

**CITY OF LYNN, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2005**

## TABLE OF CONTENTS

	<u>PAGE</u>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Assets	17
Statement of Activities	18
<b>Fund Financial Statements:</b>	
<b>Governmental Funds:</b>	
Balance Sheet	19
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	20
Statement of Revenues, Expenditures, and Changes in Fund Balances	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	22
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	23
<b>Proprietary Funds:</b>	
Statement of Net Assets	24
Statement of Revenues, Expenses, and Changes in Fund Net Assets	25
Statement of Cash Flows	26
<b>Fiduciary Funds:</b>	
Statement of Fiduciary Net Assets	27
Statement of Changes in Fiduciary Net Assets	28
<b>Notes to the Financial Statements</b>	29
<b>SUPPLEMENTARY INFORMATION:</b>	
Contributory Retirement System Information	52



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT ADVISORS

10 New England Business Center Drive • Suite 112  
Andover, MA 01810

Tel (978) 749-0005 • Fax (978) 749-0006  
www.melansonheath.com

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council  
City of Lynn, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lynn, Massachusetts, as of and for the year ended June 30, 2005 (except for the Lynn Contributory Retirement System which is as of and for the year ended December 31, 2004), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lynn's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lynn, as of June 30, 2005 (except the Lynn Contributory Retirement System which is as of December 31, 2004), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, and the supplementary information, appearing in the back of this report, are not

a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 2, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

*Melanson, Heath + Company P.C.*

Andover, Massachusetts  
February 2, 2006

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

As management of the City of Lynn, we offer readers this narrative overview and analysis of the financial activities of the City of Lynn for the fiscal year ended June 30, 2005.

### **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 the 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 assets presents information on all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities include the marina activities.

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

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

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

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

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

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

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

**Notes to the financial statements.** The notes provide additional information that are 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 \$ 152,296,617 (i.e., net assets), an increase of \$ 3,661,737 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 19,306,978, a decrease of \$ 7,004,193 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 14,007,969, an increase of \$ 1,849,385 in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 92,465,620, a decrease of \$ 6,825,000 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.

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 69,227	\$ 66,007	\$ 232	\$ 468	\$ 69,459	\$ 66,475
Noncurrent assets	52,157	60,641	-	13	52,157	60,654
Capital assets	<u>162,547</u>	<u>155,161</u>	<u>1,999</u>	<u>1,784</u>	<u>164,546</u>	<u>156,945</u>
Total assets	283,931	281,809	2,231	2,265	286,162	284,074
Long-term liabilities outstanding	86,446	96,437	1,173	1,244	87,619	97,681
Other liabilities	<u>45,822</u>	<u>37,314</u>	<u>425</u>	<u>445</u>	<u>46,247</u>	<u>37,759</u>
Total liabilities	132,268	133,751	1,598	1,689	133,866	135,440
Net assets:						
Invested in capital assets, net	114,999	113,158	687	553	115,686	113,711
Restricted	16,018	16,503	-	23	16,018	16,526
Unrestricted	<u>20,646</u>	<u>18,397</u>	( 54)	-	<u>20,592</u>	<u>18,397</u>
Total net assets	\$ <u>151,663</u>	\$ <u>148,058</u>	\$ <u>633</u>	\$ <u>576</u>	\$ <u>152,296</u>	\$ <u>148,634</u>

## CHANGES IN NET ASSETS

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:						
Program revenues:						
Charges for services	\$ 6,350	\$ 5,626	\$ 759	\$ 584	\$ 7,109	\$ 6,210
Operating grants and contributions	146,679	134,909	-	-	146,679	134,909
Capital grants and contributions	4,338	-	-	-	4,338	-
General revenues:						
Property taxes	72,432	73,230	-	-	72,432	73,230
Excises	4,545	5,779	-	-	4,545	5,779
Penalties and interest on taxes	1,311	-	-	-	1,311	-
Grants and contributions not restricted to specific programs	28,211	19,572	-	-	28,211	19,572
Investment income	831	1,191	1	-	832	1,191
Other	<u>913</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>913</u>	<u>-</u>
Total revenues	<u>265,610</u>	<u>240,307</u>	<u>760</u>	<u>584</u>	<u>266,370</u>	<u>240,891</u>
Expenses:						
General government	11,357	12,981	-	-	11,357	12,981
Public safety	33,258	31,004	-	-	33,258	31,004
Education	148,622	122,770	-	-	148,622	122,770
Public works	14,718	12,637	-	-	14,718	12,637
Human services	3,354	1,590	-	-	3,354	1,590
Culture and recreation	1,528	862	-	-	1,528	862
Employee benefits	44,416	37,207	-	-	44,416	37,207
Interest on long-term debt	2,650	5,431	-	-	2,650	5,431
Intergovernmental	2,040	3,312	-	-	2,040	3,312
Other	62	8,832	-	-	62	8,832
Marina	<u>-</u>	<u>-</u>	<u>703</u>	<u>699</u>	<u>703</u>	<u>699</u>
Total expenses	<u>262,005</u>	<u>236,626</u>	<u>703</u>	<u>699</u>	<u>262,708</u>	<u>237,325</u>
Change in net assets	3,605	3,681	57	( 115)	3,662	3,566
Net assets - beginning of year (as restated)	<u>148,058</u>	<u>144,377</u>	<u>576</u>	<u>691</u>	<u>148,634</u>	<u>145,068</u>
Net assets - end of year	<u>\$ 151,663</u>	<u>\$ 148,058</u>	<u>\$ 633</u>	<u>\$ 576</u>	<u>\$ 152,296</u>	<u>\$ 148,634</u>

