

**CITY OF LYNN, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2017**

## TABLE OF CONTENTS

	<u>PAGE</u>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	4
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-wide Financial Statements:</b>	
Statement of Net Position	11
Statement of Activities	12
<b>Fund Financial Statements:</b>	
<b>Governmental Funds:</b>	
Balance Sheet	13
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities in the Statement of Net Position	14
Statement of Revenues, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	17
<b>Proprietary Funds:</b>	
Statement of Net Position	18
Statement of Revenues, Expenses, and Changes in Fund Net Position	19
Statement of Cash Flows	20
<b>Fiduciary Funds:</b>	
Statement of Fiduciary Net Position	21
Statement of Changes in Fiduciary Net Position	22
<b>Notes to Financial Statements</b>	23

**SUPPLEMENTARY INFORMATION:**

Pension:

Schedule of Proportionate Share of the Net Pension Liability (GASB 68)	61
Schedule of Pension Contributions (GASB 68)	62
Schedule of Changes in Net Pension Liability (GASB 67)	63
Schedules of Net Pension Liability, Contributions, and Investment Returns (GASB 67)	64

OPEB:

Schedule of OPEB Funding Progress (GASB 45)	65
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## INDEPENDENT AUDITORS' REPORT

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

**Additional Offices:**

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lynn, Massachusetts, as of and for the year ended June 30, 2017 (except for the Lynn Contributory Retirement System which is as of and for the year ended December 31, 2016), and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

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

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

### **Auditors' Responsibility**

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

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lynn, Massachusetts, as of June 30, 2017 (except for the Lynn Contributory Retirement System, which is as of and for the year ending December 31, 2016), and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 17 to the financial statements, in March 2018, special legislation was filed with the Commonwealth of Massachusetts to, among other things, permit the City borrow up to \$14,000,000 in bonds to balance the budgets for fiscal years 2018 and 2019. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and the Pension and OPEB Schedules appearing on pages 61 through 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during

our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Melanson Heath*

April 9, 2018

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Lynn, we offer readers this narrative overview and analysis of the financial activities of the City of Lynn for the fiscal year ended June 30, 2017. All amounts are expressed in thousands of dollars.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

## B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets and deferred outflows of resources were less than liabilities and deferred inflows of resources by \$(243,113) (i.e., net position), a change of \$(22,860) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$41,875, a change of \$(4,933) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,547, a change of \$(3,546) in comparison to the prior year.

## C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 57,700	\$ 71,461	\$ 193	\$ 160	\$ 57,893	\$ 71,621
Capital assets	276,145	276,743	2,229	2,436	278,374	279,179
Other noncurrent assets	3,157	4,695	-	-	3,157	4,695
Total assets	337,002	352,899	2,422	2,596	339,424	355,495
Deferred outflows of resources	23,352	29,678	-	-	23,352	29,678
Long-term liabilities	589,979	583,688	1,075	1,088	591,054	584,776
Other liabilities	12,613	18,694	667	601	13,280	19,295
Total liabilities	602,592	602,382	1,742	1,689	604,334	604,071
Deferred inflows of resources	1,555	1,355	-	-	1,555	1,355
Net position:						
Net investment in capital assets	214,793	209,653	1,299	1,506	216,092	211,159
Restricted	30,362	25,861	-	-	30,362	25,861
Unrestricted	(488,948)	(456,674)	(619)	(599)	(489,567)	(457,273)
Total net position	\$ (243,793)	\$ (221,160)	\$ 680	\$ 907	\$ (243,113)	\$ (220,253)

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 \$(243,113), a change of \$(22,860) from the prior year.

The largest portion of net position, \$216,092, reflects our investment in capital assets (e.g., land, buildings, machinery and equipment 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, \$30,362, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$(489,567), results in a deficit, caused primarily by the City's unfunded net OPEB obligation (see Note 19), and unfunded net pension liabilities (see Note 20).

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

	<u>CHANGES IN NET POSITION</u>					
	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
Program revenues:						
Charges for services	\$ 12,437	\$ 12,981	\$ 358	\$ 325	\$ 12,795	\$ 13,306
Operating grants and contributions	224,852	211,865	-	-	224,852	211,865
Capital grants and contributions	770	1,048	-	72	770	1,120
General revenues:						
Property taxes	121,414	115,681	-	-	121,414	115,681
Excises	7,738	7,458	-	-	7,738	7,458
Penalties and interest on taxes	1,147	1,179	-	-	1,147	1,179
Grants and contributions not restricted to specific programs	27,341	36,330	-	-	27,341	36,330
Investment income	377	400	-	-	377	400
Other	1,508	1,284	-	-	1,508	1,284
Total revenues	<u>397,584</u>	<u>388,226</u>	<u>358</u>	<u>397</u>	<u>397,942</u>	<u>388,623</u>
Expenses:						
General government	15,507	14,578	-	-	15,507	14,578
Public safety	44,656	41,006	-	-	44,656	41,006
Education	232,740	216,574	-	-	232,740	216,574
Public works	17,719	15,164	-	-	17,719	15,164
Health and human services	5,075	6,228	-	-	5,075	6,228
Culture and recreation	4,840	4,960	-	-	4,840	4,960
Employee benefits	94,675	88,507	-	-	94,675	88,507
Interest on long-term debt	2,579	1,699	-	-	2,579	1,699
Intergovernmental	2,424	2,385	-	-	2,424	2,385
Marina	-	-	586	533	586	533
Total expenses	<u>420,217</u>	<u>391,101</u>	<u>586</u>	<u>533</u>	<u>420,802</u>	<u>391,634</u>
Increase (Decrease) in net position	(22,633)	(2,875)	(227)	(136)	(22,860)	(3,011)
Net position - beginning of year	<u>(221,160)</u>	<u>(218,285)</u>	<u>907</u>	<u>1,043</u>	<u>(220,253)</u>	<u>(217,242)</u>
Net position - end of year	<u>\$ (243,793)</u>	<u>\$ (221,160)</u>	<u>\$ 680</u>	<u>\$ 907</u>	<u>\$ (243,113)</u>	<u>\$ (220,253)</u>

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$(22,633). Key elements of this change are as follows:

Increase in net OPEB obligation over prior year	\$ (16,926)
Increase in net pension liability net of related deferrals	(6,188)
Other	<u>481</u>
Total	<u>\$ (22,633)</u>

**Business-type activities.** Business-type activities for the year resulted in a change in net position of \$(227). In addition, the Marina Enterprise fund has not made any principal or interest payments on a loan outstanding with the National Oceanic and Atmospheric Administration (NOAA) since fiscal year 2010. The City does not consider themselves to be in default, as they have requested repayment assistance from NOAA, per the loan agreement, and have yet to hear back. Much of the deficit results from accruing the interest on the outstanding bonds, however, not raising the revenues in the Marina's rates and charges.

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

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

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$41,875, a change of \$(4,933) in comparison to the prior year. Key elements of this change are as follows:

General fund expenditures and other financing uses in excess of revenues and other sources	\$ (4,986)
Other	<u>53</u>
Total	<u>\$ (4,933)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,547, while total fund balance was \$14,215. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 4,547	\$ 8,093	\$ (3,546)	1.3%
Total fund balance	\$ 14,215	\$ 19,201	\$ (4,986)	4.0%

The total fund balance of the general fund changed by \$(4,986) during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay as a funding source	\$ (4,954)
Prior year deficits raised in the current year	1,297
Chapter 70 aid withheld	(826)
Other revenues greater than budget	194
Fiscal 2017 snow and ice overage	(1,364)
Other expenditures less than budget	1,082
Other	<u>(415)</u>
Total	\$ <u><u>(4,986)</u></u>

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

Unrestricted net position of the enterprise fund at the end of the year amounted to a deficit balance of \$(619), a decrease of \$(20) in comparison to the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

Unrestricted net position of the internal service fund at the end of the year amounted to a deficit balance of \$(2,170), after an operating loss of \$(273). Fiscal year 2017 is the third year in a row that the fund incurred an operating loss, as claims have exceeded funding. The City plans on raising the June 30, 2017 unrestricted net position deficit with the setting of the fiscal year 2018 tax rate.

