit Risk - Investments***

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, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City does not have formal investment policies related to custodial credit risk. However, the City manages custodial credit risk exposure with SIPC and excess SIPC insurance.

As of June 30, 2020, \$1,037,301 of the City’s total investments 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 as follows:

<u>Investment Type</u>	<u>Amount</u>	Held by <u>Counterparty</u>
Corporate equities	\$ 399,595	\$ 399,595
Fixed income mutual funds	<u>637,706</u>	<u>637,706</u>
Total	<u>\$ 1,037,301</u>	<u>\$ 1,037,301</u>

***Credit Risk – Investments of Debt Securities***

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). The City does not have formal investment policies related to credit risk.

As of June 30, 2020, the credit quality ratings, as rated by S&P Global Ratings, of the City's debt securities are as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Rating as of Year End</u>			
		<u>AAA</u>	<u>AA - A</u>	<u>BBB - BB</u>	<u>Unrated</u>
Corporate bonds	\$ 5,384,103	\$ 331,657	\$ 3,528,911	\$ 1,347,255	\$ 176,280
Fixed income mutual funds	637,706	48,780	-	-	588,926
U.S. Treasury and agencies	390,835	-	390,835	-	-
Total	<u>\$ 6,412,644</u>	<u>\$ 380,437</u>	<u>\$ 3,919,746</u>	<u>\$ 1,347,255</u>	<u>\$ 765,206</u>

### ***Concentration of Credit Risk - Investments***

Concentration of credit risk is the risk of loss attributable to the magnitude of the City's investment in a single issuer. The City places no limit on the amount invested in any one issuer. The City does not have formal investment policies related to concentration of credit risk exposure.

Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from concentration of credit disclosure.

As of June 30, 2020, the City does not have an investment in one issuer greater than 5% of total investments.

### ***Interest Rate Risk – Investments of Debt Securities***

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 does not have formal investment policies limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Thereafter</u>
Corporate bonds	\$ 5,384,102	\$ 1,219,514	\$ 2,574,576	\$ 1,590,012	\$ -
Fixed income mutual funds	637,706	52,966	276,328	268,764	39,648
U.S. Treasury and agencies	390,835	715	-	-	390,120
Total	<u>\$ 6,412,643</u>	<u>\$ 1,273,195</u>	<u>\$ 2,850,904</u>	<u>\$ 1,858,776</u>	<u>\$ 429,768</u>

### ***Foreign Currency Risk - Investments***

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 formal investment policies related to foreign currency risk.

**Fair Value**

The City categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The 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.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation.

The City has the following fair value measurements as of June 30, 2020:

<u>Investment Type</u>	<u>Amount</u>	<u>Fair Value Measurements Using:</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:				
Corporate bonds	\$ 5,384,103	\$ -	\$ 5,384,103	\$ -
Corporate equities	2,004,767	2,004,767	-	-
Fixed income mutual funds	637,706	-	637,706	-
U.S. Treasury and agencies	<u>390,835</u>	<u>-</u>	<u>390,835</u>	<u>-</u>
Total	<u>\$ 8,417,411</u>	<u>\$ 2,004,767</u>	<u>\$ 6,412,644</u>	<u>\$ -</u>

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features, and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quote prices. Level 2 debt securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market.

#### 4. Deposits and Investments – Pension Trust Fund (The System)

##### ***Custodial Credit Risk – Deposits***

Custodial credit risk is the risk that in the event of a bank failure, the System’s deposits may not be returned. The System does not have formal deposit policies related to the custodial credit risk of deposits.

As of December 30, 2019, \$1,989,635, of the System’s bank balance of \$2,489,635 was exposed to custodial credit risk as uninsured and uncollateralized.

##### ***Investment Summary***

The following is a summary of the System’s investments as of December 31, 2019:

<u>Investment Type</u>	<u>Amount</u>
External investment pool (PRIT)*	\$ 386,796,289
Pooled investments	<u>16,239,729</u>
Total investments	<u><u>\$ 403,036,018</u></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.

##### ***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 System does not have formal investment policies related to custodial credit risk.

As of December 31, 2019, the System did not have any investments exposed to custodial credit risk disclosure 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.



***Credit Risk – Investments of Debt Securities***

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. 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 is the actual rating as of year-end for debt-related investments of the System:

	Rating as of Year End	
<u>Investment Type</u>	<u>Amount</u>	<u>Unrated</u>
External investment pool (PRIT)	\$ 386,796,289	\$ 386,796,289
Pooled investments	<u>16,239,729</u>	<u>16,239,729</u>
Total	<u>\$ 403,036,018</u>	<u>\$ 403,036,018</u>

***Concentration of Credit Risk***

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund. The System does not have formal investment policies related to concentration of credit risk.

Investments in external investment pools are excluded from concentration of credit risk disclosure.

As of December 31, 2019, the System did not have any investments subject to concentration of credit risk disclosure as any investment classifications exceeding 5% are exempt.

***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 System does not have formal investment policies limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of December 31, 2019, all of the System’s investments, totaling \$403,036,018, were invested in State investment pools or Pooled investments with maturities less than one year.

***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 System does not have formal investment policies related to foreign currency risk.

**Fair Value**

The System categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The 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 net asset value (NAV) per share is the amount of net assets attributable to each share of capital stock outstanding at the close of the period. Investments measured at the NAV for fair value are not subject to level classification.

The System has the following fair value measurements as of December 31, 2019:

<u>Investment Type</u>	<u>Amount</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
Investments measured at the net asset value (NAV):				
External investment pool (PRIT)	\$ 386,796,289	\$ -	Quarterly	30 Days
Pooled investments	<u>16,239,729</u>	468,000	Not Eligible	N/A
Total	<u>\$ 403,036,018</u>			

**5. Property Taxes and Excises Receivable**

Real estate and personal property taxes are based on market values assessed as of each January 1. By law, all taxable property must be assessed at 100% of fair cash value. Also by law, property taxes must be levied at least 30 days prior to their due date. Once levied, these taxes are recorded as receivables, net of estimated uncollectible balances. Property

tax revenues have been recorded using the accrual and modified accrual basis of accounting on the government-wide and fund basis statements accordingly.