As noted earlier, net assets 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 assets were \$ 152,296,617, an increase of \$ 3,661,791 from the prior year.

The largest portion of net assets \$ 115,686,264 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



An additional portion of net assets \$ 16,017,661 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 20,592,692 may be used to meet the government's ongoing obligations to citizens and creditors.

**Governmental activities.** Governmental activities for the year resulted in an increase in net assets of \$ 3,604,922. Key elements of this increase are as follows (in thousands):

General fund revenues in excess of expenditures	\$ 3,875
Special revenue fund expenditures over revenues	( 234)
Internal service fund revenues in excess of expenditures	2,217
Capital assets obtained from current year revenues	1,430
Massachusetts School Building Authority principal payment received	(8,582)
Principal debt service in excess of depreciation expense	2,154
Change in deferred revenue	2,172
Payment of capital leases	534
Other	<u>39</u>
Total	\$ <u>3,605</u>

**Business-type activities.** Business-type activities for the year resulted in an increase in net assets of \$ 56,815. The increase is primarily attributable to an approximately 30% increase in revenues in fiscal year 2005.

#### **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, unreserved 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 \$ 19,306,978, a decrease of \$ 7,004,193 in comparison with the prior year. Key elements of this decrease are as follows (in thousands):

General fund revenues and transfers in excess of expenditures and transfers out	\$ 4,338
Special revenue fund expenditures over revenues	( 661)
Trust fund expenditures over revenues	( 34)
Police station project	(10,003)
Other	<u>( 644)</u>
Total	\$ ( <u>7,004</u> )

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 14,007,969, while total fund balance was \$ 17,053,962. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 6.10 percent of total general fund expenditures, while total fund balance represents 7.43 percent of that same amount.

The fund balance of the general fund increased by \$ 4,338,462 during the current fiscal year. Key factors in this change are as follows (in thousands):

Revenues received in excess of budget	\$ 7,235
Expenditures less than budget	1,716
Use of free cash	(7,362)
Raise prior year deficits	1,036
Excess tax collections	774
Excess of current year appropriation carryforward over expenditures of prior year carryforward	<u>939</u>
Total	<u>\$ 4,338</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 assets of the enterprise funds at the end of the year amounted to \$ (53,952), an decrease of \$ 53,952 in comparison with 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 increase in appropriations of \$ 1,527,965. Major reasons for these amendments include:

- \$ 205,812 in negotiated salary adjustments
- \$ 856,623 in supplementary expenses
- \$ 465,530 in transfers

Of this increase, \$ 1,062,435 was to be funded from free cash, and the balance from transfers from other 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 \$ 164,545,891 (net of accumulated depreciation), an increase of \$ 7,599,912 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

- Construction of a new police facility.

Additional information on capital assets can be found in the footnotes to the financial statements.

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$ 92,465,620, 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 footnotes to the financial statements.

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

### **Overview**

Program year 2005 was a period of transition in the area of economic development as the City attempted to digest the findings and goals of the planning efforts that took place in the previous 12 months. With the completion of the City's Economic Development Strategy the City struggled with the allocation of resources to these newly created 8 economic opportunity districts.

Working with the business community and the residents of those areas affected the plan became a blueprint for both growth and opportunity as the City moved into second half of the decade. In spite of this transition progress was made on several fronts.

With regard to employment, all of the City's top employers either maintained current levels of employment or saw small increases in those levels. Positive news continued to come out of the headquarters of General Electric Co. as investment by the federal government in the aircraft engine division produced positive economic news for this division of the company.

The Central Square area of the City continued to see a renaissance and a resurgence as the number of retail/commercial businesses continued to grow in support of the growing residential sector in the downtown. With that number growing to a little over 200 it marked the half way point in the City's goal to create 400 new units in the center city to reach the critical mass to sustain a vibrant downtown.