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

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$2,464. The majority of the increases was for additional public safety appropriations. The increases were funded from free cash, overlay surplus and transfers from related special revenue funds.

## **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year-end amounted to \$278,374 (net of accumulated depreciation), a change of \$(805) from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

School construction projects	\$ 4,718
Other construction projects	1,973
New equipment	3,213
Other	572
Depreciation	<u>(11,281)</u>
Total	<u>\$ (805)</u>

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

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$65,936, all of which was backed by the full faith and credit of the government.

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

**Credit rating.** During the fiscal year, Moody's Investor Service downgraded the City's underlying rating to A3 from A1. The outlook has been revised to negative.

## **REQUESTS FOR INFORMATION**

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

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

## CITY OF LYNN, MASSACHUSETTS

## STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>Assets</b>			
Current:			
Cash and short-term investments	\$ 36,856,613	\$ 157,967	\$ 37,014,580
Investments	7,456,298	-	7,456,298
Receivables, net of allowance for uncollectibles:			
Property taxes	3,378,168	-	3,378,168
Excises	1,411,166	-	1,411,166
Departmental and other	1,050,627	19,316	1,069,943
Intergovernmental	4,393,822	-	4,393,822
Loans	320,000	-	320,000
Other assets	2,833,263	15,290	2,848,553
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	278,027	-	278,027
Loans	2,879,162	-	2,879,162
Capital assets, non-depreciable	9,669,202	-	9,669,202
Capital assets, depreciable, net of accumulated depreciation	<u>266,475,703</u>	<u>2,229,050</u>	<u>268,704,753</u>
<b>Total Assets</b>	<b>337,002,051</b>	<b>2,421,623</b>	<b>339,423,674</b>
<b>Deferred Outflows of Resources</b>			
Related to pensions	<u>23,352,000</u>	<u>-</u>	<u>23,352,000</u>
Total Deferred Outflows of Resources	<u>23,352,000</u>	<u>-</u>	<u>23,352,000</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>360,354,051</b>	<b>2,421,623</b>	<b>362,775,674</b>
<b>Liabilities</b>			
Current:			
Warrants payable	1,410,237	-	1,410,237
Accounts payable	427,767	-	427,767
Accrued liabilities	6,516,236	515,195	7,031,431
Tax refunds payable	918,259	-	918,259
Other current liabilities	3,340,798	151,000	3,491,798
Current portion of long-term liabilities:			
Bonds payable	6,506,085	943,410	7,449,495
Other liabilities	1,584,857	-	1,584,857
Noncurrent:			
Bonds payable, net of current portion	58,354,569	131,735	58,486,304
Other liabilities, net of current portion	14,837,271	-	14,837,271
Net OPEB obligation	223,164,000	-	223,164,000
Net pension liability	<u>285,532,000</u>	<u>-</u>	<u>285,532,000</u>
<b>Total Liabilities</b>	<b>602,592,079</b>	<b>1,741,340</b>	<b>604,333,419</b>
<b>Deferred Inflows of Resources</b>			
Related to pensions	<u>1,555,000</u>	<u>-</u>	<u>1,555,000</u>
Total Deferred Inflows of Resources	<u>1,555,000</u>	<u>-</u>	<u>1,555,000</u>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>604,147,079</b>	<b>1,741,340</b>	<b>605,888,419</b>
<b>Net Position</b>			
Net investment in capital assets	214,793,009	1,299,375	216,092,384
Restricted for:			
Grants and other statutory restrictions	22,347,982	-	22,347,982
Permanent funds:			
Nonexpendable	7,448,042	-	7,448,042
Expendable	565,666	-	565,666
Unrestricted	<u>(488,947,727)</u>	<u>(619,092)</u>	<u>(489,566,819)</u>
<b>Total Net Position</b>	<b>\$ (243,793,028)</b>	<b>\$ 680,283</b>	<b>\$ (243,112,745)</b>

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

CITY OF LYNN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Governmental Activities:</b>							
General government	\$ 15,507,256	\$ 4,023,051	\$ 243,305	\$ -	\$ (11,240,900)	\$ -	\$ (11,240,900)
Public safety	44,656,299	1,198,262	2,349,455	-	(41,108,582)	-	(41,108,582)
Education	232,740,346	584,809	214,316,102	-	(17,839,435)	-	(17,839,435)
Public works	17,719,086	3,036,359	4,700,996	770,099	(9,211,632)	-	(9,211,632)
Health and human services	5,075,374	468,771	2,378,816	-	(2,227,787)	-	(2,227,787)
Culture and recreation	4,839,682	3,125,495	228,372	-	(1,485,815)	-	(1,485,815)
Employee benefits	94,675,008	-	634,594	-	(94,040,414)	-	(94,040,414)
Interest	2,579,308	-	-	-	(2,579,308)	-	(2,579,308)
Intergovernmental	2,424,414	-	-	-	(2,424,414)	-	(2,424,414)
<b>Total Governmental Activities</b>	<b>420,216,773</b>	<b>12,436,747</b>	<b>224,851,640</b>	<b>770,099</b>	<b>(182,158,287)</b>	<b>-</b>	<b>(182,158,287)</b>
<b>Business-Type Activities:</b>							
Marina services	585,523	358,270	-	-	-	(227,253)	(227,253)
Total Business-Type Activities	585,523	358,270	-	-	-	(227,253)	(227,253)
<b>Total</b>	<b>\$ 420,802,296</b>	<b>\$ 12,795,017</b>	<b>\$ 224,851,640</b>	<b>\$ 770,099</b>	<b>(182,158,287)</b>	<b>(227,253)</b>	<b>(182,385,540)</b>
<b>General Revenues:</b>							
Property taxes					121,414,058	-	121,414,058
Excises					7,738,233	-	7,738,233
Penalties, interest and other taxes					1,147,168	-	1,147,168
Grants and contributions not restricted to specific programs					27,341,272	-	27,341,272
Investment income					377,294	24	377,318
Other					1,507,664	-	1,507,664
<b>Total general revenues</b>					<b>159,525,689</b>	<b>24</b>	<b>159,525,713</b>
<b>Change in Net Position</b>					<b>(22,632,598)</b>	<b>(227,229)</b>	<b>(22,859,827)</b>
<b>Net Position:</b>							
<b>Beginning of year</b>					<b>(221,160,430)</b>	<b>907,512</b>	<b>(220,252,918)</b>
<b>End of year</b>					<b>\$ (243,793,028)</b>	<b>\$ 680,283</b>	<b>\$ (243,112,745)</b>

