

TOWN OF LYNNFIELD, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2014

Town of Lynnfield, Massachusetts

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Lynnfield, 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 Town of Lynnfield, Massachusetts, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Town'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.

Auditor's 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 auditor's 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 Town of Lynnfield, Massachusetts, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014 on our consideration of the Town'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 Town's internal control over financial reporting and compliance.

Melanson Heath

December 15, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Lynnfield, Massachusetts we offer readers this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2014.

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 and liabilities, with the difference between the two 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 Town'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, insurance and benefits, interest on debt, and intergovernmental assessments. The business-type activity includes Golf Course 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 funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

Proprietary funds. Proprietary funds are maintained as follows:

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

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 information for the Golf Course operation, 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 Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$48,702,671 (i.e., net position), a change of \$(202,381) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported a combined ending fund balance of \$8,852,943, a change of \$776,879 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,249,849, a change of \$(75,263) in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$23,640,819, a change of \$(2,237,600) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 14,081	\$ 12,229	\$ 271	\$ 339	\$ 14,352	\$ 12,568
Capital assets	<u>71,027</u>	<u>70,822</u>	<u>13,029</u>	<u>13,064</u>	<u>84,056</u>	<u>83,886</u>
Total assets	85,108	83,051	13,300	13,403	98,408	96,454
Current liabilities	5,505	5,184	659	652	6,164	5,836
Noncurrent liabilities	36,304	33,890	7,006	7,560	43,310	41,450
Deferred inflows	<u>232</u>	<u>264</u>	<u>-</u>	<u>-</u>	<u>232</u>	<u>264</u>
Total liabilities and deferred inflows	42,041	39,338	7,665	8,212	49,706	47,550
Net position:						
Net investment in capital assets	54,316	52,661	5,476	4,976	59,792	57,637
Restricted	4,969	4,515	-	-	4,969	4,515
Unrestricted	<u>(16,218)</u>	<u>(13,463)</u>	<u>159</u>	<u>215</u>	<u>(16,059)</u>	<u>(13,248)</u>
Total net position	<u>\$ 43,067</u>	<u>\$ 43,713</u>	<u>\$ 5,635</u>	<u>\$ 5,191</u>	<u>\$ 48,702</u>	<u>\$ 48,904</u>

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,854	\$ 3,675	\$ 509	\$ 507	\$ 4,363	\$ 4,182
Operating grants and contributions	10,736	10,722	-	-	10,736	10,722
Capital grants and contributions	602	1,761	-	-	602	1,761
General revenues:						
Property taxes	35,531	33,859	-	-	35,531	33,859
Excises	2,586	2,282	-	-	2,586	2,282
Penalties and interest on taxes	552	468	-	-	552	468
Grants and contributions not restricted to specific programs	1,011	1,022	-	-	1,011	1,022
Investment income	21	4	1	1	22	5
Other	<u>2,632</u>	<u>1,459</u>	<u>-</u>	<u>968</u>	<u>2,632</u>	<u>2,427</u>
Total revenues	57,525	55,252	510	1,476	58,035	56,728
Expenses:						
General government	2,081	1,961	-	-	2,081	1,961
Public safety	4,968	4,707	-	-	4,968	4,707
Education	32,143	31,410	-	-	32,143	31,410
Public works	6,585	6,035	-	-	6,585	6,035
Health and human services	572	547	-	-	572	547
Culture and recreation	908	846	-	-	908	846
Insurance and benefits	9,016	8,161	-	-	9,016	8,161
Interest on long-term debt	607	915	-	-	607	915
Intergovernmental	399	400	-	-	399	400
Golf course	<u>-</u>	<u>-</u>	<u>881</u>	<u>887</u>	<u>881</u>	<u>887</u>
Total expenses	<u>57,279</u>	<u>54,982</u>	<u>881</u>	<u>887</u>	<u>58,160</u>	<u>55,869</u>
Change in net position before transfers and permanent fund contributions	246	270	(371)	589	(125)	859
Transfers in (out)	(915)	(813)	815	813	(100)	-
Permanent fund contributions	<u>23</u>	<u>23</u>	<u>-</u>	<u>-</u>	<u>23</u>	<u>23</u>
Change in net position	(646)	(520)	444	1,402	(202)	882
Net position - beginning of year	<u>43,713</u>	<u>44,233</u>	<u>5,191</u>	<u>3,789</u>	<u>48,904</u>	<u>48,022</u>
Net position - end of year	<u>\$ 43,067</u>	<u>\$ 43,713</u>	<u>\$ 5,635</u>	<u>\$ 5,191</u>	<u>\$ 48,702</u>	<u>\$ 48,904</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$48,702,671, a change of \$(202,381) from the prior year.

The largest portion of net position, \$59,793,018, reflects our investment in capital assets (e.g., land and construction in progress, land improvements, buildings and improvements, machinery, equipment and furnishings, and infrastructure), less any

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

An additional portion of net position \$4,968,768 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit balance of \$(16,059,115), which is primarily caused by the Town's unfunded other post-employment benefit (OPEB) costs.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(645,962). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 52,669
Capital additions funded by free cash and other operating monies	917,079
Emergency Medical Services fund change in fund balance (accrual basis)	38,856
Sale of Real Estate fund change in fund balance (accrual basis)	131,750
Major capital project funds change in fund balances (accrual basis)	2,481,501
Nonmajor funds change in fund balance (accrual basis)	1,200,108
Depreciation expense in excess of principal debt service	(1,217,505)
Change in other post-employment benefit liability	(3,978,132)
Other revenue and expense accruals	<u>(272,288)</u>
Total	\$ <u><u>(645,962)</u></u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$443,581. Key elements of this change are as follows:

Golf Course operations	\$ <u>443,581</u>
Total	\$ <u><u>443,581</u></u>

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 \$8,852,943, a change of \$776,879 in comparison to the prior year. Key elements of this change are as follows:

General fund change in fund balance (explained in more detail below)	\$ 52,669
Emergency Medical Services fund change in fund balance	(51,127)
Sale of Real Estate fund change in fund balance	(768,250)
Major capital project funds change in fund balances	1,341,912
Nonmajor funds change in fund balance	<u>201,675</u>
Total	<u><u>\$ 776,879</u></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 \$3,249,849, while total fund balance was \$4,559,428. 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>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 3,249,849	\$ 3,325,112	\$ (75,263)	6.7%
Total fund balance	\$ 4,559,428	\$ 4,506,759	\$ 52,669	9.3%