Another positive trend in the City's downtown was the growth of the health care industry of the community. Lynn Community Health Center and Greater Lynn Senior Services began initial discussions with City Officials regarding increasing their investment in new space for possible expansion and employment growth. Also there was a strong commitment by North Shore Medical Center the major community hospital and employer to maintain a full service hospital in the City into the foreseeable future.

Housing values continued to rise at a somewhat slower pace. However, permits for new housing units continued to increase in numbers before both the City Council and the Inspectional Services Department. As affordable housing opportunities continued to decline in and around the Boston Metropolitan area Lynn's role as an alternative investment choice continued to gain momentum.

The City, using CDBG funding, continued to make investments in the downtown through its antique street re-lighting along the downtown linear spine of Union, Exchange and Broad Streets. These efforts at beautification and revitalization have been well accepted by both the existing downtown community and investors alike.

Although statistically one may challenge the changes in the demographics in the downtown, there is the emergence of a new breed of urban professional who is calling downtown Lynn, home.

These investments by the City coupled with the Smart Growth initiatives by the state have continued the momentum for further investment in the Central Business District. The new police station in the downtown within the Government Center District was completed and occupied. This 19-million dollar investment exhibits further evidence of the City's financial commitment to the downtown and its new residents.

2005 also saw the third year of play for Lynn's minor league baseball team the North Shore Spirit. Using a combination of both federal and private funding the newly-renovated Frasier Field saw additional improvements being made with attendance up 30% over last year, the Spirit caught both imagination and support of the region located north of Boston as a reasonable financial alternative for families to attend a first class baseball experience. The team's presence in the community created a regional attraction for those individuals unlikely to visit the City. Efforts are continuing by the owners of the Spirit to investigate the feasibility of constructing a new 6,000-seat arena and fine arts complex within the City.

In terms of future development activities long term in nature, the City continued to pursue its Brownfield agenda with representatives of both National Grid and the General Electric Co., owners of roughly 40 acres of mothballed sites in the community. Progress has been extremely slow. However discussions and dialogue between the parties continue. At the West Lynn GE site, where there is roughly 20 acres of vacant property, there is expected to be positive resolution in 2006 with new construction beginning in the latter part of the year.

Since 1997 the City has experienced very positive trends with regard to the value of real estate. From 1997-2005 commercial real estate experienced an explosion of nearly a 90% increase. However, there is the continued reliance on the residential sector bearing an increasing burden with regard to the overall tax levy.

**Lynn Assessed Values (000)**

<u>Year</u>	<u>Commercial</u>	<u>Total</u>
1998	\$ 192,395	\$ 2,274,964
1999	\$ 221,030	\$ 2,558,704
2000	\$ 224,464	\$ 2,807,440
2001	\$ 257,805	\$ 3,151,034
2002	\$ 293,909	\$ 3,854,700
2003	\$ 330,581	\$ 4,656,277
2004	\$ 352,109	\$ 5,508,583
2005	\$ 460,329	\$ 6,024,427
Percent Change (98-05)	239%	265%

Source: Mass. Dept. of Revenue

With regard to the commercial sector, the rate for industrial/commercial property has been slashed by over 45% over the last 8 years. This is extremely encouraging given the fact that the City prior to 1996 had placed a great deal of burden on the commercial sector. The number of new business establishments actually grew by six percent, employment stabilized and trends looked positive for growth in the retail sector especially within the Hispanic community.

Traditional Breads a growing commercial bakery which was started in the City in 1998 embarked on a relatively large expansion plan whereby they would be purchasing a vacant 70,000 sq. foot industrial complex and expending over 7 million dollars in new plant and equipment. The company also plans to increase employment from its current level of 35 to over 120 full-time positions.

**Employment and Establishments**

<u>Year</u>	<u># of Establishments</u>	<u>Employment</u>
1998	1,202	26,191
1999	1,264	25,648
2001	1,255	25,214
2002	1,311	24,976
2003	1,329	24,491
2004	1,396	24,655
2005	1,433	23,826
Percent Change (98-05)	18%	-

Source: Mass. Dept. of Revenue

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

<u>Largest Employers</u>	<u>Product</u>	<u>Employment</u>
General Electric	Manufacturer - Jet Engines	4,400
Atlantic Care	Healthcare/Hospital	1,105
Garelick Farms	Creamery/Milk Products	630
Visiting Nurse Association	Healthcare/Nursing	599
Greater Lynn Senior Services	Elderly Services	345
LightBridge	Software Development	305
Lynn Community Health Center	Healthcare Services	300
Wal-Mart	Retail Store	250
North Shore Community College	Education	163
Harvard Folding Box	Corrugated Boxes	145
Willow Labs	Lab Testing and Services	145
Verizon	Utility	100