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

CITY OF LYNN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

	General Fund	HOME Program	Permanent Funds	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and short-term investments	\$ 17,824,274	\$ 175,763	\$ 49,612	\$ 16,896,780	\$ 34,946,429
Investments	-	-	7,456,298	-	7,456,298
Receivables:					
Property taxes	5,835,129	-	-	-	5,835,129
Excises	2,619,469	-	-	-	2,619,469
Departmental and other	967,896	-	-	82,731	1,050,627
Intergovernmental	-	-	-	3,496,655	3,496,655
Loans	-	2,861,232	-	337,930	3,199,162
Due from other funds	29,525	-	-	-	29,525
<b>Total Assets</b>	<b>\$ 27,276,293</b>	<b>\$ 3,036,995</b>	<b>\$ 7,505,910</b>	<b>\$ 20,814,096</b>	<b>\$ 58,633,294</b>
<b>Liabilities</b>					
Warrants payable	\$ 1,175,196	\$ -	\$ -	\$ 235,041	\$ 1,410,237
Accounts payable	-	11,207	-	416,559	427,766
Accrued liabilities	2,394,225	-	-	-	2,394,225
Tax refunds payable	918,259	-	-	-	918,259
Due to other funds	-	-	1,555	27,970	29,525
Other liabilities	63,327	-	-	-	63,327
<b>Total Liabilities</b>	<b>4,551,007</b>	<b>11,207</b>	<b>1,555</b>	<b>679,570</b>	<b>5,243,339</b>
<b>Deferred Inflows of Resources</b>					
Unavailable revenues	8,510,657	2,861,232	-	142,821	11,514,710
<b>Fund Balances</b>					
Nonspendable	929,675	-	7,504,355	-	8,434,030
Restricted	-	164,556	-	19,977,924	20,142,480
Committed	-	-	-	201,207	201,207
Assigned	8,738,056	-	-	-	8,738,056
Unassigned (see Note 17)	4,546,898	-	-	(187,426)	4,359,472
<b>Total Fund Balances</b>	<b>14,214,629</b>	<b>164,556</b>	<b>7,504,355</b>	<b>19,991,705</b>	<b>41,875,245</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 27,276,293</b>	<b>\$ 3,036,995</b>	<b>\$ 7,505,910</b>	<b>\$ 20,814,096</b>	<b>\$ 58,633,294</b>

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

CITY OF LYNN, MASSACHUSETTS

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

JUNE 30, 2017

<b>Total governmental fund balances</b>	\$ 41,875,245
<ul style="list-style-type: none"> <li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li> </ul>	276,144,905
<ul style="list-style-type: none"> <li>• Long-term receivable from the Massachusetts School Building Authority is not available in the current period and, therefore, is not reported in the governmental funds.</li> </ul>	897,167
<ul style="list-style-type: none"> <li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li> </ul>	8,140,736
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	(2,170,425)
<ul style="list-style-type: none"> <li>• Deferred outflows and inflows of resources related to pensions will be recognized as an increase to the pension expense in the years ending June 30, 2018 through June 30, 2021.</li> </ul>	21,797,000
<ul style="list-style-type: none"> <li>• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li> </ul>	(498,874)
<ul style="list-style-type: none"> <li>• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds: <ul style="list-style-type: none"> <li>Bonds payable</li> <li>Net OPEB obligation</li> <li>Net pension liability</li> <li>Other (compensated absences, capital leases, etc.)</li> </ul> </li> </ul>	(64,860,654) (223,164,000) (285,532,000) <u>(16,422,128)</u>
<b>Net position of governmental activities</b>	<b>\$ <u>(243,793,028)</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, 2017

	General Fund	HOME Program	Permanent Funds	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Property taxes	\$ 120,547,095	\$ -	\$ -	\$ -	\$ 120,547,095
Excises	7,531,067	-	-	-	7,531,067
Penalties, interest and other taxes	1,147,168	-	-	-	1,147,168
Charges for services	2,111,010	1,104,058	-	5,897,893	9,112,961
Intergovernmental	216,396,644	332,453	-	39,221,381	255,950,478
Contributions and donations	-	-	56,313	1,228,280	1,284,593
Licenses and permits	2,411,870	-	-	2,925	2,414,795
Fines and forfeitures	1,806,998	-	-	9,957	1,816,955
Investment income	220,893	-	95,288	61,113	377,294
Miscellaneous	38,932	-	-	1,112,646	1,151,578
<b>Total Revenues</b>	<b>352,211,677</b>	<b>1,436,511</b>	<b>151,601</b>	<b>47,534,195</b>	<b>401,333,984</b>
<b>Expenditures:</b>					
Current:					
General government	27,942,428	-	-	1,405,002	29,347,430
Public safety	40,646,449	-	-	2,709,910	43,356,359
Education	188,660,618	-	-	31,051,871	219,712,489
Public works	11,998,837	-	-	6,211,605	18,210,442
Health and human services	1,360,435	1,294,447	-	2,387,132	5,042,014
Culture and recreation	1,342,432	-	-	3,117,145	4,459,577
Employee benefits	70,953,517	-	-	-	70,953,517
Debt service	12,813,725	-	-	-	12,813,725
Intergovernmental	2,424,414	-	-	-	2,424,414
<b>Total Expenditures</b>	<b>358,142,855</b>	<b>1,294,447</b>	<b>-</b>	<b>46,882,665</b>	<b>406,319,967</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(5,931,178)</b>	<b>142,064</b>	<b>151,601</b>	<b>651,530</b>	<b>(4,985,983)</b>
<b>Other Financing Sources (Uses):</b>					
Lease proceeds	52,683	-	-	-	52,683
Transfers in	1,892,275	-	-	1,355,210	3,247,485
Transfers out	(1,000,210)	-	-	(2,247,275)	(3,247,485)
<b>Total Other Financing Sources (Uses)</b>	<b>944,748</b>	<b>-</b>	<b>-</b>	<b>(892,065)</b>	<b>52,683</b>
<b>Change in Fund Balances</b>	<b>(4,986,430)</b>	<b>142,064</b>	<b>151,601</b>	<b>(240,535)</b>	<b>(4,933,300)</b>
<b>Fund Balance, at Beginning of Year, as reclassified</b>	<b>19,201,059</b>	<b>22,492</b>	<b>7,352,754</b>	<b>20,232,240</b>	<b>46,808,545</b>
<b>Fund Balance, at End of Year</b>	<b>\$ 14,214,629</b>	<b>\$ 164,556</b>	<b>\$ 7,504,355</b>	<b>\$ 19,991,705</b>	<b>\$ 41,875,245</b>

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, 2017

<b>Net changes in fund balances - total governmental funds</b>	<b>\$ (4,933,300)</b>																								
<ul style="list-style-type: none"> <li>• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Capital outlay</td> <td style="text-align: right;">11,513,029</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(12,111,130)</td> </tr> </table> </li> <li>• Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue. <span style="float: right;">(606,112)</span></li> <li>• The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Repayments of debt</td> <td style="text-align: right;">10,190,000</td> </tr> <tr> <td>Proceeds of capital leases</td> <td style="text-align: right;">(52,683)</td> </tr> <tr> <td>Payments of capital leases</td> <td style="text-align: right;">1,012,509</td> </tr> </table> </li> <li>• Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. <span style="float: right;">(272,516)</span></li> <li>• Some expenses reported in the Statement of Activities, such as certain employee benefits, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Change in compensated absences liability</td> <td style="text-align: right;">(874,167)</td> </tr> <tr> <td>Amortization of bond premium</td> <td style="text-align: right;">356,085</td> </tr> <tr> <td>Change in workers compensation liability</td> <td style="text-align: right;">(334,977)</td> </tr> <tr> <td>Change in net OPEB obligation</td> <td style="text-align: right;">(16,926,000)</td> </tr> <tr> <td>Change in accrued interest on bonds payable</td> <td style="text-align: right;">94,417</td> </tr> <tr> <td>Change in net pension liability</td> <td style="text-align: right;">338,000</td> </tr> <tr> <td>Change in deferred inflows and outflows related to pensions</td> <td style="text-align: right;">(6,526,000)</td> </tr> </table> </li> <li>• Reimbursements from the Massachusetts School Building Authority for principal payments on long-term debt provide current financial resources to governmental funds but have no effect on changes in net position, therefore are excluded from net position. <span style="float: right;">(3,499,753)</span></li> </ul>		Capital outlay	11,513,029	Depreciation	(12,111,130)	Repayments of debt	10,190,000	Proceeds of capital leases	(52,683)	Payments of capital leases	1,012,509	Change in compensated absences liability	(874,167)	Amortization of bond premium	356,085	Change in workers compensation liability	(334,977)	Change in net OPEB obligation	(16,926,000)	Change in accrued interest on bonds payable	94,417	Change in net pension liability	338,000	Change in deferred inflows and outflows related to pensions	(6,526,000)
Capital outlay	11,513,029																								
Depreciation	(12,111,130)																								
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Change in accrued interest on bonds payable	94,417																								
Change in net pension liability	338,000																								
Change in deferred inflows and outflows related to pensions	(6,526,000)																								
<b>Change in net position of governmental activities</b>	<b>\$ <u>(22,632,598)</u></b>																								