The City bills and collects its property taxes on a quarterly basis following the January 1 assessment. The due dates for those quarterly tax billings are August 1, November 1, February 1, and May 1. Property taxes that remain unpaid after the respective due dates are subject to penalties and interest charges.

Based on the City's experience, most property taxes are collected during the year in which they are assessed. Liening of properties on which taxes remain unpaid generally occurs annually. The City ultimately has the right to foreclose on all properties where the taxes remain unpaid.

A statewide property tax limitation known as "Proposition 2 ½" limits the amount of increase in the property tax levy in any fiscal year. Generally, Proposition 2 ½ limits the total levy to an amount not greater than 2 ½% of the total assessed value of all taxable property within the City. Secondly, the tax levy cannot increase by more than 2 ½% of the prior year's levy plus the taxes on properties newly added to the tax rolls.

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 taxes and excise receivables at June 30, 2020 consist of the following:

	Gross Amount (fund basis)	Allowance for Doubtful Accounts	Current Portion	Long- Term Portion
Real estate taxes	\$ 4,836,856	\$ (590,683)	\$ 4,246,173	\$ -
Personal property taxes	1,658,191	(1,546,896)	111,295	-
Tax liens	1,134,519	(113,452)	515,420	505,647
Foreclosures	472,060	(424,854)	47,206	-
Deferred taxes	234,420	-	234,420	-
Total property taxes	<u>\$ 8,336,046</u>	<u>\$ (2,675,885)</u>	<u>\$ 5,154,514</u>	<u>\$ 505,647</u>
Motor vehicle excise	\$ 3,342,530	\$ (1,537,827)	\$ 1,804,703	

## 6. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal year 2020.

**7. Interfund Fund Accounts**

***Receivables/Payables***

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, 2020 balances in interfund receivable and payable accounts:

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

***Transfers***

The City reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. The following is an analysis of interfund transfers made in fiscal year 2020:

<u>Governmental Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 91,033	\$ -
Nonmajor Governmental Funds:		
Special Revenue Funds:		
Insurance losses fund	-	5,870
Precinct officers fund	-	10,200
Bond premium fund	-	74,963
FEMA	-	633,434
	<u>          </u>	<u>          </u>
Subtotal Nonmajor Funds	-	724,467
<u>Proprietary Funds</u>		
Marina Enterprise Fund	633,434	-
	<u>          </u>	<u>          </u>
Total	<u>\$ 724,467</u>	<u>\$ 724,467</u>

Of the transfers into the general fund, \$5,870, from the insurance losses fund was to fund vehicle repairs and \$74,963, from the bond premium fund was used to fund the purchase of equipment. The \$10,200 transfer into the general fund from the precinct officers fund was to fund election related overtime and other election activities. The \$633,434 transfer into the marina enterprise fund was FEMA funding previously received to fund storm damage sustained at the marina.

## 8. Capital Assets

Capital asset activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 366,417,055	\$ 12,941,987	\$ -	\$ 379,359,042
Machinery, equipment, and furnishings	45,276,389	4,575,769	(60,186)	49,791,972
Land improvements	10,026,350	1,300,606	-	11,326,956
Infrastructure	<u>33,989,514</u>	<u>1,012,358</u>	<u>-</u>	<u>35,001,872</u>
Total capital assets, being depreciated	455,709,308	19,830,720	(60,186)	475,479,842
Less accumulated depreciation for:				
Buildings and improvements	(141,847,468)	(8,053,404)	-	(149,900,872)
Machinery, equipment, and furnishings	(30,551,084)	(3,141,403)	60,186	(33,632,301)
Land improvements	(3,936,410)	(427,861)	-	(4,364,271)
Infrastructure	<u>(16,723,421)</u>	<u>(1,276,910)</u>	<u>-</u>	<u>(18,000,331)</u>
Total accumulated depreciation	<u>(193,058,383)</u>	<u>(12,899,578)</u>	<u>60,186</u>	<u>(205,897,775)</u>
Total capital assets, being depreciated, net	262,650,925	6,931,142	-	269,582,067
Capital assets, not being depreciated:				
Land	<u>10,051,834</u>	<u>-</u>	<u>-</u>	<u>10,051,834</u>
Total capital assets, not being depreciated	<u>10,051,834</u>	<u>-</u>	<u>-</u>	<u>10,051,834</u>
Governmental activities capital assets, net	<u>\$ 272,702,759</u>	<u>\$ 6,931,142</u>	<u>\$ -</u>	<u>\$ 279,633,901</u>
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities</b>				
Capital assets, being depreciated:				
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>1,851,418</u>	<u>1,308,622</u>	<u>-</u>	<u>3,160,040</u>
Total capital assets, being depreciated	4,399,164	1,308,622	-	5,707,786
Less accumulated depreciation for:				
Buildings and improvements	(996,482)	(41,946)	-	(1,038,428)
Machinery, equipment, and furnishings	(425,495)	(5,907)	-	(431,402)
Land improvements	(37,908)	-	-	(37,908)
Infrastructure	<u>(1,123,517)</u>	<u>(158,791)</u>	<u>-</u>	<u>(1,282,308)</u>
Total accumulated depreciation	<u>(2,583,402)</u>	<u>(206,644)</u>	<u>-</u>	<u>(2,790,046)</u>
Total capital assets, being depreciated, net	<u>1,815,762</u>	<u>1,101,978</u>	<u>-</u>	<u>2,917,740</u>
Business-type activities capital assets, net	<u>\$ 1,815,762</u>	<u>\$ 1,101,978</u>	<u>\$ -</u>	<u>\$ 2,917,740</u>

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

Governmental Activities	
General government	\$ 2,794,021
Public safety	1,163,102
Education	6,926,689
Public works	1,603,374
Culture and recreation	<u>412,392</u>
Total governmental activities	\$ <u>12,899,578</u>
Business-Type Activities	
Marina	\$ 206,644

**9. Other Assets**

Other assets represent working deposits which are held by the City's health insurance and workers compensation insurance providers.