The total fund balance of the general fund changed by \$52,669 during the current fiscal year. Key factors in this change are as follows:

Use of free cash as a funding source	\$ (1,015,367)
Revenues in excess of budget	664,601
Expenditures less than budget	441,783
Current year encumbrances less than prior year encumbrances	(171,114)
Change in stabilization funds balance	(9,811)
Other	<u>142,577</u>
Total	<u><u>\$ 52,669</u></u>

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

	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>
General stabilization fund	\$ 982,226	\$ 972,642	\$ 9,584
Capital facilities maintenance fund	<u>580,245</u>	<u>599,640</u>	<u>(19,395)</u>
Total	<u>\$ 1,562,471</u>	<u>\$ 1,572,282</u>	<u>\$ (9,811)</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 Golf Course enterprise fund at the end of the year amounted to \$158,798, a change of \$(56,215) in comparison to the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$47,643. This change was funded by the appropriation of prior year bond premiums and transfers from 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 \$84,056,352 (net of accumulated depreciation), a change of \$170,823 from the prior year. This investment in capital assets includes land and construction in progress, land improvements, buildings and building improvements, machinery, equipment and furnishings, and infrastructure assets.

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

- \$1,993,503 of construction in progress for outdoor recreational and athletic facilities, fire station improvements, and other projects.
- \$648,089 for various building improvements and departmental machinery, equipment, and furnishings, including police vehicles, cardiac monitors, school technology, highway trucks, and a senior center van.
- \$503,492 for various road and drainage improvements.
- \$(18,952) for loss on disposal of various capital assets.
- \$(2,955,309) for total current year depreciation expense.

Change in credit rating. During the fiscal year, the Town's Standard and Poor's credit rating was upgraded from AA to AA+.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$23,640,819, all of which was backed by the full faith and credit of the government.

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

REQUESTS FOR INFORMATION

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

Office of Asst. Finance Director/Town Accountant
Town of Lynnfield, Massachusetts
55 Summer Street
Lynnfield, Massachusetts 01940

TOWN OF LYNNFIELD, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 9,316,940	\$ 270,938	\$ 9,587,878
Investments	2,282,561	-	2,282,561
Note receivable	900,000	-	900,000
Receivables, net of allowance for uncollectibles:			
Property taxes	506,614	-	506,614
Excises	126,554	-	126,554
Intergovernmental	416,538	-	416,538
Departmental and other	96,579	-	96,579
Betterments	15,293	-	15,293
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	203,936	-	203,936
Betterments	216,599	-	216,599
Land and construction in progress	12,432,949	12,586,893	25,019,842
Capital assets, net of accumulated depreciation	<u>58,593,935</u>	<u>442,575</u>	<u>59,036,510</u>
TOTAL ASSETS	85,108,498	13,300,406	98,408,904
LIABILITIES			
Current:			
Warrants and accounts payable	1,344,939	2,655	1,347,594
Accrued liabilities	548,899	102,724	651,623
Notes payable	1,147,037	-	1,147,037
Other current liabilities	625,909	-	625,909
Current portion of long-term liabilities:			
Bonds payable	1,628,611	554,000	2,182,611
Compensated absences	209,354	-	209,354
Noncurrent:			
Bonds payable, net of current portion	14,452,208	7,006,000	21,458,208
Compensated absences, net of current portion	424,589	-	424,589
Other post-employment benefits	21,427,416	-	21,427,416
DEFERRED INFLOWS OF RESOURCES	<u>231,892</u>	<u>-</u>	<u>231,892</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	42,040,854	7,665,379	49,706,233
NET POSITION			
Net investment in capital assets	54,316,789	5,476,229	59,793,018
Restricted for:			
Grants and other statutory restrictions	4,114,858	-	4,114,858
Permanent funds:			
Nonexpendable	824,025	-	824,025
Expendable	29,885	-	29,885
Unrestricted	<u>(16,217,913)</u>	<u>158,798</u>	<u>(16,059,115)</u>
TOTAL NET POSITION	\$ <u>43,067,644</u>	\$ <u>5,635,027</u>	\$ <u>48,702,671</u>

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

TOWN OF LYNNFIELD, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

	<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>
Governmental Activities:							
General government	\$ 2,080,661	\$ 274,134	\$ 426,832	\$ -	\$ (1,379,695)	\$ -	\$ (1,379,695)
Public safety	4,968,269	1,137,462	365,499	-	(3,465,308)	-	(3,465,308)
Education	32,142,504	2,169,241	9,630,768	115,790	(20,226,705)	-	(20,226,705)
Public works	6,585,036	78,310	223,863	486,291	(5,796,572)	-	(5,796,572)
Health and human services	572,096	92,196	39,043	-	(440,857)	-	(440,857)
Culture and recreation	908,344	103,152	49,786	-	(755,406)	-	(755,406)
Insurance and benefits	9,015,854	-	-	-	(9,015,854)	-	(9,015,854)
Interest	607,393	-	-	-	(607,393)	-	(607,393)
Intergovernmental	398,616	-	-	-	(398,616)	-	(398,616)
Total Governmental Activities	57,278,773	3,854,495	10,735,791	602,081	(42,086,406)	-	(42,086,406)
Business-Type Activities:							
Golf Course	880,903	509,133	-	-	-	(371,770)	(371,770)
Total Business-Type Activities	880,903	509,133	-	-	-	(371,770)	(371,770)
Total	\$ 58,159,676	\$ 4,363,628	\$ 10,735,791	\$ 602,081	(42,086,406)	(371,770)	(42,458,176)
General Revenues, Transfers, and Contributions:							
Property taxes					35,530,602	-	35,530,602
Excises					2,586,452	-	2,586,452
Penalties, interest and other taxes					551,830	-	551,830
Grants and contributions not restricted to specific programs					1,011,292	-	1,011,292
Investment income					20,617	677	21,294
Other					2,631,750	-	2,631,750
Transfers, net					(914,674)	814,674	(100,000)
Permanent fund contributions					22,575	-	22,575
Total general revenues, transfers, and contributions					41,440,444	815,351	42,255,795
Change in Net Position					(645,962)	443,581	(202,381)
Net Position:							
Beginning of year					43,713,606	5,191,446	48,905,052
End of year					\$ 43,067,644	\$ 5,635,027	\$ 48,702,671