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

CITY OF LYNN, MASSACHUSETTS  
GENERAL FUND  
STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES  
AND OTHER USES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive <u>(Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
<b>Revenues and Transfers:</b>				
Taxes	\$ 120,495,316	\$ 120,495,316	\$ 120,547,095	\$ 51,779
Excise	7,522,000	7,522,000	7,531,067	9,067
Penalties, interest and other taxes	1,177,000	1,177,000	1,147,168	(29,832)
Charges for services	2,486,653	2,486,653	2,111,010	(375,643)
Intergovernmental	184,204,050	184,204,050	183,395,298	(808,752)
Licenses and permits	1,960,500	1,960,500	2,411,870	451,370
Fines and forfeits	1,953,654	1,953,654	1,806,998	(146,656)
Investment income	42,674	42,674	220,893	178,219
Miscellaneous	-	-	38,932	38,932
Transfers in	<u>796,675</u>	<u>1,892,275</u>	<u>1,892,275</u>	<u>-</u>
<b>Total Revenues and Transfers</b>	<b>320,638,522</b>	<b>321,734,122</b>	<b>321,102,606</b>	<b>(631,516)</b>
<b>Expenditures and Transfers:</b>				
General government	26,205,486	26,328,134	25,633,280	694,854
Public safety	38,491,942	40,791,391	40,508,262	283,129
Education	139,576,568	139,576,568	139,564,601	11,967
Public works	10,785,827	10,759,753	11,978,984	(1,219,231)
Health and human services	1,344,325	1,367,609	1,353,050	14,559
Culture and recreation	1,347,839	1,361,056	1,328,128	32,928
Debt service	12,918,726	12,818,726	12,813,725	5,001
Intergovernmental	20,339,053	20,339,053	20,535,716	(196,663)
Employee benefits	70,917,404	71,049,215	70,958,032	91,183
Transfers out	<u>1,000,210</u>	<u>1,000,210</u>	<u>1,000,210</u>	<u>-</u>
<b>Total Expenditures and Transfers</b>	<b><u>322,927,380</u></b>	<b><u>325,391,715</u></b>	<b><u>325,673,988</u></b>	<b><u>(282,273)</u></b>
<b>Excess (deficiency) of revenues and transfers in over expenditures and transfers out</b>	<b>(2,288,858)</b>	<b>(3,657,593)</b>	<b>(4,571,382)</b>	<b>(913,789)</b>
<b>Other Financing Sources (Uses):</b>				
Use of fund balance:				
To reduce the tax rate	2,585,509	2,585,509	-	(2,585,509)
Overlay surplus to reduce the tax rate	1,000,000	1,000,000	-	(1,000,000)
Overlay surplus for retro pay raises	-	1,368,735	-	(1,368,735)
Raise prior year deficits	<u>(1,296,651)</u>	<u>(1,296,651)</u>	<u>-</u>	<u>1,296,651</u>
<b>Excess of expenditures and other uses over revenues and other sources</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (4,571,382)</u></b>	<b><u>\$ (4,571,382)</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, 2017

	Business-Type Activities <u>Enterprise Fund</u>	Governmental <u>Activities</u>
	Marina <u>Fund</u>	Internal Service <u>Fund</u>
<b>Assets</b>		
Current:		
Cash and short-term investments	\$ 157,967	\$ 1,910,184
User fees, net of allowance for uncollectibles	19,316	-
Inventory	15,290	-
Other assets	<u>-</u>	<u>2,833,263</u>
Total current assets	192,573	4,743,447
Noncurrent:		
Capital assets, net of accumulated depreciation	<u>2,229,050</u>	<u>-</u>
Total noncurrent assets	<u>2,229,050</u>	<u>-</u>
<b>Total Assets</b>	2,421,623	4,743,447
<b>Liabilities</b>		
Current:		
Accrued liabilities	515,195	3,636,401
Other current liabilities	151,000	3,277,471
Current portion of long-term liabilities:		
Bonds payable	<u>943,410</u>	<u>-</u>
Total current liabilities	1,609,605	6,913,872
Noncurrent:		
Bonds payable, net of current portion	<u>131,735</u>	<u>-</u>
Total noncurrent liabilities	<u>131,735</u>	<u>-</u>
<b>Total Liabilities</b>	1,741,340	6,913,872
<b>Net Position</b>		
Net investment in capital assets	1,299,375	-
Unrestricted	<u>(619,092)</u>	<u>(2,170,425)</u>
<b>Total Net Position</b>	\$ <u><u>680,283</u></u>	\$ <u><u>(2,170,425)</u></u>

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

CITY OF LYNN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	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	\$ 358,270	\$ -
Employee and employer contributions	<u>-</u>	<u>51,918,512</u>
<b>Total Operating Revenues</b>	358,270	51,918,512
<b>Operating Expenses:</b>		
Personnel expenses	135,126	52,191,028
Non personnel expenses	171,808	-
Depreciation	<u>206,644</u>	<u>-</u>
<b>Total Operating Expenses</b>	<u>513,578</u>	<u>52,191,028</u>
Operating income (loss)	(155,308)	(272,516)
<b>Nonoperating Revenues (Expenses):</b>		
Investment income	24	-
Interest expense	<u>(71,945)</u>	<u>-</u>
<b>Total Nonoperating Revenues (Expenses), Net</b>	<u>(71,921)</u>	<u>-</u>
<b>Change in net position</b>	(227,229)	(272,516)
<b>Net Position at Beginning of Year</b>	<u>907,512</u>	<u>(1,897,909)</u>
<b>Net Position at End of Year</b>	<u>\$ 680,283</u>	<u>\$ (2,170,425)</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, 2017

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u> Internal Service <u>Fund</u>
	Marina <u>Fund</u>	
<b>Cash Flows From Operating Activities:</b>		
Receipts from customers and users	\$ 349,296	\$ -
Payments to vendors and employees	(303,853)	-
Receipts from employees and employer	-	51,918,512
Payments of employee benefits and related expenses	<u>-</u>	<u>(53,181,428)</u>
<b>Net Cash Provided By (Used For) Operating Activities</b>	45,443	(1,262,916)
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Principal payments on bonds	(13,132)	-
Interest expense	<u>(6,868)</u>	<u>-</u>
<b>Net Cash (Used For) Capital and Related Financing Activities</b>	(20,000)	-
<b>Cash Flows From Investing Activities:</b>		
Investment income	<u>24</u>	<u>-</u>
<b>Net Cash Provided by Investing Activities</b>	<u>24</u>	<u>-</u>
Net Change in Cash and Short-Term Investments	25,467	(1,262,916)
<b>Cash and Short-Term Investments, Beginning of Year</b>	<u>132,500</u>	<u>3,173,100</u>
<b>Cash and Short-Term Investments, End of Year</b>	<u>\$ 157,967</u>	<u>\$ 1,910,184</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</b>		
Operating (loss)	\$ (155,308)	\$ (272,516)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	206,644	-
Changes in assets and liabilities:		
User fees	(8,974)	-
Other assets	3,081	6,737
Accrued liabilities	-	(210,828)
Other liabilities	<u>-</u>	<u>(786,309)</u>
<b>Net Cash Provided By (Used For) Operating Activities</b>	<u>\$ 45,443</u>	<u>\$ (1,262,916)</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, 2017