**10. 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 and OPEB, in accordance with GASB Statements No. 68 and 75, are more fully discussed in the corresponding pension and OPEB notes.

**11. Warrants Payable**

Warrants payable represent fiscal year 2020 expenses/expenditures paid by July 15, 2020.

**12. Accrued Payroll**

Accrued payroll represents payroll related to fiscal year 2020 due to employees at year end.

**13. Accrued Liabilities**

Accrued liabilities represent accrued interest, accrued health claims payable, and other expenses/expenditures related to fiscal year 2020 paid subsequent to July 15, 2020.

## 14. Tax Refunds Payable

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

## 15. Notes Payable

The following summarizes activity in notes payable during fiscal year 2020:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>End of Year</u>
<b>Governmental Activities</b>							
Flax Pond Playground Irrigation	2.25%	12/13/19	12/11/20	\$ 27,000	\$ 27,000	\$ (27,000)	\$ 27,000
Gowdy Park Drainage Improvements	2.25%	12/13/19	12/11/20	108,000	108,000	(108,000)	108,000
Lynn Woods Playground Equipment	2.25%	12/13/19	12/11/20	25,000	25,000	(25,000)	25,000
Sheridan Street Playground Equipment	2.25%	12/13/19	12/11/20	20,000	20,000	(20,000)	20,000
Keaney Park Court Repair	2.25%	12/13/19	12/11/20	50,000	50,000	(50,000)	50,000
Williams Ave. Playground Equipment	2.25%	12/13/19	12/11/20	45,000	45,000	(45,000)	45,000
Goldfish Pond Park Masonry & Repairs	2.25%	12/13/19	12/11/20	45,000	45,000	(45,000)	45,000
Kiley Playground	2.25%	12/13/19	12/11/20	25,000	25,000	(25,000)	25,000
Frey Park Field Light Replacement	2.25%	12/13/19	12/11/20	116,000	116,000	(116,000)	116,000
Warren Street Playground Equipment	2.25%	12/13/19	12/11/20	120,000	120,000	(120,000)	120,000
Bennett Street Playground	2.25%	12/13/19	12/11/20	50,000	50,000	(50,000)	50,000
Marian Street Garden Court Resurfacing	2.25%	12/13/19	12/11/20	8,000	8,000	(8,000)	8,000
High Rock Reservation Restoration	2.25%	12/13/19	12/11/20	50,000	50,000	(50,000)	50,000
Angel Island (Broad St.) Historical Trough Repair	2.25%	12/13/19	12/11/20	50,000	50,000	(50,000)	50,000
Fraser Field Canopy Repairs	2.25%	12/13/19	12/11/20	235,000	235,000	(235,000)	235,000
Lynnfield Street Fire Station Renovations	2.25%	12/13/19	12/11/20	58,000	58,000	(58,000)	58,000
Fayette Street Fire Station Renovation	2.25%	12/13/19	12/11/20	47,000	47,000	(47,000)	47,000
West Lynn Fire Station Design	2.25%	12/13/19	12/11/20	105,000	105,000	(105,000)	105,000
Hollingsworth St. Fire Station Renovations	2.25%	12/13/19	12/11/20	58,000	58,000	(58,000)	58,000
Western Ave. Fire Station Renovations	2.25%	12/13/19	12/11/20	70,000	70,000	(70,000)	70,000
Classical High School Boiler Room	2.25%	12/13/19	12/11/20	530,000	530,000	(530,000)	530,000
Brickett School Boiler	2.25%	12/13/19	12/11/20	328,000	328,000	(328,000)	328,000
City Hall Boiler	2.25%	12/13/19	12/11/20	350,000	350,000	(350,000)	350,000
City Hall Exterior Masonry Repairs	2.25%	12/13/19	12/11/20	105,000	105,000	(105,000)	105,000
DPW Fire Alarm System Replacement	2.25%	12/13/19	12/11/20	175,000	175,000	(175,000)	175,000
DPW Storage Building Repair	2.25%	12/13/19	12/11/20	200,000	200,000	(200,000)	200,000
Hood Elementary Roof & Windows Replacement	2.25%	12/13/19	12/11/20	3,000,000	3,000,000	(3,000,000)	3,000,000
LED Streetlight Conversion	2.25%	12/13/19	12/11/20	2,350,000	2,350,000	(2,350,000)	2,350,000
Total governmental activities				\$ 8,350,000	\$ 8,350,000	\$ (8,350,000)	\$ 8,350,000
<b>Business-Type Activities</b>							
Seaport Marina Dock Repair	2.25%	12/13/19	12/11/20	\$ 1,000,000	\$ 1,000,000	\$ (1,000,000)	\$ 1,000,000

**16. 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, 2020:

Fiscal Year	Present Value of of Minimum Lease Payments	Interest Payments	Total Lease Payments
2021	\$ 988,414	\$ 249,261	\$ 1,237,675
2022	845,491	214,969	1,060,460
2023	858,675	189,529	1,048,204
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	626,449	37,709	664,158
2030	645,025	19,132	664,157
Total	<u>\$ 8,464,841</u>	<u>\$ 1,280,517</u>	<u>\$ 9,745,358</u>

The following is an analysis for the leased assets included in capital assets at June 30, 2020:

	Governmental <u>Activities</u>
Machinery, vehicles, and equipment	\$ 12,619,479
Less: accumulated depreciation	<u>(3,251,148)</u>
Equipment under capital leases, net	<u>\$ 9,368,331</u>