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

TOWN OF LYNNFIELD, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	General Fund	Emergency Medical Services	Sale of Real Estate	FY12 Capital Plan	Outdoor Recreation Facilities	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS							
Cash and short-term investments	\$ 4,223,774	\$ 44,273	\$ 525,548	\$ 57,188	\$ 2,196,533	\$ 2,269,624	\$ 9,316,940
Investments	1,472,912	-	-	-	-	809,649	2,282,561
Note receivable	-	-	900,000	-	-	-	900,000
Receivables:							
Property taxes	800,814	-	-	-	-	-	800,814
Excises	182,671	-	-	-	-	-	182,671
Intergovernmental	-	-	-	-	-	416,538	416,538
Departmental and other	1,600	94,908	-	-	-	71	96,579
TOTAL ASSETS	\$ 6,681,771	\$ 139,181	\$ 1,425,548	\$ 57,188	\$ 2,196,533	\$ 3,495,882	\$ 13,996,103
LIABILITIES							
Warrants payable	\$ 481,061	\$ 2,278	\$ -	\$ 22,322	\$ 747,420	\$ 91,858	\$ 1,344,939
Accrued liabilities	293,608	-	-	-	-	14,924	308,532
Notes payable	-	-	-	1,147,037	-	-	1,147,037
Other liabilities	625,909	-	-	-	-	-	625,909
TOTAL LIABILITIES	1,400,578	2,278	-	1,169,359	747,420	106,782	3,426,417
DEFERRED INFLOWS OF RESOURCES	721,765	94,908	900,000	-	-	70	1,716,743
FUND BALANCES							
Nonspendable	-	-	-	-	-	824,025	824,025
Restricted	-	41,995	525,548	-	-	2,755,202	3,322,745
Committed	203,595	-	-	-	1,449,113	-	1,652,708
Assigned	1,105,984	-	-	-	-	-	1,105,984
Unassigned	3,249,849	-	-	(1,112,171)	-	(190,197)	1,947,481
TOTAL FUND BALANCES	4,559,428	41,995	525,548	(1,112,171)	1,449,113	3,389,030	8,852,943
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 6,681,771	\$ 139,181	\$ 1,425,548	\$ 57,188	\$ 2,196,533	\$ 3,495,882	\$ 13,996,103

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

TOWN OF LYNNFIELD, MASSACHUSETTS

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

JUNE 30, 2014

Total governmental fund balances	\$ 8,852,943
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	71,026,884
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,570,362
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(240,367)
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(38,142,178)</u>
Net position of governmental activities	<u><u>\$ 43,067,644</u></u>

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

TOWN OF LYNNFIELD, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Emergency Medical Services	Sale of Real Estate	FY12 Capital Plan	Outdoor Recreation Facilities	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:							
Property taxes	\$ 35,639,858	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,639,858
Excises	2,627,824	-	-	-	-	-	2,627,824
Penalties, interest and other taxes	149,774	-	-	-	-	46,451	196,225
Payments in lieu of taxes	355,535	-	-	-	-	-	355,535
Charges for services	416,482	638,525	-	-	-	2,215,141	3,270,148
Intergovernmental	9,307,807	-	-	-	-	2,285,928	11,593,735
Licenses and permits	592,594	-	-	-	-	-	592,594
Fines and forfeitures	83,435	-	-	-	-	-	83,435
Investment income	20,617	256	-	-	-	8,678	29,551
Miscellaneous	-	-	1,731,750	-	-	682,417	2,414,167
Total Revenues	49,193,926	638,781	1,731,750	-	-	5,238,615	56,803,072
Expenditures:							
Current:							
General government	2,035,120	-	-	-	1,050,887	214,697	3,300,704
Public safety	4,006,765	689,908	-	71,081	-	301,171	5,068,925
Education	27,678,231	-	-	-	-	3,037,184	30,715,415
Public works	6,276,072	-	-	36,120	-	600,793	6,912,985
Health and human services	390,812	-	-	-	-	139,137	529,949
Culture and recreation	764,384	-	-	-	-	118,367	882,751
Insurance and benefits	5,037,722	-	-	-	-	-	5,037,722
Debt service	2,264,452	-	-	-	-	-	2,264,452
Intergovernmental	398,616	-	-	-	-	-	398,616
Total Expenditures	48,852,174	689,908	-	107,201	1,050,887	4,411,349	55,111,519
Excess (deficiency) of revenues over expenditures	341,752	(51,127)	1,731,750	(107,201)	(1,050,887)	827,266	1,691,553
Other Financing Sources (Uses):							
Transfers in	660,591	-	-	-	2,500,000	35,000	3,195,591
Transfers out	(949,674)	-	(2,500,000)	-	-	(660,591)	(4,110,265)
Total Other Financing Sources (Uses)	(289,083)	-	(2,500,000)	-	2,500,000	(625,591)	(914,674)
Change in fund balance	52,669	(51,127)	(768,250)	(107,201)	1,449,113	201,675	776,879
Fund Equity, at Beginning of Year, as restated	4,506,759	93,122	1,293,798	(1,004,970)	-	3,187,355	8,076,064
Fund Equity, at End of Year	\$ 4,559,428	\$ 41,995	\$ 525,548	\$ (1,112,171)	\$ 1,449,113	\$ 3,389,030	\$ 8,852,943

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

TOWN OF LYNNFIELD, 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, 2014

Net changes in fund balances - total governmental funds	\$ 776,879
<ul style="list-style-type: none">Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Capital outlay purchases	3,145,084
Capital outlay disposals	(18,952)
Depreciation	(2,921,105)
<ul style="list-style-type: none">Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.	
	744,414
<ul style="list-style-type: none">The issuance of long-term debt (e.g., bonds) 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:	
Repayments of debt	1,703,600
<ul style="list-style-type: none">In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	
	(46,541)
<ul style="list-style-type: none">Some expenses reported in the Statement of Activities, such as compensated absences and OPEB, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.	
	<u>(4,029,341)</u>
Change in net position of governmental activities	\$ <u>(645,962)</u>