	Pension Trust Fund (As of <u>December 31, 2016</u> )	<u>Agency Funds</u>
<b>Assets</b>		
Cash and short term investments	\$ 4,161,769	\$ 959,805
Investments	300,396,320	-
Accounts receivable	<u>1,755,965</u>	<u>-</u>
<b>Total Assets</b>	306,314,054	959,805
 <b>Liabilities</b>		
Other liabilities	<u>560</u>	<u>959,805</u>
<b>Total Liabilities</b>	<u>560</u>	<u>959,805</u>
 <b>Net Position</b>		
Total net position restricted for pension benefits	\$ <u><u>306,313,494</u></u>	\$ <u><u>-</u></u>

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

CITY OF LYNN, MASSACHUSETTS  
 FIDUCIARY FUNDS  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Pension Trust Fund
<b>Additions:</b>	
Contributions:	
Employers	\$ 30,736,774
Plan members	7,645,508
Other	1,534,382
Total contributions	39,916,664
Investment Income:	
Change in fair value of investments	21,794,002
Less: management fees	(1,639,612)
Net investment income	20,154,390
<b>Total additions</b>	60,071,054
<b>Deductions:</b>	
Benefit payments to plan members and beneficiaries	36,364,649
Refunds to plan members	109,992
Transfers to other systems	180,368
Administrative expenses	260,016
<b>Total deductions</b>	36,915,025
<b>Net increase</b>	23,156,029
<b>Net position restricted for pension benefits:</b>	
<b>Beginning of year</b>	283,157,465
<b>End of year</b>	\$ 306,313,494

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

# CITY OF LYNN, MASSACHUSETTS

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

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

#### A. Reporting Entity

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

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

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

##### Government-wide Financial Statements

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

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

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

#### Fund Financial Statements

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

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

#### Government-wide Financial Statements

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

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

#### Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

- Seaport Marina operations

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

The 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 then liabilities are incurred.

The City reports the following fiduciary funds:

- The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.
- The *agency fund* is used to account for student activity funds and police details. Agency funds report only assets and liabilities, and thus have no measurement focus.

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

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

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

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

#### E. Investments

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

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

#### F. Property Tax Limitations

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2017 tax levy reflected an excess capacity of approximately \$35,000.

#### G. Interfund Receivables and Payables

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

*H. Inventories*

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

*I. Capital Assets*

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

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

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

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

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

*J. Compensated Absences*

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

K. Long-Term Obligations

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

L. Fund Equity

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

Fund Balance – Generally, deferred outflows/fund balance represents the difference between the current assets and current liabilities/deferred inflows. 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.

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

M. Use of Estimates

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

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

A. Budgetary Information

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The

budget, as enacted by City Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at City Council meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the City Council is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the general fund and proprietary funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

*B. Budgetary Basis*

The general fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

*C. Budget/GAAP Reconciliation*

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 352,211,677	\$ 358,142,855
Other financing sources/uses (GAAP Basis)	<u>1,944,958</u>	<u>1,000,210</u>
Subtotal (GAAP Basis)	354,156,635	359,143,065
Reverse beginning of year appropriation carryforwards from expenditures	-	(8,434,664)
Add end-of-year appropriation carryforwards from expenditures	-	8,019,616
To reverse the effect of non- budgeted State contributions for teachers retirement	(33,001,346)	(33,001,346)
To reverse lease proceeds	<u>(52,683)</u>	<u>(52,683)</u>
Budgetary Basis	<u>\$ 321,102,606</u>	<u>\$ 325,673,988</u>

**D. Excess of Expenditures Over Appropriations**

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

Snow and ice	\$ 1,363,724
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**E. Deficit Fund Equity**

Certain individual funds reflected deficit balances as of June 30, 2017. It is anticipated that the deficits in the other funds will be eliminated through future departmental or intergovernmental revenues, bond proceeds, and transfers from other funds. The deficit in the Internal Service Fund will be funded in our fiscal year 2018 tax levy.

**3. Cash and Short-Term Investments**

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's and Contributory Retirement System's (the "System") deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such

excess.” The City and System do not have a deposit policy for custodial credit risk.

As of June 30, 2017 and December 31, 2016, \$12,178,248 and \$4,032,216 of the City’s and System’s bank balances of \$44,935,362 and \$4,532,216 respectively, were exposed to custodial credit risk as uninsured or uncollateralized. However, the City has a system in place to verify the creditworthiness of the financial institutions in which it has placed its funds.

Of the System’s total exposed balance, \$3,002,308 was invested in PRIT.

#### 4. **Investments**

##### A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the City’s investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below are the City’s investments at year-end (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Treasury notes	\$ 307
Corporate bonds	4,478
Corporate equities	2,001
Federal agency securities	<u>670</u>
Total investments	<u>\$ 7,456</u>

Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets is invested in any one security.

In accordance with Chapter 32 Section 22 of the Massachusetts General Laws, the System has transferred its investments to the Commonwealth's PRIT fund because its funding ratio and rate of return in prior years has not met the standards established by PERAC.

Presented below are the investments of the Lynn Contributory Retirement System as of December 31, 2016 (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>
Pooled funds	\$ 15,798
State investment pool*	<u>284,598</u>
Total investments	<u>\$ 300,396</u>

These investment types are not rated.

\* Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.

**B. Custodial Credit Risk**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City and System do not have policies for custodial credit risk.

The System's investments of \$300,396,320 were exposed to custodial credit risk because the related securities are uninsured, unregistered, or held by the System's brokerage firm, which is also the Counterparty to these securities. The System manages this risk with SIPC, Excess SIPC and because the assets are held in separately identifiable trust accounts. Of the System's total exposure, \$284,598,468 is invested in the State Investment Pool (PRIT).

All the City's investments of \$7,456,298 were subject to custodial credit risk exposure because the related securities are uninsured, unregistered and/or held by the City's brokerage firm, which is also the Counterparty to these securities. The City manages this custodial credit risk with SIPC and excess SIPC.

**C. Concentration of Credit Risk**

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

*D. Interest Rate Risk*

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Duration</u>	<u>Rating as of Year-End</u>		
			<u>AAA</u>	<u>Aa1-A3</u>	<u>Baa1 - Lower</u>
Debt-related Securities:					
Corporate bonds	\$ 4,478	3.94	\$ 264	\$ 3,409	\$ 805
U.S. Treasury notes	307	1.52	307	-	-
Federal agency securities	<u>670</u>	13.85	<u>670</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,455</u>		<u>\$ 1,241</u>	<u>\$ 3,409</u>	<u>\$ 805</u>

*E. Foreign Currency Risk*

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City does not have a policy for foreign currency risk. The System's policy is that holdings in foreign issuers shall be limited to those denominated in U.S. dollars and listed and traded on major domestic exchanges.

*F. Fair Value*

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

The City has the following fair value measurements as of June 30, 2017  
(in thousands):

<u>Description</u>	<u>Fair Value Measurements Using:</u>			
	<u>Fair Value</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:				
City of Lynn				
Corporate bonds	\$ 4,478	\$ -	\$ 4,478	\$ -
U.S. Treasury securities	307	-	306	-
Federal agency securities	670	-	670	-
Equity securities:				
Financials	363	363	-	-
Industrials	300	300	-	-
Healthcare	300	300	-	-
Information technology	286	286	-	-
Domestic EFT	184	184	-	-
Consumer Staples	153	153	-	-
Consumer Discretionary	126	126	-	-
Energy	108	108	-	-
Utilities	67	67	-	-
Materials	45	45	-	-
Telecommunications	28	28	-	-
Other	41	42	-	-
Subtotal	<u>\$ 7,456</u>	<u>\$ 2,002</u>	<u>\$ 5,454</u>	<u>\$ -</u>
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
Lynn Contributory Retirement System				
Investments measured at the net asset value (NAV):				
Pooled investments	\$ 15,798	\$ 468	Not Eligible	N/A
External investment pool (PRIT)	<u>284,598</u>	-	Monthly	30 days
Total	<u>\$ 300,396</u>			

## 5. Property Taxes and Excises Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

The day after the final tax bill is due, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The City has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

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

Tax and motor vehicle excise receivables at June 30, 2017 consist of the following (in thousands):

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Real estate taxes	\$ 2,020	\$ (250)	\$ 1,770
Personal property taxes	1,542	(1,383)	159
Tax Liens	1,425	(143)	1,282
Foreclosures	449	(405)	44
Deferred taxes	399	-	399
Total property taxes	5,835	(2,181)	3,654
Motor vehicle excise	2,619	(1,208)	1,411
Grand total	\$ 8,454	\$ (3,389)	\$ 5,065

## **6. Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2017. Of the \$4,393,822 of intergovernmental receivables, \$897,167 is due from the Massachusetts School Building Authority for reimbursement of school construction projects.