## 17. Long-Term Debt

### Long-Term Debt Supporting Activities

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

<u>Governmental Activities</u>			Amount Outstanding as of <u>6/30/20</u>
<u>General Obligation Bonds</u>	Serial Maturities Through	Interest Rate(s) %	
Public offerings:			
Police station refunding	09/01/20	2.00 - 3.00%	\$ 130,000
Police station refunding	09/01/24	2.00 - 4.00%	3,310,000
Police station refunding	09/01/25	2.00 - 4.00%	770,000
General obligation bonds	06/01/26	2.25 - 3.90%	600,000
Building remodeling refunding	09/01/27	5.00%	3,274,000
Pine Grove Cemetery refunding	09/01/27	5.00%	393,000
General obligation bonds	06/01/28	2.00 - 3.00%	1,130,000
General obligation deficit financing	09/01/28	2.00%	7,815,000
Power lines	09/01/28	2.00 - 4.00%	1,720,000
Classical High School refunding	09/01/28	5.00%	1,663,000
General obligation deficit financing	09/01/29	2.00%	4,037,000
Heavy equipment	09/01/34	2.00 - 5.00%	2,250,000
General obligation school bond	09/01/38	2.00 - 5.00%	8,215,000
Marshall Middle School	06/01/39	3.00 - 5.00%	<u>27,085,000</u>
Total governmental activities			<u>\$ 62,392,000</u>
<u>Business-Type Activities</u>			Amount Outstanding as of <u>6/30/20</u>
<u>Direct Placements</u>	Serial Maturities Through	Interest Rate(s) %	
Marina	02/01/14*	7.00%	\$ 929,675
Marina	04/14/26	4.50%	<u>102,343</u>
Total business-type activities			<u>\$ 1,032,018</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.

**Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2020 are as follows:

<u>Governmental</u>	<u>Bonds - Public Offerings</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 4,885,000	\$ 2,223,674
2022	4,865,000	2,015,168
2023	4,980,000	1,822,721
2024	5,050,000	1,616,384
2025	4,655,000	1,415,609
2026	4,515,000	1,236,237
2027	4,135,000	1,074,965
2028	4,095,000	950,909
2029	2,777,000	836,778
2030	1,985,000	759,906
2031 - 2035	10,940,000	2,809,119
2036 - 2039	9,510,000	878,753
Total	\$ <u>62,392,000</u>	\$ <u>17,640,223</u>

<u>Business-Type</u>	<u>Bonds - Direct Placements</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 15,716	\$ 4,284
2022	16,438	3,562
2023	17,193	2,807
2024	17,983	2,017
2025	18,809	1,191
2026	16,204	334
Total	102,343	14,195
NOAA <sup>(1)</sup>	<u>929,675</u>	<u>-</u>
Total	\$ <u>1,032,018</u>	\$ <u>14,195</u>

<sup>(1)</sup> 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.

### **Changes in General Long-Term Liabilities**

During the year ended June 30, 2020, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Less Current Portion	Equals Long-Term Portion
<b>Governmental Activities</b>						
Bonds payable:						
Public offerings	\$ 52,775,000	\$ 7,580,000	\$ (9,815,000)	\$ 50,540,000	\$ (3,600,000)	\$ 46,940,000
Deficit notes payable	13,170,000	-	(1,318,000)	11,852,000	(1,285,000)	10,567,000
Unamortized bond premium	1,640,150	1,064,257	(134,419)	2,569,988	(238,629)	2,331,359
Subtotal	67,585,150	8,644,257	(11,267,419)	64,961,988	(5,123,629)	59,838,359
Net pension liability	283,808,000	-	(16,537,000)	267,271,000	-	267,271,000
Total OPEB liability	561,091,169	-	(40,404,078)	520,687,091	-	520,687,091
Compensated absences	2,602,801	459,655	-	3,062,456	(306,246)	2,756,210
Capital leases	9,812,738	-	(1,347,897)	8,464,841	(988,414)	7,476,427
Workers compensation	975,648	73,786	-	1,049,434	(104,943)	944,491
Total	\$ 925,875,506	\$ 9,177,698	\$ (69,556,394)	\$ 865,496,810	\$ (6,523,232)	\$ 858,973,578
<b>Business-Type Activities</b>						
Bonds payable:						
Direct Placements	\$ 1,047,044	\$ -	\$ (15,026)	\$ 1,032,018	\$ (15,716)	\$ 1,016,302

### **Bond Authorizations**

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2020 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
June 2018	Hood Elementary roof & windows	411,841
April 2019	LVTI Annex design and replacement	4,237,788
	Total	\$ 107,425,184

### **Long-Term Debt Supporting Governmental and Business-Type Activities**

Bonds and loans issued by the City for various municipal projects are approved by City Council and repaid with revenues recorded in the general fund and user fees recorded in enterprise funds. All other long-term debt is repaid from the funds that the cost relates to, primarily the general fund and enterprise fund.

### **Advance and Current Refundings**

#### *Current Year*

On January 30, 2020 the City issued general obligation bonds in the amount of \$5,330,000 with an interest rate of 5.0% to advance refund \$5,980,000 of term bonds with interest rates ranging from 4.2% to 5.0%. The term bonds mature on March 1, 2029 and are callable on March 1, 2020. The general obligation bonds were issued at 1.3% and, after paying issuance costs of \$61,038, the net proceeds were \$6,053,045. The net proceeds

from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds are called on March 1, 2020. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the City's financial statements.

As a result of the advance refunding, the City reduced its total debt service cash flow requirements by \$650,000, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$547,241.

There was no defeased debt still outstanding at June 30, 2020.

**18. 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. Deferred inflows of resources related to pension and OPEB, in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* will be recognized as decreases in the respective expense in future years and is more fully described in the corresponding pension and OPEB notes. *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, 2020:

	<u>Governmental Funds</u>		
	General		
	<u>Fund</u>	<u>Nonmajor</u>	<u>Total</u>
Unavailable revenues			
Property taxes	\$ 7,109,701	\$ -	\$ 7,109,701
Excises	3,342,528	-	3,342,528
Departmental and other	784,048	-	784,048
Loans	-	2,597,814	2,597,814
User fees	264,531	-	264,531
	<u>11,500,808</u>	<u>2,597,814</u>	<u>14,098,622</u>
Total unavailable revenues	\$ <u>11,500,808</u>	\$ <u>2,597,814</u>	\$ <u>14,098,622</u>

*Taxes collected in advance* are reported in the governmental funds balance sheet and the statement of net position in connection with fiscal year 2021 tax revenues that were received in fiscal year 2020.