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

TOWN OF LYNNFIELD, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues and Other Sources:				
Property taxes	\$ 35,464,334	\$ 35,464,334	\$ 35,464,334	\$ -
Excises	2,273,299	2,273,299	2,627,824	354,525
Penalties, interest and other taxes	101,000	101,000	149,774	48,774
Payments in lieu of taxes	360,000	360,000	355,535	(4,465)
Charges for services	424,000	424,000	416,482	(7,518)
Intergovernmental	4,975,676	4,975,676	5,026,504	50,828
Licenses and permits	375,000	375,000	592,594	217,594
Fines and forfeits	80,000	80,000	83,435	3,435
Investment income	4,000	4,000	5,428	1,428
Transfers in	672,948	685,591	685,591	-
Debt premiums	-	35,000	35,000	-
Use of free cash	<u>1,015,367</u>	<u>1,015,367</u>	<u>1,015,367</u>	<u>-</u>
Total Revenues and Other Sources	45,745,624	45,793,267	46,457,868	664,601
Expenditures and Other Uses:				
General government	2,296,647	2,156,335	1,986,905	169,430
Public safety	3,916,686	4,143,773	4,002,907	140,866
Education	23,388,846	23,338,846	23,299,762	39,084
Public works	6,161,472	6,241,852	6,243,057	(1,205)
Health and human services	403,557	408,417	390,825	17,592
Culture and recreation	759,135	779,134	776,377	2,757
Debt service	3,088,467	3,101,110	3,079,126	21,984
Intergovernmental	424,672	424,672	398,616	26,056
Insurance and benefits	5,204,089	5,062,075	5,036,856	25,219
Other	2,053	2,053	2,053	-
Transfers out	<u>100,000</u>	<u>135,000</u>	<u>135,000</u>	<u>-</u>
Total Expenditures and Other Uses	<u>45,745,624</u>	<u>45,793,267</u>	<u>45,351,484</u>	<u>441,783</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,106,384</u>	\$ <u>1,106,384</u>

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

TOWN OF LYNNFIELD, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-type Activity <u>Golf Course Fund</u>
ASSETS	
Current:	
Cash and short-term investments	\$ <u>270,938</u>
Total current assets	270,938
Noncurrent:	
Land and construction in progress	12,586,893
Capital assets, net of accumulated depreciation	<u>442,575</u>
Total noncurrent assets	<u>13,029,468</u>
TOTAL ASSETS	13,300,406
LIABILITIES	
Current:	
Accounts payable	2,655
Accrued liabilities	102,724
Current portion of long-term liabilities:	
Bonds payable	<u>554,000</u>
Total current liabilities	659,379
Noncurrent:	
Bonds payable, net of current portion	<u>7,006,000</u>
Total noncurrent liabilities	<u>7,006,000</u>
TOTAL LIABILITIES	7,665,379
NET POSITION	
Net investment in capital assets	5,476,229
Unrestricted	<u>158,798</u>
TOTAL NET POSITION	\$ <u><u>5,635,027</u></u>

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

TOWN OF LYNNFIELD, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Business-type Activity <u>Golf Course Fund</u>
Operating Revenues:	
Fees	\$ <u>509,133</u>
Total Operating Revenues	509,133
Operating Expenses:	
Salaries and benefits	376,685
Depreciation	34,204
Other	<u>194,861</u>
Total Operating Expenses	<u>605,750</u>
Operating Income (Loss)	(96,617)
Nonoperating Revenues (Expenses):	
Investment income	677
Interest expense	<u>(275,153)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(274,476)</u>
Income (Loss) before transfers	(371,093)
Transfers:	
Operating transfers in	<u>814,674</u>
Total transfers	<u>814,674</u>
Change in Net Position	443,581
Net Position at Beginning of Year	<u>5,191,446</u>
Net Position at End of Year	<u><u>\$ 5,635,027</u></u>

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

TOWN OF LYNNFIELD, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2014

	Business-type <u>Activity</u> Golf Course <u>Fund</u>
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers and users	\$ 509,133
Payments to vendors and employees	<u>(583,591)</u>
Net Cash Provided By (Used For) Operating Activities	(74,458)
<u>Cash Flows From Noncapital Financing Activities:</u>	
Transfers from general fund	<u>814,674</u>
Net Cash Provided By (Used For) Noncapital Financing Activities	814,674
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Principal payments on bonds	(534,000)
Interest expense	<u>(275,153)</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	(809,153)
<u>Cash Flows From Investing Activities:</u>	
Investment income	<u>677</u>
Net Cash Provided By (Used For) Investing Activities	<u>677</u>
Net Change in Cash and Short-Term Investments	(68,260)
Cash and Short-Term Investments, Beginning of Year	<u>339,198</u>
Cash and Short-Term Investments, End of Year	<u><u>\$ 270,938</u></u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</u>	
Operating income (loss)	\$ (96,617)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation expense	34,204
Changes in assets and liabilities:	
Accounts payable	(9,516)
Accrued liabilities	<u>(2,529)</u>
Net Cash Provided By Operating Activities	<u><u>\$ (74,458)</u></u>

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

TOWN OF LYNNFIELD, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

	OPEB Trust <u>Fund</u>	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<u>ASSETS</u>			
Cash and short term investments	\$ 100,041	\$ 6,906	\$ 120,062
Investments	-	181,068	-
Other assets	-	-	67,829
Total Assets	100,041	187,974	187,891
<u>LIABILITIES AND NET POSITION</u>			
Warrants payable	-	-	2,428
Other liabilities	-	-	185,463
Total Liabilities	-	-	187,891
<u>NET POSITION</u>			
Restricted for endowment	-	153,864	-
Unrestricted	100,041	34,110	-
Total net position held in trust	\$ 100,041	\$ 187,974	\$ -

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

TOWN OF LYNNFIELD, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	OPEB Trust <u>Fund</u>	Private Purpose Trust <u>Funds</u>
Additions:		
Contributions	\$ -	\$ 17
Interest and investment earnings	<u>41</u>	<u>1,752</u>
Total additions	41	1,769
Deductions:		
Scholarship awards	<u>-</u>	<u>2,373</u>
Total deductions	<u>-</u>	<u>2,373</u>
Other financing sources (uses):		
Transfers in	<u>100,000</u>	<u>-</u>
Total other financing sources (uses)	<u>100,000</u>	<u>-</u>
Net increase (decrease)	100,041	(604)
Net position:		
Beginning of year	<u>-</u>	<u>188,578</u>
End of year	<u>\$ 100,041</u>	<u>\$ 187,974</u>

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

TOWN OF LYNNFIELD, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Lynnfield (the Town) 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 Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2014, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

B. Related Organization

The Town has a related organization relationship with Lynnfield Initiative for Elders, Inc. (LIFE), a Massachusetts non-profit corporation organized under Chapter 180 of the Massachusetts General Laws to own, develop, operate, and manage elderly housing units within the Town of Lynnfield. The Town, acting through the Board of Selectmen, is the sole Class A member of LIFE, and as such, has the right to fix the number of LIFE's directors, elect a majority of directors, remove directors, and fill all director vacancies. In addition, the Board of Selectmen must approve LIFE's plans for financing, constructing, and managing real property before they become final. However, the Town is not financially accountable for LIFE because it cannot impose its will and does not have a financial benefit or burden relationship with LIFE, even though it appoints a voting majority of LIFE's governing Board of Directors.