## **7. Interfund Fund Receivables/Payables and Transfer In/Out**

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2017 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 29,525	\$ -
Permanent Fund	-	1,555
Nonmajor Governmental Funds:		
Library trust fund	-	27,970
Total	<u>\$ 29,525</u>	<u>\$ 29,525</u>

The City reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2017:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 1,892,275	\$ 1,000,210
Nonmajor Governmental Funds:		
Special Revenue Funds:		
Insurance reimbursements fund	-	1,308,745
Insurance losses fund	-	62,712
Precinct officers fund	-	140,559
Other	-	315,080
Capital Project Funds:		
Parking lot	-	45,179
Pickering Middle	355,000	375,000
Tech roof and Breed window project	1,000,210	-
Total	<u>\$ 3,247,485</u>	<u>\$ 3,247,485</u>

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

## 8. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 353,354	\$ 6,690	\$ -	\$ 360,044
Machinery, equipment, and furnishings	36,897	3,628	(1,011)	39,514
Land improvements	7,832	286	-	8,118
Infrastructure	<u>26,739</u>	<u>938</u>	<u>-</u>	<u>27,677</u>
Total capital assets, being depreciated	424,822	11,542	(1,011)	435,353
Less accumulated depreciation for:				
Buildings and improvements	(118,500)	(7,654)	(20)	(126,174)
Machinery, equipment, and furnishings	(22,890)	(3,094)	1,002	(24,982)
Land improvements	(2,890)	(337)	-	(3,227)
Infrastructure	<u>(13,468)</u>	<u>(1,026)</u>	<u>-</u>	<u>(14,494)</u>
Total accumulated depreciation	<u>(157,748)</u>	<u>(12,111)</u>	<u>982</u>	<u>(168,877)</u>
Total capital assets, being depreciated, net	267,074	(569)	(29)	266,476
Capital assets, not being depreciated:				
Land	<u>9,669</u>	<u>-</u>	<u>-</u>	<u>9,669</u>
Total capital assets, not being depreciated	<u>9,669</u>	<u>-</u>	<u>-</u>	<u>9,669</u>
Governmental activities capital assets, net	<u>\$ 276,743</u>	<u>\$ (569)</u>	<u>\$ (29)</u>	<u>\$ 276,145</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 2,076	\$ -	-	\$ 2,076
Machinery, equipment, and furnishings	434	-	-	434
Land improvements	38	-	-	38
Infrastructure	<u>1,851</u>	<u>-</u>	<u>-</u>	<u>1,851</u>
Total capital assets, being depreciated	4,399	-	-	4,399
Less accumulated depreciation for:				
Buildings and improvements	(871)	(42)	-	(913)
Machinery, equipment, and furnishings	(408)	(6)	-	(414)
Land improvements	(38)	-	-	(38)
Infrastructure	<u>(646)</u>	<u>(159)</u>	<u>-</u>	<u>(805)</u>
Total accumulated depreciation	<u>(1,963)</u>	<u>(207)</u>	<u>-</u>	<u>(2,170)</u>
Total capital assets, being depreciated, net	<u>2,436</u>	<u>(207)</u>	<u>-</u>	<u>2,229</u>
Business-type activities capital assets, net	<u>\$ 2,436</u>	<u>\$ (207)</u>	<u>\$ -</u>	<u>\$ 2,229</u>

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

Governmental Activities:	
General government	\$ 2,468
Public safety	1,140
Education	6,693
Public works	1,455
Culture and recreation	<u>355</u>
Total depreciation expense - governmental activities	\$ <u>12,111</u>
Business-Type Activities:	
Marina	\$ <u>207</u>
Total depreciation expense - business-type activities	\$ <u>207</u>

**9. Deferred Outflows of Resources**

Deferred outflows of resources represent the consumption of net assets by the City that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. The City reports deferred outflows of resources which is attributable to changes in the net pension liability. These deferred outflows of resources will be recognized in pension expense over the next four years and is more fully described in Note 20.

**10. Warrants and Accounts Payable**

Warrants payable represent 2017 expenditures paid by July 15, 2017. Accounts payable represent additional 2017 expenditures paid after July 15, 2017.

**11. Tax Refunds Payable**

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

## 12. Capital Lease Obligations

The City is the lessee of certain equipment under capital leases expiring in various years through 2030. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2017:

<u>Fiscal Year</u>	<u>Present Value of Minimum Lease Payments</u>	<u>Interest Payments</u>	<u>Total Lease Payments</u>
2018	\$ 1,033,433	\$ 316,379	\$ 1,349,812
2019	930,852	282,647	1,213,499
2020	759,704	254,437	1,014,141
2021	781,374	232,767	1,014,141
2022	803,666	210,475	1,014,141
2023 - 2027	4,375,831	694,874	5,070,705
2028 - 2030	<u>2,223,033</u>	<u>119,423</u>	<u>2,342,456</u>
Total	\$ <u>10,907,893</u>	\$ <u>2,111,002</u>	\$ <u>13,018,895</u>

## 13. Long-Term Debt

### A. General Obligation Bonds

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

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/17
<u>Governmental Activities:</u>			
School Gen obligation refunding bonds	09/01/17	2.0 - 4.0	\$ 590,000
General obligation refunding bonds	12/01/17	2.0 - 5.0	1,755,000
Public improvements refunding	09/01/19	3.0	35,400
Recreational facilities refunding	09/01/19	3.0	922,900
Police station refunding	09/01/20	2.0 - 3.0	530,000
Police station refunding	09/01/24	2.0 - 4.0	5,784,600
Police station refunding	09/01/25	2.0 - 4.0	1,167,100
General obligation bonds	06/01/26	2.25 - 3.9	900,000
Remodeling	07/15/27	4.0 - 6.0	5,290,000
Pine Grove Cemetery	03/01/28	3.0 - 5.0	605,000
General obligation bonds	06/01/28	2.0 - 3.0	1,700,000
Power lines	09/01/28	2.0 - 4.0	2,190,000
Classical High School	03/01/29	3.0 - 5.0	2,520,000
General obligation school bond	09/01/38	2.0 - 5.0	8,995,000
Marshall Middle School	06/01/39	3.0 - 5.0	<u>29,745,000</u>
Total Governmental Activities			\$ <u>62,730,000</u>

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/17
<u>Business-Type Activities:</u>			
Marina	2/1/2014*	7.0	\$ 929,675
Marina	04/14/26	4.5	<u>145,470</u>
Total Business-Type Activities			\$ <u>1,075,145</u>

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

**B. Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2017 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 6,150,000	\$ 2,311,376	\$ 8,461,376
2019	3,805,000	2,116,657	5,921,657
2020	3,835,000	1,967,538	5,802,538
2021	3,550,000	1,819,248	5,369,248
2022	3,470,000	1,680,948	5,150,948
2023 - 2027	15,725,000	6,282,221	22,007,221
2028 - 2032	10,370,000	3,835,088	14,205,088
2033 - 2037	10,895,000	2,095,656	12,990,656
2038 - 2039	<u>4,930,000</u>	<u>264,616</u>	<u>5,194,616</u>
Total	<u>\$ 62,730,000</u>	<u>\$ 22,373,348</u>	<u>\$ 85,103,348</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 943,410	\$ 521,460	\$ 1,464,870
2019	14,366	5,634	20,000
2020	15,026	4,974	20,000
2021	15,716	4,284	20,000
2022	16,438	3,562	20,000
2023 - 2026	<u>70,189</u>	<u>6,349</u>	<u>76,538</u>
Total	<u>\$ 1,075,145</u>	<u>\$ 546,263</u>	<u>\$ 1,621,408</u>

The general fund has been designated as the source to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2017.