## 19. 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, 2020:

### ***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 the fiscal stability fund required by special legislation, 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, capital stabilization funds and other special funds. A similar act is required to modify or rescind a commitment.

### ***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, general stabilization funds and deficit balances in capital projects and nonmajor governmental funds.

### **Stabilization Arrangements**

The City's stabilization accounts are authorized in accordance with Massachusetts General Law Chapter 40, section 5B. The creation of, appropriation into, and appropriation out of the stabilization accounts requires a vote of the City Council. Stabilization accounts are a component of committed and unassigned fund balance.

Following is a breakdown of the City's fund balances at June 30, 2020:

	General Fund	Capital Project Funds	Revolving Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>					
NOAA Marina loan	\$ 929,675	\$ -	\$ -	\$ -	\$ 929,675
Cemetery permanent funds	-	-	-	7,726,259	7,726,259
Other permanent funds	-	-	-	475,127	475,127
Total Nonspendable	929,675	-	-	8,201,386	9,131,061
<b>Restricted</b>					
Fiscal stability fund	1,847,564	-	-	-	1,847,564
School capital projects	-	3,269,158	-	-	3,269,158
Various city capital projects	-	2,166,109	-	-	2,166,109
Circuit breaker (special education)	-	-	4,624,189	-	4,624,189
Other school miscellaneous grants and contributions	-	-	1,004,617	-	1,004,617
Cable access	-	-	1,278,005	-	1,278,005
Other miscellaneous grants and contributions	-	-	854,621	-	854,621
Insurance refunds	-	-	990,010	-	990,010
Parking meter receipts	-	-	623,905	-	623,905
Parks and recreation	-	-	452,872	-	452,872
Memorial Auditorium	-	-	492,466	-	492,466
Sale of public property	-	-	356,507	-	356,507
Planning department	-	-	232,477	-	232,477
Other special revenue funds	-	-	491,741	-	491,741
School lunch	-	-	-	3,372,333	3,372,333
City state grants and contributions	-	-	-	2,714,396	2,714,396
Golf course	-	-	-	820,160	820,160
Cemetery	-	-	-	1,053,695	1,053,695
Other school revolving	-	-	-	894,303	894,303
Expendable permanent funds	-	-	-	700,795	700,795
School state grants and contributions	-	-	-	1,803,406	1,803,406
City federal grants	-	-	-	676,373	676,373
Rental rehab program	-	-	-	361,315	361,315
Athletics	-	-	-	311,982	311,982
School federal grants	-	-	-	84,047	84,047
HOME Program	-	-	-	279,019	279,019
Community development	-	-	-	212,141	212,141
Total Restricted	1,847,564	5,435,267	11,401,410	13,283,965	31,968,206
<b>Committed</b>					
Workers comp fund	538,313	-	-	-	538,313
Capital stabilization fund	500,000	-	-	-	500,000
Unemployment fund	182,475	-	-	-	182,475
Injured on duty fund	106,957	-	-	-	106,957
Road Repair Complete Streets	520,000	-	-	-	520,000
Road Repair Essex Street Corridor Feasibility	700,000	-	-	-	700,000
Lease Buyout Agreements to own several vehicles	304,000	-	-	-	304,000
Police Radios	900,000	-	-	-	900,000
3 Police Cruisers	176,000	-	-	-	176,000
Planning Grant in collaboration	70,000	-	-	-	70,000
Wage stabilization fund	206,500	-	-	-	206,500
Hood school capital project	-	658,632	-	-	658,632
Pickering Middle School capital project	-	378,973	-	-	378,973
Other city capital projects	-	113,577	-	-	113,577
Total Committed	4,204,245	1,151,182	-	-	5,355,427

(continued)

(continued)

	General Fund	Capital Project Funds	Revolving Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assigned</b>					
Encumbrances:					
General government	656,625	-	-	-	656,625
Public safety	444,603	-	-	-	444,603
Education	5,658,355	-	-	-	5,658,355
Public works	442,899	-	-	-	442,899
Health and human services	171,956	-	-	-	171,956
Culture and recreation	28,895	-	-	-	28,895
For next year's expenditures	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>
Total Assigned	9,403,333	-	-	-	9,403,333
<b>Unassigned</b>					
General fund	23,703,734	-	-	-	23,703,734
General stabilization fund	1,000,000	-	-	-	1,000,000
Deficit balances	<u>-</u>	<u>(7,444,236)</u>	<u>(1,646)</u>	<u>(87,639)</u>	<u>(7,533,521)</u>
Total Unassigned	<u>24,703,734</u>	<u>(7,444,236)</u>	<u>(1,646)</u>	<u>(87,639)</u>	<u>17,170,213</u>
Total Fund Balance	<u>\$ 41,088,551</u>	<u>\$ (857,787)</u>	<u>\$ 11,399,764</u>	<u>\$ 21,397,712</u>	<u>\$ 73,028,240</u>

## 20. Retirement System

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

### Plan Description

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 Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at 3 City Hall Square, Lynn, Massachusetts 01901.

### 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	5.00%
January 1, 1975 - December 31, 1983	7.00%
January 1, 1984 - June 30, 1996	8.00%
Beginning July 1, 1996 - present	9.00%

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.

***Participant Retirement Benefits***

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.

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 5-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.

There are four classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the Massachusetts State Police. The other three classes are as follows:

- 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 retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left City employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4 have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement. A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively.

### ***Methods of Payment***

A member may elect to receive his or her retirement allowance in one of three forms of payment as follows:

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the members death.
- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.
- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

### ***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%.

***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, 2020 was \$29,758,937, which was equal to its annual required contribution.