C. 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 are normally 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.

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.

D. *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 are 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 Town considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the

government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town 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 *Emergency Medical Services* fund is used to account for revenues and expenditures associated with providing emergency medical services to individuals within the Town of Lynnfield.
- The *Sale of Real Estate* fund is used to account for revenues and expenditures associated with the sale or disposal of Town-owned land and for capital improvements to parks and recreation land.
- The *FY12 Capital Plan* fund is used to account for revenues and expenditures associated with various capital projects approved at the April 2011 town meeting.
- The *Outdoor Recreation Facilities* fund is used to account for revenues and expenditures associated with the construction of municipal outdoor recreational and athletic facilities, a capital project that was approved at the April 2014 town meeting.

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

The Town reports the following major proprietary fund:

- The *Golf Course Fund* is used to account for all of the activity associated with the Town's operation of the Reedy Meadow and King Rail Reserve golf courses.

The private-purpose trust fund is used to account for trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

E. 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 purposes of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

F. 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 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 trust funds consist of certificates of deposits, U.S. government securities, bonds, and mutual funds. Investments are carried at market value.

G. Property Tax Limitations

Legislation known as "Proposition 2½" limits 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 or debt exemption is voted. The actual fiscal year 2014 tax levy reflected an excess capacity of \$22,566.

H. Capital Assets

Capital assets, which include property, plant, and equipment and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of

more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	30 - 75
Vehicles	5
Office equipment	5
Computer equipment	5

I. Compensated Absences

It is the Town'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 and proprietary 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.

J. Long-Term Obligations

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

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

The Town's fund balance classifications are as follows:

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

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

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. 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 Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

L. 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

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee 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. 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>	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 49,193,926	\$ 48,852,174
Other financing sources/uses (GAAP basis)	<u>660,591</u>	<u>949,674</u>
Subtotal (GAAP Basis)	49,854,517	49,801,848
Adjust tax revenue to accrual basis	(175,524)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(541,318)
Add end-of-year appropriation carryforwards from expenditures	-	370,204
Record raising of prior year overlay deficits	-	2,053
Record use of free cash	1,015,367	-
Reverse the effect of non-budgeted State contributions for teachers retirement	(4,281,303)	(4,281,303)
Reverse the effects of combining general fund and stabilization funds (GASB 54)	9,811	-
Other	<u>35,000</u>	<u>-</u>
Budgetary basis	<u>\$ 46,457,868</u>	<u>\$ 45,351,484</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2014:

Special revenue grants:	
Highway Chapter 90	\$ (33)
Enhanced 911	(61,688)
Emergency Medical Dispatch	(10,000)
Winter Rapid Road Recovery	(59,775)
Capital projects:	
High School Expansion	(58,701)
FY12 Capital Plan	<u>(1,112,171)</u>
	<u>\$ (1,302,368)</u>

These deficits will be eliminated through future intergovernmental revenues and bond proceeds.

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 Town's deposits may not be returned. Massachusetts General Law, Chapter 44, Section 55, limits Town deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent 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 Town's deposits do not exceed this limitation.

As of June 30, 2014, \$67,734 of the Town's bank balance of \$10,472,748 was exposed to custodial credit risk as uninsured or uncollateralized.

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 Town's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below (in thousands) is the actual rating as of year-end for each investment type of the Town.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>			
				<u>Aaa</u>	<u>A1</u>	<u>A3</u>	<u>Baa1</u>
Certificates of deposits	\$ 1,240	N/A	\$ 1,240	\$ -	\$ -	\$ -	\$ -
Federal agency securities	615	N/A	-	615	-	-	-
Corporate bonds	314	N/A	-	-	186	76	52
Mutual funds	<u>295</u>	N/A	<u>295</u>	-	-	-	-
Total investments	<u>\$ 2,464</u>		<u>\$ 1,535</u>	<u>\$ 615</u>	<u>\$ 186</u>	<u>\$ 76</u>	<u>\$ 52</u>

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 Town does not have policies for custodial credit risk.

All of the Town's investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered and/or held by

the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this risk with SIPC and Excess SIPC coverage.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. The Town did not hold investments in any one issuer (other than U.S. Federal Agency securities and FDIC-insured bank certificates of deposit) representing 5% or more of total investments at June 30, 2014.

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 Town does 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 sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities (in Years)</u>	
		<u>Less Than 1</u>	<u>1-5</u>
Certificates of deposit	\$ 1,240	\$ 330	\$ 910
Federal agency securities	615	-	615
Corporate bonds	<u>314</u>	<u>-</u>	<u>314</u>
Total	<u>\$ 2,169</u>	<u>\$ 330</u>	<u>\$ 1,839</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment.

As of June 30, 2014, the Town had no investments that were directly exposed to foreign currency risk.

5. Note Receivable

This represents the balance due on a \$1,620,000 promissory note from Lynnfield Initiative for Elders, Inc. (LIFE), a non-profit corporation, for the deeding of real property from the Town to LIFE for the Colonial Village development. The Town expects to receive this payment in fiscal year 2015.

6. Taxes Receivable

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

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

Taxes receivable at June 30, 2014 consist of the following:

Real Estate		
2014	\$ 421,466	
Supplemental	<u>4,306</u>	
		425,772
Personal Property		
2014	3,480	
2013	1,251	
Prior	<u>1,692</u>	
		6,423
Tax Liens		128,904
Deferred Taxes		229,780
Taxes in Litigation		<u>9,935</u>
Total		<u>\$ 800,814</u>

7. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts:

	<u>Governmental</u>
Property taxes	\$ 90,264
Excises	\$ 56,117

8. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2014.

9. Departmental and Other Receivables

This balance represents charges billed for emergency medical services (net of estimated discounts and allowances) and other miscellaneous receivables.

10. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 1,076	\$ -	\$ -	\$ 1,076
Buildings and improvements	87,299	6	-	87,305
Machinery, equipment, and furnishings	13,347	647	-	13,994
Infrastructure	9,135	537	-	9,672
Total capital assets, being depreciated	110,857	1,190	-	112,047
Less accumulated depreciation for:				
Land improvements	(640)	(38)	-	(678)
Buildings and improvements	(36,300)	(1,803)	-	(38,103)
Machinery, equipment, and furnishings	(10,704)	(842)	-	(11,546)
Infrastructure	(2,887)	(239)	-	(3,126)
Total accumulated depreciation	(50,531)	(2,922)	-	(53,453)
Total capital assets, being depreciated, net	60,326	(1,732)	-	58,594
Capital assets, not being depreciated:				
Land	6,362	-	-	6,362
Construction in progress	4,134	1,994	(57)	6,071
Total capital assets, not being depreciated	10,496	1,994	(57)	12,433
Governmental activities capital assets, net	\$ 70,822	\$ 262	\$ (57)	\$ 71,027

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 25	\$ -	\$ -	\$ 25
Buildings and improvements	482	-	-	482
Machinery, equipment, and furnishings	<u>132</u>	<u>-</u>	<u>-</u>	<u>132</u>
Total capital assets, being depreciated	639	-	-	639
Less accumulated depreciation for:				
Land improvements	-	(2)	-	(2)
Buildings and improvements	(95)	(12)	-	(107)
Machinery, equipment, and furnishings	<u>(67)</u>	<u>(20)</u>	<u>-</u>	<u>(87)</u>
Total accumulated depreciation	<u>(162)</u>	<u>(34)</u>	<u>-</u>	<u>(196)</u>
Total capital assets, being depreciated, net	477	(34)	-	443
Capital assets, not being depreciated:				
Land	<u>12,587</u>	<u>-</u>	<u>-</u>	<u>12,587</u>
Total capital assets, not being depreciated	<u>12,587</u>	<u>-</u>	<u>-</u>	<u>12,587</u>
Business-type activities capital assets, net	<u>\$ 13,064</u>	<u>\$ (34)</u>	<u>\$ -</u>	<u>\$ 13,030</u>

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

Governmental Activities:	
General government	\$ 67
Public safety	294
Education	1,932
Public works	493
Health and human services	111
Culture and recreation	<u>25</u>
Total depreciation expense - governmental activities	<u>\$ 2,922</u>
Business-Type Activities:	
Golf course	<u>\$ 34</u>
Total depreciation expense - business-type activities	<u>\$ 34</u>

11. Warrants and Accounts Payable

Warrants payable and accounts payable represent 2014 expenditures paid by July 15, 2014.

12. Accrued Liabilities

Accrued liabilities consist of amounts accrued at June 30, 2014 for fiscal 2014 employee payrolls, as well as interest accrued on outstanding bonds.

13. Notes Payable

The Town had the following note outstanding at June 30, 2014:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/14</u>
Bond anticipation notes	1.00%	06/20/14	06/19/15	\$ <u>1,147,037</u>
Total				\$ <u>1,147,037</u>

The following summarizes activity in notes payable during fiscal year 2014:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation notes	\$ 1,147,037	\$ -	\$ (1,147,037)	\$ -
Bond anticipation notes	<u>-</u>	<u>1,147,037</u>	<u>-</u>	<u>1,147,037</u>
Total	\$ <u>1,147,037</u>	\$ <u>1,147,037</u>	\$ <u>(1,147,037)</u>	\$ <u>1,147,037</u>

14. Other Current Liabilities

This balance consists primarily of various payroll withholdings.

15. Long-Term Debt

A. General Obligation Bonds

The Town 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 6/30/14
<u>Governmental Activities:</u>			
Senior center	07/01/14	4.23%	\$ 120,000
Schools	07/01/14	4.43%	585,000
Senior center van	06/15/18	1.30%	55,000
Septic (MWPAT)	08/01/18	0.00%	50,479
Fire truck	02/15/19	2.26%	280,000
FY07 capital plan	02/15/24	4.01%	370,000
Septic (MWPAT)	07/15/32	0.00%	190,142
Septic (MWPAT)	01/15/33	0.00%	240,198
School bonds	06/15/33	2.75%	2,435,000
Refunded senior center bonds	07/01/21	1.42%	790,000
Refunded school bonds	07/01/22	1.55%	5,325,000
Refunded school bonds	07/01/24	1.79%	5,640,000
Total Governmental Activities:			<u>\$ 16,080,819</u>

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/14
<u>Business-Type Activities:</u>			
Golf course purchase	02/15/25	4.01%	\$ 2,080,000
Golf course purchase	02/15/25	3.29%	5,480,000
Total Business-Type Activities:			<u>\$ 7,560,000</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2014 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,628,611	\$ 534,537	\$ 2,163,148
2016	1,598,626	482,820	2,081,446
2017	1,573,641	429,504	2,003,145
2018	1,568,656	369,529	1,938,185
2019	1,543,669	310,289	1,853,958
2020 - 2024	6,308,095	733,841	7,041,936
2025 - 2029	1,268,471	139,894	1,408,365
Thereafter	591,050	38,906	629,956
Total	<u>\$ 16,080,819</u>	<u>\$ 3,039,320</u>	<u>\$ 19,120,139</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 554,000	\$ 265,953	\$ 819,953
2016	579,000	250,194	829,194
2017	604,000	233,766	837,766
2018	629,000	215,573	844,573
2019	654,000	196,088	850,088
2020 - 2024	3,710,000	614,313	4,324,313
Thereafter	<u>830,000</u>	<u>33,425</u>	<u>863,425</u>
Total	\$ <u>7,560,000</u>	\$ <u>1,809,312</u>	\$ <u>9,369,312</u>

The general fund has been designated as the sole source to repay the governmental activities and business-type activities general obligation long-term debt outstanding as of June 30, 2014.

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2014, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/13</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/14</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/14</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 17,784	\$ -	\$ (1,703)	\$ 16,081	\$ (1,629)	\$ 14,452
Other:						
Compensated absences	583	57	(6)	634	(209)	425
OPEB	<u>17,449</u>	<u>5,963</u>	<u>(1,985)</u>	<u>21,427</u>	<u>-</u>	<u>21,427</u>
Totals	\$ <u>35,816</u>	\$ <u>6,020</u>	\$ <u>(3,694)</u>	\$ <u>38,142</u>	\$ <u>(1,838)</u>	\$ <u>36,304</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ <u>8,094</u>	\$ <u>-</u>	\$ <u>(534)</u>	\$ <u>7,560</u>	\$ <u>(554)</u>	\$ <u>7,006</u>
Totals	\$ <u>8,094</u>	\$ <u>-</u>	\$ <u>(534)</u>	\$ <u>7,560</u>	\$ <u>(554)</u>	\$ <u>7,006</u>

D. Current and Advance Refundings

Prior Year

In prior year, the Town issued general obligation refunding bonds to partially advance refund term bonds issued July 1, 2004 and callable on July 1, 2014. The proceeds from the issuance of the general obligation refunding bonds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded bonds are redeemed on July 1, 2014. For financial reporting purposes, the debt was considered to be defeased and the liability was removed from the Town's balance sheet.