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

During the year ended June 30, 2017, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/16	Additions	Reductions	Total Balance 6/30/17	Less Current Portion	Equals Long-Term Portion 6/30/17
<u>Governmental Activities</u>						
Bonds payable	\$ 72,920	\$ -	(10,190)	\$ 62,730	\$ (6,150)	\$ 56,580
Unamortized bond premium	<u>2,487</u>	-	<u>(356)</u>	<u>2,131</u>	<u>(356)</u>	<u>1,775</u>
Subtotal	75,407	-	(10,546)	64,861	(6,506)	58,355
Other:						
Capital leases	11,868	53	(1,013)	10,908	(1,033)	9,875
Accrued employee benefits	2,914	874	-	3,788	(379)	3,409
Workers compensation	<u>1,391</u>	<u>335</u>	-	<u>1,726</u>	<u>(173)</u>	<u>1,553</u>
Subtotal	16,173	1,262	(1,013)	16,422	(1,585)	14,837
Net OPEB obligation	206,238	34,393	(17,467)	223,164	-	223,164
Net pension liability	<u>285,870</u>	-	<u>(338)</u>	<u>285,532</u>	-	<u>285,532</u>
Totals	<u>\$ 583,688</u>	<u>\$ 35,655</u>	<u>\$ (29,364)</u>	<u>\$ 589,979</u>	<u>\$ (8,091)</u>	<u>\$ 581,888</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 1,088	\$ -	\$ (13)	\$ 1,075	\$ (943)	\$ 132
Totals	<u>\$ 1,088</u>	<u>\$ -</u>	<u>\$ (13)</u>	<u>\$ 1,075</u>	<u>\$ (943)</u>	<u>\$ 132</u>

#### **14. Deferred Inflows of Resources**

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

#### **15. Restricted Net Position**

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

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

#### **16. Governmental Funds - Balances**

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

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

The following types of fund balances are reported at June 30, 2017:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for a NOAA Marina loan and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes capital projects funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

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

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

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

Following is a breakdown of the City's fund balances at June 30, 2017:

	General Fund	HOME Program	Permanent Funds	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>					
NOAA Marina loan	\$ 929,675	\$ -	\$ -	\$ -	\$ 929,675
Nonspendable permanent funds	-	-	7,504,355	-	7,504,355
Total Nonspendable	929,675	-	7,504,355	-	8,434,030
<b>Restricted</b>					
Circuit breaker (special education)	-	-	-	1,538,297	1,538,297
School lunch	-	-	-	3,703,621	3,703,621
Other school revolving	-	-	-	1,132,787	1,132,787
City federal grants	-	-	-	153,079	153,079
School federal grants	-	-	-	790,779	790,779
City state grants and contributions	-	-	-	1,550,771	1,550,771
School state grants and contributions	-	-	-	92,255	92,255
Cemetery	-	-	-	820,610	820,610
Golf course	-	-	-	720,373	720,373
Sale of public property	-	-	-	447,354	447,354
Insurance refunds	-	-	-	315,571	315,571
Parks and recreation	-	-	-	368,906	368,906
Memorial Auditorium	-	-	-	547,540	547,540
Cable access	-	-	-	357,450	357,450
Other miscellaneous grants and contributions	-	-	-	2,589,386	2,589,386
Other school miscellaneous grants and contributions	-	-	-	1,434,428	1,434,428
Lynn Housing Authority	-	-	-	244,861	244,861
HOME Program	-	164,556	-	-	164,556
School capital projects	-	-	-	2,597,758	2,597,758
Various city capital projects	-	-	-	13,833	13,833
Expendable permanent funds	-	-	-	558,265	558,265
Total Restricted	-	164,556	-	19,977,924	20,142,480
<b>Committed</b>					
Pickering MS capital project	-	-	-	134,248	134,248
Other city capital projects	-	-	-	66,959	66,959
Total Committed	-	-	-	201,207	201,207
<b>Assigned</b>					
For encumbrances:					
General government	1,118,990	-	-	-	1,118,990
Public safety	363,244	-	-	-	363,244
Education	6,738,068	-	-	-	6,738,068
Public works	479,991	-	-	-	479,991
Health and human services	5,838	-	-	-	5,838
Culture and recreation	23,747	-	-	-	23,747
Employee benefits	8,178	-	-	-	8,178
Total Assigned	8,738,056	-	-	-	8,738,056
Unassigned	4,546,898	-	-	(187,426)	4,359,472
Total Fund Balance	\$ 14,214,629	\$ 164,556	\$ 7,504,355	\$ 19,991,705	\$ 41,875,245

## 17. **Subsequent Events**

In March of 2018, House docket number 4302 was filed with the Commonwealth of Massachusetts relative to the financial condition of the City of Lynn. The legislation, among other things, authorizes the City to borrow up to \$14,000,000 to achieve a balanced budget in fiscal years 2018 and 2019.

## 18. **Commitments and Contingencies**

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

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

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

Net School Spending – In 2016 the City did not meet its required Net School Spending (NSS), resulting in a penalty of \$825,689 which was deducted from Chapter 70 revenue received in fiscal year 2017. In 2017 the City did not meet its required NSS by \$2,421,022, which is being deducted from Chapter 70 revenue in fiscal year 2018. The amounts appropriated for fiscal year 2018 indicate that the City anticipates meeting its NSS requirement for this fiscal year.

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

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

A. Plan Description

In addition to providing the pension benefits described, the City provides post-employment healthcare and life insurance benefits for retired employees through the City's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2016, the actuarial valuation date, approximately 2,041 retirees and 1,906 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

Retirees contribute various amounts based on active blended rates of the cost of the health plan, as determined by the City. The City contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The City's fiscal year 2017 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years.

The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2017, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of June 30, 2016 (in thousands):

Annual Required Contribution (ARC)	\$ 33,580
Interest on net OPEB obligation	7,218
Adjustment to ARC	<u>(6,405)</u>
Annual OPEB cost	34,393
Contributions made	<u>(17,467)</u>
Increase in net OPEB obligation	16,926
Net OPEB obligation - beginning of year	<u>206,238</u>
Net OPEB obligation - end of year	<u>\$ 223,164</u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$ 34,393	50.79%	\$ 223,164
2016	\$ 33,143	49.59%	\$ 206,238
2015	\$ 44,699	33.71%	\$ 189,529
2014	\$ 42,683	39.70%	\$ 159,900
2013	\$ 43,414	35.83%	\$ 134,162
2012	\$ 41,444	33.36%	\$ 106,303

The City's net OPEB obligation as of June 30, 2017 is recorded as a noncurrent liability.

*E. Funded Status and Funding Progress*

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

Actuarial accrued liability (AAL)	\$ 602,775
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 602,775</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 160,409</u>
UAAL as a percentage of covered payroll	<u>375.8%</u>

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

#### F. Actuarial Methods and Assumptions

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

In the June 30, 2016 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined, as the City has not advanced funded its obligation. The actuarial assumptions included a 3.5% investment rate of return and an initial annual healthcare cost trend rate of 6.0% which decreases to a 4.5% long-term rate for all healthcare benefits after five years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.0%.

## **20. Retirement System**

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

### A. Plan Description

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

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

The System is governed by a five-member board. The five members include two appointed by the City, two elected by the members and retirees, and a fifth member chosen by the other four members with the approval of the Public Employee Retirement Administration Commission. The System Retirement Board does not have the authority to amend benefit provisions.