### **Average Annual Employment by Industry**

<u>Industry</u>	<u>2005</u>		<u>2004</u>		<u>2003</u>		<u>2002</u>	
	# of establishments	# of employees	# of establishments	# of employees	# of establishments	# of employees	# of establishments	# of employees
Construction	<b>135</b>	952	<b>131</b>	1,008	<b>117</b>	857	<b>109</b>	786
Manufacturing	<b>59</b>	5,134	<b>59</b>	5,130	<b>64</b>	5,430	<b>68</b>	5,781
Wholesale Trade	<b>61</b>	685	<b>57</b>	634	<b>50</b>	640	<b>49</b>	650
Retail Trade	<b>191</b>	2,013	<b>187</b>	2,105	<b>189</b>	2,100	<b>183</b>	2,088
Transportation and Warehousing	<b>35</b>	494	<b>33</b>	187	<b>32</b>	186	<b>27</b>	189
Information	<b>14</b>	238	<b>17</b>	259	<b>17</b>	291	<b>18</b>	336
Finance and Insurance	<b>57</b>	426	<b>54</b>	454	<b>56</b>	833	<b>57</b>	859
Real Estate and Rental and Leasing	<b>56</b>	344	<b>56</b>	329	<b>55</b>	312	<b>54</b>	309
Professional and Technical Services	<b>113</b>	726	<b>111</b>	730	<b>105</b>	575	<b>99</b>	530
Management of Companies and Enterprises	<b>0</b>	0	<b>0</b>	0	<b>3</b>	232	<b>3</b>	264
Administrative and Waste Services	<b>74</b>	873	<b>69</b>	882	<b>65</b>	786	<b>60</b>	756
Educational Services	<b>14</b>	1,981	<b>10</b>	69	<b>8</b>	68	<b>8</b>	73
Health Care and Social Assistance	<b>168</b>	5,526	<b>173</b>	5,751	<b>170</b>	5,313	<b>168</b>	5,016
								(continued)

(continued)								
	2005		2004		2003		2002	
Industry	# of establishments	# of employees	# of establishments	# of employees	# of establishments	# of employees	# of establishments	# of employees
Arts, Entertainment, and Recreation	15	224	15	180	15	158	16	160
Accommodation and Food Services	139	1139	134	1,114	132	1,137	134	1,208
Other Services, Ex. Public Admin	280	794	259	805	248	919	229	883
<b>Total Average Employment-ALL Industries</b>	23,826 - average through 3d quarter		24,655		24,491		24,976	
<b>Total Wages</b>	unavailable		\$ 1,095,581,136		\$ 1,078,601,545		\$ 1,049,929,143	
<b>Total # of Establishments ALL Industries</b>	1,411		1,365		1,326		1,282	

Source: Massachusetts Department of Employment & Training.

Another important indicator of economic growth – housing values – exhibited a dramatic increase between 1997 and 2005. Average single-family home values in Lynn increased from \$ 98,418 in 1997 to \$ 286,000 in 2005. A more startling increase came in the median sales price, which showed a dramatic 297% increase between 1997 and 2005.

### City of Lynn

FY	<u>Average Value (a)</u>	<u>Single Family Home (Median Sales Price) (b)</u>
1997	\$ 98,418	\$ 96,000
1998	\$ 98,712	\$ 115,700
1999	\$ 111,459	\$ 131,500
2000	\$ 124,571	\$ 149,900
2001	\$ 139,174	\$ 167,250
2003	\$ 259,900	\$ 244,750
2004	\$ 286,000	\$ 265,000
2005		\$ 286,000
Percent Change (97-04)	291%	297%

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

### Infrastructure

In addition to the City's close proximity to both Boston and Logan Airport, coupled with an impressive three-mile ocean waterfront park, Lynn has a first

class infrastructure conducive to economic development. Important infrastructure assets of the City include: a \$ 140 million secondary wastewater treatment facility and a \$ 47 million water treatment plant last owned and operated by the Lynn Water and Sewer Commission, a \$ 40 million Community College serving 2,500 full and part-time students.

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

Lynn's proactive stance toward infrastructure improvements and land use regulations enables it to react immediately to development opportunities as they arise. In addition, the City's stable population and wide range of community and economic development services create an ideal environment for business investment and development. Lynn possesses numerous assets and resources that have helped it to emerge once again as one of the North Shore's most attractive communities.

## **Employment**

Although Lynn's first quarter of 2004 unemployment rate of 6.4% was approximately 1.4% above the state average, it has stayed relatively stable at that number for the last 3 years. The following table sets forth the City's average labor force and unemployment rates for calendar years 1996 through 2004 and the unemployment rates for the state and nation as a whole for the same period.