The amount of defeased debt still outstanding at June 30, 2014 is \$6,685,000.

16. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of deferred inflow of resources balances as of June 30, 2014:

	<u>Entity-wide Basis</u>	<u>Fund Basis</u>			
	Governmental	General	Emergency	Sale of	Nonmajor
	<u>Activities</u>	<u>Fund</u>	<u>Medical</u>	<u>Real</u>	<u>Governmental</u>
			<u>Services</u>	<u>Estate</u>	<u>Funds</u>
Uncommitted betterments	\$ 231,892	\$ -	\$ -	\$ -	\$ -
Committed taxes	\$ -	\$ 721,765	\$ -	\$ -	\$ 70
Other	\$ -	\$ -	\$ 94,908	\$ 900,000	\$ -

17. 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.

18. 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 Town has 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, 2014:

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 includes 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 various special revenue and expendable trust funds (including EMS), capital projects funded by borrowing and/or grants, 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 Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting and capital projects funded by the general fund and transfers from other funds.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period, and general fund surplus fund balance that has been appropriated as a funding source for the subsequent fiscal period.

Unassigned – Represents amounts that are available to spend in future periods. This fund balance classification includes general fund surplus fund balance, general and capital facility stabilization funds set aside by Town Meeting vote (now reported as part of the general fund per GASB 54), and various special revenue and capital project temporary deficit fund balances.

Following is a breakdown of the Town's fund balances at June 30, 2014:

	General Fund	Emergency Medical Services	Sale of Real Estate	FY12 Capital Plan	Outdoor Recreation Facilities	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable							
Nonexpendable permanent funds:							
Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 791,625	\$ 791,625
Library and other	-	-	-	-	-	32,400	32,400
Total Nonspendable	-	-	-	-	-	824,025	824,025
Restricted							
Emergency medical services	-	41,995	-	-	-	-	41,995
Special revenue funds:							
Sale of real estate	-	-	525,548	-	-	-	525,548
Betterment loan repayments	-	-	-	-	-	303,031	303,031
Other receipts reserved	-	-	-	-	-	113,365	113,365
Full day kindergarten	-	-	-	-	-	270,838	270,838
Community schools	-	-	-	-	-	223,708	223,708
Recreation	-	-	-	-	-	121,321	121,321
Other revolving funds	-	-	-	-	-	520,189	520,189
Federal grants	-	-	-	-	-	36,579	36,579
State grants	-	-	-	-	-	97,491	97,491
Cable/PEG access	-	-	-	-	-	627,355	627,355
Library expansion gift	-	-	-	-	-	100,000	100,000
Other gifts and donations	-	-	-	-	-	150,707	150,707
Expendable trust funds:							
Conservation land	-	-	-	-	-	119,756	119,756
Other expendable trusts	-	-	-	-	-	4,970	4,970
Capital project funds							
MWPAT septic loan program	-	-	-	-	-	33,931	33,931
Senior center van	-	-	-	-	-	2,076	2,076
Expendable permanent funds	-	-	-	-	-	29,885	29,885
Total Restricted	-	41,995	525,548	-	-	2,755,202	3,322,745
Committed							
Article carryforwards	203,595	-	-	-	-	-	203,595
Capital project fund	-	-	-	-	1,449,113	-	1,449,113
Total Committed	203,595	-	-	-	1,449,113	-	1,652,708
Assigned							
Encumbrances	166,609	-	-	-	-	-	166,609
Appropriated fund balance	939,375	-	-	-	-	-	939,375
Total Assigned	1,105,984	-	-	-	-	-	1,105,984
Unassigned							
General fund	1,687,378	-	-	-	-	-	1,687,378
General stabilization fund	982,226	-	-	-	-	-	982,226
Capital facilities fund	580,245	-	-	-	-	-	580,245
Special revenue fund deficits	-	-	-	-	-	(131,496)	(131,496)
Capital project fund deficits	-	-	-	(1,112,171)	-	(58,701)	(1,170,872)
Total Unassigned	3,249,849	-	-	(1,112,171)	-	(190,197)	1,947,481
Total Fund Balance	\$ 4,559,428	\$ 41,995	\$ 525,548	\$ (1,112,171)	\$ 1,449,113	\$ 3,389,030	\$ 8,852,943

19. General Fund Unassigned Fund Balance

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraph summarizes the major differences.

Massachusetts General Laws include provisions to allow municipalities to over-expend certain appropriations if they are incurred in an emergency situation and are for the safety of the public. The most common example of such an over-expenditure involves the “snow and ice” appropriation. However, all such over-expenditures must be funded in the subsequent year’s tax rate.

The following summarizes the specific differences between GAAP basis and budgetary basis of reporting the general fund unassigned fund balance:

GAAP basis balance	\$ 3,249,849
Stabilization fund	(982,226)
Capital facilities fund	(580,245)
Snow and ice deficit	<u>243,981</u>
Statutory (UMAS) Balance	<u>\$ 1,931,359</u>

20. **Subsequent Events**

Debt

Subsequent to June 30, 2014, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General obligation recreation bonds	\$ 4,467,000	2.60%	07/18/14	07/15/34

21. **Commitments and Contingencies**

Outstanding Legal Issues - There are several pending legal issues in which the Town is involved. The Town’s management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

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

22. **Post-Employment Healthcare Benefits**

The Town has implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*.

Statement 45 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 them. 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 in Note 23, the Town participates in a single-employer, defined benefit postretirement health insurance program to provide postretirement health insurance coverage to eligible retirees. Benefits, benefit levels, employee, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. All employees retiring from the Town who (a) are eligible for and in fact receive a retirement allowance in accordance with M.G.L. Chapter 32, through either the Massachusetts Teachers Retirement System (MTRS) or the Massachusetts State Employees Retirement System (MSERS) and (b) retire from the Town working 20 or more hours per week as an active Town employee (23.5 hours for teachers) are eligible to receive benefits. As of July 1, 2013, the most recent actuarial valuation date, approximately 310 active employees and 323 retirees met the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town covers a portion of the premiums for eligible retirees under either individual or family medical coverage. The amount of the retirees' share towards medical coverage depends on the type of coverage selected. Effective June 7, 2011, the Town transferred subscribers of health coverage to the Group Insurance Commission (GIC). The coverage under the GIC currently includes four types of medical coverage: HMO, PPO, Indemnity, and Medicare Supplemental Plans. Under each type of medical coverage there are numerous medical plans.