***Summary of Significant Accounting Policies***

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. Investments are reported at fair value.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred (Inflows) of Resources Related to Pensions**

At June 30, 2020, the City reported a liability of \$267,271,000 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2019, rolled forward to December 31, 2019. 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 the most recent measurement date of June 30, 2020, the City's proportion was 88.26%, which was an increase of .45% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2020, 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 \$31,820,000. In addition, the City reported deferred outflows of resources and deferred (inflows) of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred (Inflows) of <u>Resources</u>
Differences between expected and actual experience	\$ -	\$ (3,807,000)
Changes of assumptions	15,995,000	-
Net difference between projected and actual investment earnings on pension plan investments	-	(12,867,000)
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>1,133,000</u>	<u>(709,000)</u>
Total	<u>\$ 17,128,000</u>	<u>\$ (17,383,000)</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:	
2021	\$ (17,226)
2022	(586,937)
2023	3,787,809
2024	<u>(3,438,646)</u>
Total	<u>\$ (255,000)</u>

### ***Actuarial Assumptions***

The total pension liability in the January 1, 2019, actuarial valuation (rolled forward to December 31, 2019) was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Remaining amortization period	14 years from July 1, 2020
Investment rate of return	7.25% (7.40% in 2018)
Discount rate	7.25%
Projected salary increases:	
Group 1	4.25%
Group 2	4.50%
Police & Fire	4.75%
Inflation rate	Not explicitly assumed

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 the following:

Pre-retirement and beneficiary mortality: RP-2014 Blue Collar Employees table projected generationally with Scale MP-2018, gender distinct.

Mortality for retired members: RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2018, gender distinct.

Mortality for disabled members: RP-2014 Blue Collar Healthy Annuitant table set forward 1 year projected generationally with Scale MP-2018, gender distinct.

The actuarial assumptions used in the January 1, 2019, valuation was based on the results of the most recent actuarial experience study, which was for the period January 1, 2017 – December 31, 2018.

### ***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>
U.S. equities	22.50%	6.90%
International equities	15.10%	7.00%
Core fixed income	14.70%	2.90%
Private equity	11.00%	10.90%
Real estate	9.50%	6.10%
Portfolio completion	9.20%	5.80%
Value-added fixed income	7.50%	6.80%
Emerging equities	6.40%	9.20%
Timberland	3.50%	6.70%
Overlay	0.50%	0.00%
Liquidating portfolios	<u>0.10%</u>	0.00%
Total	<u>100.00%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.25%. 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 7.25%, 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 or one percentage-point higher than the current rate:

1% Decrease	Current Discount Rate	1% Increase
<u>(6.25%)</u>	<u>(7.25%)</u>	<u>(8.25%)</u>
\$ 336,968,741	\$ 267,271,000	\$ 208,112,670

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan’s fiduciary net position is available in the separately issued System financial report.

**21. Massachusetts Teachers’ Retirement System (MTRS)**

**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.

***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 3-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last 5 years or any 5 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 10 years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of creditable service or upon reaching the age of 55 with 10 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.

***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

### **Actuarial Assumptions**

The total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of January 1, 2019 rolled forward to June 30, 2019. This valuation used the following assumptions:

- (a) 7.25% (changed from 7.35%) 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, updated to reflect post-retirement mortality through January 1, 2017.
- 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 MP-2016 (gender distinct).

### **Target Allocations**

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, 2019 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	39.00%	4.90%
Core fixed income	15.00%	1.30%
Private equity	13.00%	8.20%
Portfolio completion strategies	11.00%	3.90%
Real estate	10.00%	3.60%
Value added fixed income	8.00%	4.70%
Timber/natural resources	4.00%	4.10%
Total	<u>100.00%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.25%. 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.

**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):

1% Decrease <u>6.25%</u>	Current Discount Rate ( <u>7.25%</u> )	1% Increase <u>8.25%</u>
\$ 31,232,100	\$ 25,214,020	\$ 20,062,500

**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.

**City Proportions**

In fiscal year 2019 (the most recent measurement period), the City’s proportionate share of the MTRS’ collective net pension liability was approximately \$356,717,408 based on a proportionate share of 1.414758%. As required by GASB 68, the City has recognized its portion of the Commonwealth’s contribution of approximately \$20,425,005 as both a revenue and expenditure in the general fund, and its portion of the collective pension expense of approximately \$43,258,177 as both a revenue and expense in the governmental activities.

**22. Other Post-Employment Benefits (GASB 75)**

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of *Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. 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, 2020.

***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.

*Funding Policy*

The City's funding policy includes financing the implicit subsidy on a pay-as-you-go basis, as required by statute.

*Plan Membership*

At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefit payments	2,261
Active employees	<u>1,936</u>
Total	<u><u>4,197</u></u>

**Actuarial Assumptions and Other Inputs**

The total OPEB liability was determined by an actuarial valuation as of June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Interest	No prefunding: 2.50%, net of investment expenses
Actuarial cost method	Entry Age Normal
Discount rate	2.50%
Healthcare cost trend rates	4.50% for 2020 & after
Retirees' share of benefit-related costs	15.00% to 30.00%, depending on plan election for members. 50.00% for widows.
Participation rate	For those currently enrolled in a medical plan, 100% of future retirees are assumed to participate in the retiree medical plan.

The discount rate was based on the high-quality municipal bond rate for 20-year maturities as of June 30, 2020.

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 5 years for males, and 3 years for females, fully generational. Mortality for retired members for Group 4 is represented by the RP-2014 Blue Collar Mortality Table set forward 3 years for males, and 6 years for females, fully generational. Mortality for disabled members for Groups 1 and 2 is represented by the RP-2000 Mortality Table set forward 6 years. Mortality for disabled members for Group 4 is represented by the RP-2000 Mortality Table set forward 2 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 2 years is used.

**Discount Rate**

The discount rate used to measure the total OPEB liability was 2.50%. 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.

**Total OPEB Liability**

The City's total OPEB liability of \$520,687,091 was measured as of June 30, 2020, and was determined by an actuarial valuation as of June 30, 2020.