### **Employment and Unemployment Rates**

Year	Labor Force	Employed	Unemployment Rate	MA unemployment rate	U.S. unemployment rate
2005	41,736	39,179	6.1%	4.8%	5.1%
2004	42,273	39,537	6.5	5.1	5.5
2003	42,885	39,705	7.4	5.4	5.7
2002	42,798	40,121	6.3	5.3	5.8
2001	42,400	40,558	4.3	4.1	4.8
2000	41,876	40,525	3.2	2.6	4.9
1999	39,181	37,553	4.2	3.2	4.2
1998	38,931	37,337	4.1	3.3	4.5
1997	38,655	36,774	4.9	4.0	4.9
1996	37,830	35,817	5.3	4.3	5.4
1995	37,488	35,174	6.2	5.4	5.6
1994	36,627	33,925	7.4	6.0	6.1

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



## **Organizational Structures**

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

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

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

## **Conclusion**

The City possesses an excellent economic infrastructure, especially in telecommunications. Among other assets this infrastructure includes: New England's first and only transatlantic fiber optic hub; an abundance of inexpensive commercial office space; close geographic proximity to Boston, Cambridge and Logan Airport; regular commuter rail service to downtown Boston; the presence of one of New England's premier internet service providers, Shore.net (now Primus) and a host of other cyber based businesses such as Lightbridge Technologies; three miles of open and unobstructed ocean waterfront within easy walking distance from the heart of downtown and; a 2,200 acre forested urban park - the second largest in the United States.

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

## **REQUESTS FOR INFORMATION**

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

City Clerk's Office  
1 City Hall Square  
Lynn, Massachusetts 01901

## CITY OF LYNN, MASSACHUSETTS

## STATEMENT OF NET ASSETS

JUNE 30, 2005

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 42,669,761	\$ 149,723	\$ 42,819,484
Investments	5,780,240	-	5,780,240
Receivables, net of allowance for uncollectibles:			
Property taxes	2,613,630	-	2,613,630
Excises	2,210,629	-	2,210,629
Departmental and other	5,302,064	57,736	5,359,800
Intergovernmental	7,383,347	-	7,383,347
Other assets	3,267,049	25,185	3,292,234
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	1,015,604	-	1,015,604
Intergovernmental	51,141,999	-	51,141,999
Land and construction in progress	20,445,874	-	20,445,874
Capital assets, net of accumulated depreciation	<u>142,101,038</u>	<u>1,998,979</u>	<u>144,100,017</u>
<b>TOTAL ASSETS</b>	283,931,235	2,231,623	286,162,858
<b>LIABILITIES</b>			
Current:			
Warrants payable	2,944,688	-	2,944,688
Accounts payable	1,343,876	-	1,343,876
Accrued liabilities	4,851,252	135,596	4,986,848
Tax refunds payable	414,448	-	414,448
Notes payable	19,185,000	-	19,185,000
Other current liabilities	9,349,782	151,000	9,500,782
Current portion of long-term liabilities:			
Bonds payable	6,942,000	118,540	7,060,540
Other liabilities	791,094	-	791,094
Noncurrent:			
Bonds payable, net of current portion	84,212,000	1,193,080	85,405,080
Other liabilities, net of current portion	<u>2,233,885</u>	<u>-</u>	<u>2,233,885</u>
<b>TOTAL LIABILITIES</b>	132,268,025	1,598,216	133,866,241
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	114,998,905	687,359	115,686,264
Restricted for:			
Grants and other statutory restrictions	9,981,979	-	9,981,979
Permanent funds:			
Expendable	228,929	-	228,929
Nonexpendable	5,806,753	-	5,806,753
Unrestricted	<u>20,646,644</u>	<u>(53,952)</u>	<u>20,592,692</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 151,663,210</u>	<u>\$ 633,407</u>	<u>\$ 152,296,617</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
General government	\$ 11,356,793	\$ 1,670,198	\$ -	\$ -	\$ (9,686,595)	\$ -	\$ (9,686,595)
Public safety	33,257,537	1,223,289	776,209	-	(31,258,039)	-	(31,258,039)
Education	148,622,447	850,676	135,959,163	-	(11,812,608)	-	(11,812,608)
Public works	14,718,131	2,021,256	-	4,338,141	(8,358,734)	-	(8,358,734)
Health and human services	3,354,345	121,946	3,019,559	-	(212,840)	-	(212,840)
Culture and recreation	1,528,119	463,010	95,699	-	(969,410)	-	(969,410)
Employee benefits	44,416,045	-	6,828,296	-	(37,587,749)	-	(37,587,749)
Interest	2,649,972	-	-	-	(2,649,972)	-	(2,649,972)
Intergovernmental	2,040,172	-	-	-	(2,040,172)	-	(2,040,172)
Miscellaneous	61,875	-	-	-	(61,875)	-	(61,875)
Total Governmental Activities	262,005,436	6,350,375	146,678,926	4,338,141	(104,637,994)	-	(104,637,994)
<b>Business-Type Activities:</b>							
Marina Services	702,803	759,010	-	-	-	56,207	56,207
Total	\$ 262,708,239	\$ 7,109,385	\$ 146,678,926	\$ 4,338,141	(104,637,994)	56,207	(104,581,787)
<b>General Revenues:</b>							
Property taxes					72,432,332	-	72,432,332
Excises					4,544,815	-	4,544,815
Penalties, interest and other taxes					1,310,715	-	1,310,715
Grants and contributions not restricted to specific programs					28,210,906	-	28,210,906
Investment income					830,976	608	831,584
Miscellaneous					913,172	-	913,172
Total general revenues					108,242,916	608	108,243,524
Change in Net Assets					3,604,922	56,815	3,661,737
<b>Net Assets:</b>							
Beginning of year, as restated					148,058,288	576,592	148,634,880
End of year					\$ 151,663,210	\$ 633,407	\$ 152,296,617