Effective July 1, 2011, the Town also offers retirees dental coverage with a retiree contribution rate of 100% of the premium. The retirees' dental plan is separate from the dental plan for active participants. Dental coverage is not valued in the Town's postretirement health insurance plan because the Town has no share of the premium cost and there is no implicit rate subsidy since the retirees have their own dental plan.

C. Funding Policy

The Town contributes 85% of the medical insurance premiums for eligible retirees under various HMO and Medicare plans, 75% under various PPO plans, and 50% under various Indemnity plans on a pay-as-you-go basis. Retirees contribute the remainder of their chosen health plan premium costs.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2014 Annual OPEB Cost (AOC) is calculated based on the employer's annual required contribution (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 Town's AOC for the year ending June 30, 2014, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2013.

Annual Required Contribution (ARC)	\$ 6,273,817
Interest on net OPEB obligation	697,971
Adjustment to ARC	<u>(1,009,094)</u>
Annual OPEB cost	5,962,694
Contributions made	(1,624,799)
Allocation for implicit rate subsidy	<u>(359,763)</u>
Increase in net OPEB obligation	3,978,132
Net OPEB obligation - beginning of year	<u>17,449,284</u>
Net OPEB obligation - end of year	<u><u>\$ 21,427,416</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2014 fiscal year and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 5,435,164	36.8%	\$ 14,170,250
2013	\$ 5,373,897	39.0%	\$ 17,449,284
2014	\$ 5,962,694	33.3%	\$ 21,427,416

The Town's net OPEB obligation as of June 30, 2014 is recorded as a noncurrent liability in the Statement of Net Position.

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 56,362,910
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 56,362,910</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 18,404,883</u>
UAAL as a percentage of covered payroll	<u>306.2%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the employer's annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to 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 Town 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 Town 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 July 1, 2013 actuarial valuation, the Town's ARC was determined using the Projected Unit Credit funding method (with service proration). Under this funding method, projected benefits are assumed to accrue on a straight line basis from date of hire to expected retirement date for each participant. The actuarial value of assets is equal to the market value of the plan's assets. Other actuarial assumptions included a 4.0% discount rate and an initial health care cost trend rate of 8.0% per year graded off 0.5% per year to an ultimate rate of 5.0% per year. The Unfunded Actuarial Accrued Liability (UAAL) is amortized over 30 or fewer years and the

30-year level dollar amortization is presumed to be established on an open amortization basis, where the amortization period is reset each year to be 30 years.

G. Other Post-Employment Benefits Liability Trust Fund

In October 2013, the Town voted to accept the provisions of M.G.L. Chapter 32B, Section 20 to establish an Other Post-Employment Benefits Liability Trust Fund (OPEB Trust) to begin accumulating assets to reduce the unfunded portion of its actuarially accrued OPEB liability. However, because the OPEB Trust was established and funded after the date of the most recent actuarial valuation, OPEB Trust assets are not reflected in the actuarial value of assets reported in the Schedule of Funding Progress.

As of June 30, 2014, total assets in the OPEB Trust were \$100,041. OPEB Trust assets and activity are reported in the Fiduciary Funds financial statements on pages 22-23 of this report.

23. Pension Plan

The Town follows the provisions of GASB Statement No. 27, (as amended by GASB 50) *Accounting for Pensions by State and Local Government Employers*, with respect to its employees' retirement funds.

A. Plan Description

The Town contributes to the Essex Regional Retirement System (the "System"), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The System issues a publicly available financial report that can be obtained through the Essex Regional Retirement Board at 491 Maple Street, Suite 202, Danvers, Massachusetts 01923.

B. Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws. The Town's contributions to the System for the years ended June 30, 2014, 2013, and 2012 were \$1,875,583, \$1,722,459, and \$1,572,093, respectively, which were equal to its annual required contributions for each of these years.

The payroll for employees covered by the System for the year ended June 30, 2014 was \$9,564,897.

C. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$30,000, as follows:

Before January 1, 1975	5%	
January 1, 1975 - December 31, 1983	7%	*
January 1, 1984 - June 30, 1996	8%	*
July 1, 1996 - June 30, 1996	9%	*
Beginning July 1, 2001	11%	*

*Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$30,000.

The Town's current year covered payroll for teachers and administrators was \$15,439,861.

In fiscal year 2014, the Commonwealth of Massachusetts contributed \$4,281,303 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

24. Risk Management

The Town 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 Town 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.

25. Beginning Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2014, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/13 (as previously reported)	<u>Reclassification</u>	Fund Equity 6/30/13 (as restated)
High School Expansion	\$ 45,444	\$ (45,444)	\$ -
Nonmajor funds	<u>3,141,911</u>	<u>45,444</u>	<u>3,187,355</u>
Total	<u>\$ 3,187,355</u>	<u>\$ -</u>	<u>\$ 3,187,355</u>

26. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which the Town is required to implement in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by requiring the Town to recognize, as a liability and expense, its applicable portion of the Essex Regional Retirement System's actuarially accrued unfunded pension liability.

**TOWN OF LYNNFIELD, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2014

(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]
07/01/09	\$ -	\$ 46,995	\$ 46,995	0%	\$ 16,465	285%
07/01/11	\$ -	\$ 52,150	\$ 52,150	0%	\$ 16,200	322%
07/01/13	\$ -	\$ 56,363	\$ 56,363	0%	\$ 18,405	306%

**ESSEX REGIONAL RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)**

**Employees' Retirement System
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
01/01/08	\$ 301,421	\$ 445,172	\$ 143,751	68%	\$ 111,727	129%
01/01/11	\$ 278,332	\$ 536,116	\$ 257,784	52%	\$ 119,707	215%
01/01/13	\$ 314,566	\$ 619,339	\$ 304,773	51%	\$ 119,292	255%

**Employees' Retirement System
Schedule of Employer Contributions**

Plan Year Ended	System Wide				Town of Lynnfield	
	Annual Required Contributions	Annual Required Contributions If paid by 7/1	Actual Contributions	Percent Contributed	Actual Contributions	Town Contributions as a % of Actual Contributions
12/31/11	\$ 21,084	\$ 20,671	\$ 20,732	98%	\$ 1,572	8%
12/31/12	\$ 22,771	\$ 22,324	\$ 22,364	98%	\$ 1,722	8%
12/31/13	\$ 24,593	\$ 24,110	\$ 24,115	98%	\$ 1,876	8%

See Independent Auditors' Report.