### **Changes in the Total OPEB Liability**

The following summarizes the changes in the total OPEB liability for the past year:

	Total OPEB <u>Liability</u>
Balances, beginning of year	\$ 561,091,169
Changes for the year:	
Service cost	17,617,421
Interest	21,453,197
Differences between expected and actual experience	(164,853,356)
Changes of assumptions	98,748,384
Benefit payments	<u>(13,369,724)</u>
Net Changes	<u>(40,404,078)</u>
Balances, end of year	\$ <u>520,687,091</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.75% in 2019 to 2.50% in 2020.

### **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 <u>(1.50%)</u>	Current Discount Rate <u>(2.50%)</u>	1% Increase <u>(3.50%)</u>
\$ 625,835,420	\$ 520,687,091	\$ 439,335,041

### **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 <u>(3.50%)</u>	Current Healthcare Cost Trend Rates <u>(4.50%)</u>	1% Increase <u>(5.50%)</u>
\$ 429,772,260	\$ 520,687,091	\$ 642,509,545

***OPEB Expense and Deferred Outflows of Resources and Deferred (Inflows) of Resources Related to OPEB***

For the year ended June 30, 2020, the City recognized an OPEB expense of \$25,607,283. At June 30, 2020, the City reported deferred outflows and (inflows) of resources related to OPEB from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred (Inflows) of <u>Resources</u>
Differences between expected and actual experience	\$ -	\$ (131,278,334)
Changes of assumptions	<u>78,636,697</u>	<u>-</u>
Total	<u>\$ 78,636,697</u>	<u>\$ (131,278,334)</u>

Amounts reported as deferred outflows and (inflows) of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30:</u>	
2021	\$ (13,463,335)
2022	(13,463,335)
2023	(13,463,335)
2024	<u>(12,251,632)</u>
Total	<u>\$ (52,641,637)</u>

**23. Internal Service Fund (Self-Insurance)**

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

***Health Insurance***

The City contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the City is liable for claims up to \$200,000 per person and maintains excess insurance for claims that exceed \$200,000. 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, 2020 are as follows:

	Year Ended <u>June 30, 2020</u>	Year Ended <u>June 30, 2019</u>
Claims liability, beginning of year	\$ 7,071,641	\$ 7,638,916
Claims incurred/recognized	55,290,042	59,112,732
Claims paid	<u>(55,277,445)</u>	<u>(59,680,007)</u>
Claims liability, end of year	<u>\$ 7,084,238</u>	<u>\$ 7,071,641</u>

Included in the health claims payable liability noted above, is the fiscal year 2020 estimate for claims incurred but not reported (IBNR) of \$2,836,142. 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.

#### **24. Subsequent Events**

Management has evaluated subsequent events through December 21, 2020, which is the date the financial statements were available to be issued.

##### ***Use of Free Cash***

The City voted to use \$700,000 of free cash on November 20, 2020 to fund modular classrooms.

##### ***Long-Term Debt Issuance***

The City issued a general obligation bond dated September 22, 2020 for \$6,315,000, with interest rates ranging from 2.00 - 4.00%, that is due September 20, 2040.

#### **25. Commitments and Contingencies**

##### ***COVID-19***

The COVID-19 outbreak in the United States (and across the globe) has resulted in economic uncertainties. There is considerable uncertainty around the duration and scope of the economic disruption. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on individuals served by the City, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain.

***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.

***Encumbrances***

At year-end the City's general fund has \$7,403,333 in encumbrances that will be honored in the next fiscal year.

***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 \$14,000,000 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 Fiscal Stability Fund was 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 raised \$1,000,000 in fiscal year 2020 for the Fiscal Stability Fund, for a cumulative total of \$1,847,564 which is reported as a restricted fund balance in the General 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.

## 26. 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 \$462,388 under agreements entered into by the City during fiscal year 2020.

## 27. Beginning Fund Balance Reclassification

The beginning (July 1, 2019) fund balance of the City has been reclassified as follows:

Fund Basis Financial Statements:	Revolving Funds	Nonmajor Governmental Funds
As previously reported	\$ -	\$ 28,923,564
Reclassification of major funds	<u>9,885,289</u>	<u>(9,885,289)</u>
As reclassified	<u><u>\$ 9,885,289</u></u>	<u><u>\$ 19,038,275</u></u>

## 28. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 84, *Fiduciary Activities*, effective for the City beginning with its fiscal year ending June 30, 2021. This statement establishes guidance on how to address the categorization of fiduciary activities for financial reporting and how fiduciary activities are to be reported and may require reclassification of certain funds.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 87, *Leases*, effective for the City beginning with its fiscal year ending June 30, 2022. This statement establishes new reporting and disclosure requirements, including the recording of various operating leases in the financial statements.

**CITY OF LYNN, MASSACHUSETTS**

Required Supplementary Information  
General Fund

Schedule of Revenues and Other Sources, and Expenditures and Other Uses -  
Budget and Actual