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2005

	<u>General</u>	<u>Police Station Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and short-term investments	\$ 23,992,630	\$ 2,803,184	\$ 13,840,121	\$ 40,635,935
Investments	-	-	5,780,240	5,780,240
Receivables:				
Property taxes	4,712,340	-	-	4,712,340
Excises	5,057,284	-	-	5,057,284
Departmental and other	683,554	-	4,618,509	5,302,063
Intergovernmental	-	-	1,154,711	1,154,711
Due from other funds	<u>21,242</u>	<u>-</u>	<u>-</u>	<u>21,242</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 34,467,050</u></b>	<b><u>\$ 2,803,184</u></b>	<b><u>\$ 25,393,581</u></b>	<b><u>\$ 62,663,815</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Warrants payable	\$ 2,931,439	\$ -	\$ 13,248	\$ 2,944,687
Accounts payable	507,246	734,274	102,355	1,343,875
Accrued liabilities	3,541,831	-	-	3,541,831
Deferred revenues	9,784,207	-	5,308,239	15,092,446
Tax refunds payable	414,448	-	-	414,448
Due to other funds	-	-	21,242	21,242
Notes payable	-	15,000,000	4,185,000	19,185,000
Other liabilities	<u>233,917</u>	<u>579,391</u>	<u>-</u>	<u>813,308</u>
<b>TOTAL LIABILITIES</b>	<b>17,413,088</b>	<b>16,313,665</b>	<b>9,630,084</b>	<b>43,356,837</b>
Fund Balances:				
Reserved for:				
Encumbrances and continuing appropriations	3,045,993	-	-	3,045,993
Perpetual (nonexpendable) permanent funds	-	-	5,806,753	5,806,753
Unreserved:				
Undesignated, reported in:				
General fund	14,007,969	-	-	14,007,969
Special revenue funds	-	-	9,772,124	9,772,124
Capital project funds	-	(13,510,481)	(44,309)	(13,554,790)
Permanent funds	<u>-</u>	<u>-</u>	<u>228,929</u>	<u>228,929</u>
<b>TOTAL FUND BALANCES</b>	<b><u>17,053,962</u></b>	<b><u>(13,510,481)</u></b>	<b><u>15,763,497</u></b>	<b><u>19,306,978</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 34,467,050</u></b>	<b><u>\$ 2,803,184</u></b>	<b><u>\$ 25,393,581</u></b>	<b><u>\$ 62,663,815</u></b>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS  
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
 BALANCES TO NET ASSETS OF GOVERNMENTAL  
 ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2005