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

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

#### Participant Retirement Benefits

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

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

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

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

#### Participant Refunds

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

#### Participants Contributions

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

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

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

#### Employer Contributions

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

The City's contribution to the System for the year ended June 30, 2017 was \$27,227,177, which was equal to its annual required contribution.

*B. Summary of Significant Accounting Policies*

The accounting policies of the System as reflected in the accompanying financial statements for the year ended June 30, 2017 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

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

Investments

*Investment Policy*

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

*Rate of Return*

For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 7.51%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

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

C. Net Pension Liability of Participating Employers

The net pension liability was based on an actuarial valuation dated January 1, 2015, and rolled forward to December 31, 2016.

Net Pension Liability of Employers

The components of the net pension liability of the participating employers at June 30, 2017 were as follows (in thousands):

Total pension liability	\$ 629,130
Plan fiduciary net position	<u>(306,313)</u>
Employers' net pension liability	<u>\$ 322,817</u>
Plan fiduciary net position as a percentage of total pension liability	48.69%

Actuarial Assumptions

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

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

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

Mortality rates were based on pre-retirement rates that reflect the RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct). Post retirement rates reflect the RP-2000 Healthy

Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct). For disabled retirees, this table is set forward 3 years.

### Target Allocations

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
International equity	22.00%	8.75%
Domestic equity	18.00%	7.63%
Core Fixed Income	13.00%	3.76%
Value-added Fixed Income	10.00%	6.45%
Private equity	10.00%	9.50%
Real estate	10.00%	6.50%
Hedge funds	9.00%	6.80%
Timber/Natural Resources	4.00%	7.07%
Portfolio completion strategies	4.00%	6.18%
Total	<u>100.00%</u>	

### Discount Rate

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

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.60%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.60%) or one percentage-point higher (8.60%) than the current rate (in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.60%)</u>	<u>Current Discount Rate (7.60%)</u>	<u>1% Increase (8.60%)</u>
December 31, 2015	\$ 348,987	% 285,532	\$ 231,837

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

At June 30, 2017, the City reported a liability of \$ 285,532,000 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2016, the City's proportion was 88.45%.

For the year ended June 30, 2017, the City recognized pension expense of \$32,681,000. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences between expected and actual experience	\$ -	\$ (991)
Net difference between projected and actual earnings on pension plan investments	10,737	-
Changes in proportions and contributions	369	(564)
Changes of assumptions	12,246	-
Total	<u>\$ 23,352</u>	<u>\$ (1,555)</u>

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

Year ended June 30:	<u>Outflows (Inflows) of Resources</u>
2018	\$ 7,584
2019	7,584
2020	6,296
2021	<u>333</u>
Total	<u>\$ 21,797</u>

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

### A. Plan Description

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

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

### B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired

after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

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

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

*C. Contributions*

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

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

*D. Actuarial Assumptions*

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. This valuation used the following assumptions:

- (a) 7.50% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase per year on the first \$13,000 per year.
- Salary increases are based on analyses of past experience, but range from 4.00% to 7.50%, depending on length of service.

- Mortality rates were as follows:
  - Pre-retirement - reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct)
  - Post-retirement - reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct)
  - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 set forward 4 years.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund’s target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.0%	6.9%
Core fixed income	13.0%	1.6%
Private equity	10.0%	8.7%
Real estate	10.0%	4.6%
Value added fixed income	10.0%	4.8%
Hedge funds	9.0%	4.0%
Portfolio completion strategies	4.0%	3.6%
Timber/natural resources	4.0%	5.4%
Total	<u>100.0%</u>	

*E. Discount Rate*

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

*F. Sensitivity Analysis*

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

<u>1% Decrease to (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase to (8.50%)</u>
\$ 27,464,000	\$ 22,357,928	\$ 18,022,000

*G. Special Funding Situation*

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

*H. City Proportions*

In fiscal year 2017 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense that is associated with the City was \$323,521,810 and \$33,001,346 respectively, based on a proportionate share of 1.447012%. As required by GASB 68, the City has recognized its portion of the collective pension expense as both a revenue and expenditure in the general fund.

**22. Self-Insurance**

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

Health Insurance

The City contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the City is liable for all claims. The claims liability represents an estimate of claims incurred but unpaid at year-end, based on past historical costs and claims paid subsequent to year-end.

Changes in the aggregate liability for claims for the year ended June 30, 2017 are as follows:

	<u>Health Coverage</u>
Claims liability, beginning of year	\$ 7,911,009
Claims incurred/recognized in fiscal year 2017	52,191,028
Claims paid in fiscal year 2017	<u>(53,188,165)</u>
Claims liability, end of year	<u>\$ 6,913,872</u>

The \$3,277,471 estimated liability for claims incurred but not reported includes only an estimate for known loss events expected to later be presented as claims. The City is unable to estimate the amount of unknown loss events expected to become claims and expected future developments on claims already reported.

### 23. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

### 24. Beginning Fund Balance Reclassification

The City's major governmental funds for fiscal year 2017, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

Fund Basis Financial Statements:

	<u>Permanent Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
As previously reported	\$ -	\$ 27,584,994	\$ 27,584,994
Reclass major funds	<u>7,352,754</u>	<u>(7,352,754)</u>	<u>-</u>
As restated	<u>\$ 7,352,754</u>	<u>\$ 20,232,240</u>	<u>\$ 27,584,994</u>

**25. Implementation of New GASB Standard**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, replacing requirements of Statements No. 45 and 57, effective for the City beginning with its year ending June 30, 2018. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB.

**CITY OF LYNN, MASSACHUSETTS**  
**SCHEDULE OF PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY (GASB 68)**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2017**  
**(Unaudited)**  
**(Amounts expressed in thousands)**

Lynn Contributory Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	December 31, 2016	88.45%	\$ 285,532	\$ 64,858	440.24%	48.69%
June 30, 2016	December 31, 2015	88.29%	\$ 285,870	\$ 64,858	440.76%	46.65%
June 30, 2015	December 31, 2014	88.63%	\$ 255,044	\$ 61,856	412.32%	49.31%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the City</u>	<u>Total Net Pension Liability Associated with the City</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	June 30, 2016	1.447012%	\$ -	\$ 323,522	\$ 323,522	\$ 95,853	0.00%	52.73%
June 30, 2016	June 30, 2015	1.457250%	\$ -	\$ 298,585	\$ 298,585	\$ 92,373	0.00%	55.38%
June 30, 2015	June 30, 2014	1.384225%	\$ -	\$ 220,041	\$ 220,041	\$ 84,874	0.00%	61.64%

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

See Independent Auditors' Report.

**CITY OF LYNN, MASSACHUSETTS**

**SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)  
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2017  
(Unaudited)**

**(Amounts expressed in thousands)**

Lynn Contributory Retirement System					
<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2017	\$ 27,227	\$ 27,227	\$ -	\$ 73,460	37.06%
June 30, 2016	\$ 26,094	\$ 26,094	\$ -	\$ 73,460	35.52%
June 30, 2015	\$ 25,193	\$ 25,193	\$ -	\$ 69,791	36.10%

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

See Independent Auditors' Report.

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

**Schedule of Changes in the Net Pension Liability (GASB 67)**

(Unaudited)  
(Amounts expressed in thousands)

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

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

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

See Independent Auditors' Report.

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

**Schedules of Net Pension Liability, Contributions, and Investment Returns (GASB 67)**

(Unaudited)  
(Amounts expressed in thousands)

**Schedule of Net Pension Liability**

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

**Schedule of Contributions**

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

**Schedule of Investment Returns**

*Year Ended December 31*

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

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

See Independent Auditors' Report.

**CITY OF LYNN, MASSACHUSETTS**  
**SCHEDULE OF OPEB FUNDING PROGRESS (GASB 45)**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2017**

**(Unaudited)**

**(Amounts expressed in thousands)**

**Other Post-Employment Benefits**

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

See Independent Auditors' Report.