For the Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>Revenues</b>				
Property taxes	\$ 133,406,382	\$ 135,465,585	\$ 135,349,556	\$ (116,029)
Excise	8,729,080	8,729,080	8,825,996	96,916
Penalties, interest, and other taxes	1,078,338	1,078,338	1,180,548	102,210
Charges for services	3,933,999	3,933,999	4,691,137	757,138
Intergovernmental	214,093,821	214,093,821	215,702,452	1,608,631
Licenses and permits	3,049,990	3,049,990	3,380,068	330,078
Fines and forfeitures	1,596,597	1,596,597	1,744,160	147,563
Investment income	285,100	285,100	1,245,340	960,240
Miscellaneous	-	939	300,365	299,426
Total Revenues	366,173,307	368,233,449	372,419,622	4,186,173
<b>Expenditures</b>				
General government	12,145,230	14,008,956	13,110,310	898,646
Public safety	40,031,913	42,806,499	41,271,383	1,535,116
Education	177,038,245	182,059,744	178,071,946	3,987,798
Public works	13,296,824	14,737,103	13,576,564	1,160,539
Health and human services	1,343,635	1,360,391	1,200,368	160,023
Culture and recreation	1,382,559	1,479,565	1,327,526	152,039
Employee benefits	83,342,720	79,103,393	77,529,331	1,574,062
Debt service	7,566,717	7,566,717	7,566,717	-
Intergovernmental	27,065,464	27,065,464	27,011,698	53,766
Total Expenditures	363,213,307	370,187,832	360,665,843	9,521,989
Excess (Deficiency) of Revenues Over Expenditures	2,960,000	(1,954,383)	11,753,779	13,708,162
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	91,033	91,033	-
Transfers out	(2,960,000)	(3,536,500)	(3,536,500)	-
Use of free cash:				
Legal settlement	-	1,200,000	-	(1,200,000)
Use of prior year carryforwards	-	4,199,850	4,199,850	-
Total Other Financing Sources (Uses)	(2,960,000)	1,954,383	754,383	(1,200,000)
Overall Budgetary Excess	\$ -	\$ -	\$ 12,508,162	\$ 12,508,162



**Notes to the Required Supplementary Information  
for General Fund Budget**

***Budgetary Basis***

The general fund final appropriation appearing on the previous page represents the final amended budget after all reserve fund transfers and supplemental appropriations.

***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</u>	<u>Expenditures</u>	<u>Other Financing Sources/Uses</u>
Revenues/expenditures/transfers GAAP Basis	\$ 392,844,627	\$ 375,589,310	\$ 91,033
Add prior year carryforwards as a financing source	-	-	4,199,850
Add end-of-year appropriation carryforwards to expenditures	-	7,608,682	-
To reverse the effect of non- budgeted State contributions for teachers retirement	(20,425,005)	(20,425,005)	-
To reverse accrued interest	-	24,804	-
To back out stabilization and other activity	-	(2,131,948)	(3,536,500)
Budgetary Basis	<u>\$ 372,419,622</u>	<u>\$ 360,665,843</u>	<u>\$ 754,383</u>

CITY OF LYNN, MASSACHUSETTS

Required Supplementary Information  
Schedule of Proportionate Share of the Net Pension Liability

(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, 2020	December 31, 2019	88.26%	\$ 267,271,000	\$ 68,031,692	392.86%	57.32%
June 30, 2019	December 31, 2018	87.81%	\$ 283,808,000	\$ 66,524,855	426.62%	52.09%
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, 2020	June 30, 2019	1.414758%	\$ -	\$ 356,717,408	\$ 356,717,408	\$ 108,281,051	0.00%	53.95%
June 30, 2019	June 30, 2018	1.487960%	\$ -	\$ 352,814,557	\$ 352,814,557	\$ 104,497,437	0.00%	54.84%
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%

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

See Independent Auditors' Report.

**CITY OF LYNN, MASSACHUSETTS**

Required Supplementary Information  
Schedule of Pension Contributions

(Unaudited)

Lynn Contributory Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Actuarially Determined Contribution</u>	<u>Actuarially Determined Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2020	December 31, 2019	\$ 29,758,937	\$ 29,758,937	\$ -	\$ 69,392,326	42.89%
June 30, 2019	December 31, 2018	\$ 28,204,934	\$ 28,204,934	\$ -	\$ 67,855,352	41.57%
June 30, 2018	December 31, 2017	\$ 28,138,864	\$ 28,138,864	\$ -	\$ 67,909,446	41.44%
June 30, 2017	December 31, 2016	\$ 27,227,177	\$ 27,227,177	\$ -	\$ 66,274,877	41.08%
June 30, 2016	December 31, 2015	\$ 26,093,571	\$ 26,093,571	\$ -	\$ 66,154,991	39.44%
June 30, 2015	December 31, 2014	\$ 25,192,615	\$ 25,192,615	\$ -	\$ 63,093,120	39.93%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Actuarially Determined Contribution Provided by Commonwealth</u>	<u>Contributions in Relation to the Actuarially Determined Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2020	June 30, 2019	\$ 20,425,005	\$ 20,425,005	\$ -	\$ 110,446,672	18.49%
June 30, 2019	June 30, 2018	\$ 19,563,449	\$ 19,563,449	\$ -	\$ 106,587,386	18.35%
June 30, 2018	June 30, 2017	\$ 17,611,758	\$ 17,611,758	\$ -	\$ 98,731,244	17.84%
June 30, 2017	June 30, 2016	\$ 16,272,846	\$ 16,272,846	\$ -	\$ 97,083,046	16.76%
June 30, 2016	June 30, 2015	\$ 14,892,079	\$ 14,892,079	\$ -	\$ 94,220,914	15.81%
June 30, 2015	June 30, 2014	\$ 12,975,441	\$ 12,975,441	\$ -	\$ 86,571,146	14.99%

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

See Independent Auditors' Report.

CITY OF LYNN, MASSACHUSETTS

Required Supplementary Information  
Other Post-Employment Benefits (OPEB)  
Schedule of Changes in the Total OPEB Liability

(Unaudited)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Total OPEB Liability</b>			
Service cost	\$ 17,617,421	\$ 16,858,776	\$ 16,132,800
Interest	21,453,197	20,578,417	19,803,023
Differences between expected and actual experience	(164,853,356)	-	-
Changes of assumptions	98,748,384	-	-
Benefit payments	<u>(13,369,724)</u>	<u>(16,339,688)</u>	<u>(15,636,065)</u>
Net change in total OPEB liability	(40,404,078)	21,097,505	20,299,758
Total OPEB liability - beginning	<u>561,091,169</u>	<u>539,993,664</u>	<u>519,693,906</u>
Total OPEB liability - ending (a)	<u>\$ 520,687,091</u>	<u>\$ 561,091,169</u>	<u>\$ 539,993,664</u>
Covered employee payroll	\$ 201,562,527	\$ 121,587,354	\$ 117,475,704
Total OPEB liability as a percentage of covered employee payroll	258%	461%	460%

*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.