<b>Total governmental fund balances</b>	<b>\$ 19,306,978</b>
<ul style="list-style-type: none"> <li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li> </ul>	162,546,912
<ul style="list-style-type: none"> <li>• Due from the Massachusetts School Building Authority</li> </ul>	57,370,635
<ul style="list-style-type: none"> <li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li> </ul>	11,162,685
<ul style="list-style-type: none"> <li>• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.</li> </ul>	( 3,235,601)
<ul style="list-style-type: none"> <li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li> </ul>	( 1,309,421)
<ul style="list-style-type: none"> <li>• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</li> </ul>	( <u>94,178,978</u> )
<b>Net assets of governmental activities</b>	<b>\$ <u>151,663,210</u></b>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Police Station Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Fund</u>
<b>Revenues:</b>				
Property taxes	\$ 70,928,093	\$ -	\$ -	\$ 70,928,093
Excises	5,049,740	-	-	5,049,740
Penalties, interest and other taxes	1,310,714	-	-	1,310,714
Charges for services	2,455,315	-	3,524,286	5,979,601
Intergovernmental	149,305,519	-	30,981,894	180,287,413
Licenses and permits	1,068,445	-	-	1,068,445
Fines and forfeitures	1,505,417	-	-	1,505,417
Investment income	778,346	-	52,631	830,977
Miscellaneous	959,982	-	124,082	1,084,064
Total Revenues	<u>233,361,571</u>	<u>-</u>	<u>34,682,893</u>	<u>268,044,464</u>
<b>Expenditures:</b>				
Current:				
General government	9,035,030	-	1,614,180	10,649,210
Public safety	33,109,124	10,002,339	440,919	43,552,382
Education	119,916,837	-	26,655,003	146,571,840
Public works	11,260,197	-	4,094,107	15,354,304
Health and human services	844,122	-	2,510,223	3,354,345
Culture and recreation	1,193,156	-	245,573	1,438,729
Employee benefits	40,440,245	-	-	40,440,245
Debt service	11,647,430	-	-	11,647,430
Intergovernmental	2,040,172	-	-	2,040,172
Total Expenditures	<u>229,486,313</u>	<u>10,002,339</u>	<u>35,560,005</u>	<u>275,048,657</u>
Excess (deficiency) of revenues over expenditures	3,875,258	(10,002,339)	(877,112)	(7,004,193)
<b>Other Financing Sources (Uses):</b>				
Operating transfers in	613,204	-	496,763	1,109,967
Operating transfers out	(150,000)	(904)	(959,063)	(1,109,967)
Total Other Financing Sources (Uses)	<u>463,204</u>	<u>(904)</u>	<u>(462,300)</u>	<u>-</u>
Change in fund balance	4,338,462	(10,003,243)	(1,339,412)	(7,004,193)
Fund Equity, at Beginning of Year, as restated	<u>12,715,500</u>	<u>(3,507,238)</u>	<u>17,102,909</u>	<u>26,311,171</u>
Fund Equity, at End of Year	<u>\$ 17,053,962</u>	<u>\$ (13,510,481)</u>	<u>\$ 15,763,497</u>	<u>\$ 19,306,978</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS**    \$ ( 7,004,193)

<ul style="list-style-type: none"> <li>• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</li> </ul>	
Capital outlay purchases	12,074,759
Depreciation	( 4,627,454)
<ul style="list-style-type: none"> <li>• Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.</li> </ul>	2,172,522
<ul style="list-style-type: none"> <li>• The repayment of long-term debt principal consumes the financial resources of governmental funds. However, it has no effect on net assets.</li> </ul>	6,781,110
<ul style="list-style-type: none"> <li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li> </ul>	109,357
<ul style="list-style-type: none"> <li>• Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.</li> </ul>	463,865
<ul style="list-style-type: none"> <li>• Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities.</li> </ul>	2,216,746
<ul style="list-style-type: none"> <li>• Reimbursements from the Massachusetts School Building Authority for principal payments on long-term debt provide current financial resources to governmental funds but have no effect on net assets, therefore are excluded from net assets</li> </ul>	( <u>8,581,790</u> )
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>3,604,922</u></b>

See notes to financial statements.



## CITY OF LYNN, MASSACHUSETTS

## GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Amounts</u>	
<b>Revenues and Other Sources:</b>				
Taxes	\$ 70,153,960	\$ 70,153,960	\$ 70,153,960	\$ -
Excise	4,967,977	4,967,977	5,049,740	81,763
Penalties, interest and other taxes	898,864	898,864	1,310,715	411,851
Charges for services	2,356,541	2,356,541	2,455,315	98,774
Intergovernmental	131,974,445	131,974,445	136,883,983	4,909,538
Licenses and permits	945,373	945,373	1,068,445	123,072
Fines and forfeits	1,151,720	1,151,720	1,505,418	353,698
Investment income	468,709	468,709	778,346	309,637
Miscellaneous	65,000	65,000	959,982	894,982
Transfers in	95,903	561,433	613,204	51,771
Free cash	6,300,082	7,362,517	7,362,517	-
Total Revenues and Other Sources	219,378,574	220,906,539	228,141,625	7,235,086
<b>Expenditures and Other Uses:</b>				
General government	9,167,854	9,372,967	9,120,603	252,364
Public safety	33,943,393	34,498,937	33,328,807	1,170,130
Education	108,231,470	108,231,470	107,651,032	580,438
Public works	9,471,502	9,973,690	11,272,357	(1,298,667)
Health and human services	859,751	867,178	849,848	17,330
Culture and recreation	1,263,523	1,271,216	1,101,223	169,993
Debt service	11,409,694	11,409,694	11,310,582	99,112
Intergovernmental	2,112,814	2,112,814	2,040,172	72,642
Employee benefits	41,732,770	41,982,770	41,330,593	652,177
Transfers out	150,000	150,000	150,000	-
Other uses	1,035,803	1,035,803	1,035,803	-
Total Expenditures and Other Uses	219,378,574	220,906,539	219,191,020	1,715,519
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 8,950,605	\$ 8,950,605

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2005

	Business-Type Activities <u>Enterprise Fund</u>	Governmental <u>Activities</u> Internal Service <u>Fund</u>
	Marina <u>Fund</u>	
<b><u>ASSETS</u></b>		
Current:		
Cash and short-term investments	\$ 149,723	\$ 2,033,826
User fees, net of allowance for uncollectibles	57,736	-
Inventory	<u>25,185</u>	<u>-</u>
Total current assets	232,644	2,033,826
Noncurrent:		
Capital assets, net of accumulated depreciation	1,998,979	-
Other assets	<u>-</u>	<u>3,267,049</u>
Total noncurrent assets	<u>1,998,979</u>	<u>3,267,049</u>
<b>TOTAL ASSETS</b>	2,231,623	5,300,875
<b><u>LIABILITIES</u></b>		
Current:		
Accrued liabilities	135,596	-
Other current liabilities	151,000	8,536,476
Current portion of long-term liabilities:		
Bonds payable	<u>118,540</u>	<u>-</u>
Total current liabilities	405,136	8,536,476
Noncurrent:		
Bonds payable, net of current portion	<u>1,193,080</u>	<u>-</u>
Total noncurrent liabilities	<u>1,193,080</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	1,598,216	8,536,476
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	687,359	-
Unrestricted	<u>(53,952)</u>	<u>(3,235,601)</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 633,407</u>	<u>\$ (3,235,601)</u>

See notes to financial statements.

## CITY OF LYNN, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2005

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u> Internal Service <u>Fund</u>
	Marina <u>Fund</u>	
<b>Operating Revenues:</b>		
Charges for services	\$ 759,010	\$ -
Employee and employer contributions	<u>-</u>	<u>29,762,546</u>
Total Operating Revenues	759,010	29,762,546
<b>Operating Expenses:</b>		
Operating expenses	545,954	-
Depreciation	49,020	-
Employee benefits	<u>-</u>	<u>27,545,800</u>
Total Operating Expenses	<u>594,974</u>	<u>27,545,800</u>
Operating Income	164,036	2,216,746
<b>Nonoperating Revenues (Expenses):</b>		
Investment income	608	-
Interest expense	<u>(107,829)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(107,221)</u>	<u>-</u>
Change in net assets	56,815	2,216,746
Net Assets at Beginning of Year, as restated	<u>576,592</u>	<u>(5,452,347)</u>
Net Assets at End of Year	<u>\$ 633,407</u>	<u>\$ (3,235,601)</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2005

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	Marina <u>Fund</u>	Internal Service <u>Fund</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Receipts from customers and users	\$ 743,142	\$ -
Payments to vendors and employees	(604,788)	-
Receipts from employees and employer	-	29,762,546
Payments of employee benefits and expenses	<u>-</u>	<u>(29,202,063)</u>
Net Cash Provided By (Used For) Operating Activities	138,354	560,483
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>		
Acquisition and construction of capital assets	(263,501)	-
Principal payments on bonds and notes	(44,240)	-
Interest expense	<u>(107,829)</u>	<u>-</u>
Net Cash (Used For) Capital and Related Financing Activities	(415,570)	-
<b><u>Cash Flows From Investing Activities:</u></b>		
Investment income	<u>608</u>	<u>-</u>
Net Cash (Used For) Investing Activities	<u>608</u>	<u>-</u>
Net Change in Cash and Short-Term Investments	(276,608)	560,483
Cash and Short-Term Investments, Beginning of Year	<u>426,331</u>	<u>1,473,344</u>
Cash and Short-Term Investments, End of Year	<u>\$ 149,723</u>	<u>\$ 2,033,827</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u></b>		
Operating income	\$ 164,036	\$ 2,216,746
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	49,020	-
Changes in assets and liabilities:		
User fees	(15,868)	-
Inventory	(12,410)	-
Other liabilities	<u>(46,424)</u>	<u>(1,656,263)</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 138,354</u>	<u>\$ 560,483</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS  
 FIDUCIARY FUNDS  
 STATEMENT OF FIDUCIARY NET ASSETS  
 JUNE 30, 2005

	Pension Trust Fund (As of <u>December 31, 2004</u> )	Agency <u>Funds</u>
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ 107,339	\$ 233,206
Investments	168,736,103	-
Accounts receivable	<u>8,092,276</u>	<u>-</u>
Total Assets	176,935,718	233,206
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
Other liabilities	<u>7,042</u>	<u>233,206</u>
Total Liabilities	<u>7,042</u>	<u>233,206</u>
 <b><u>NET ASSETS</u></b>		
Total net assets held in trust for pension benefits and other purposes	<u>\$ 176,928,676</u>	<u>\$ -</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Pension Trust Fund</u>
<b>Additions:</b>	
Contributions:	
Employers	\$ 16,354,707
Plan members	5,977,764
Other	1,245,993
Total contributions	<u>23,578,464</u>
Investment Income (Loss):	
Increase (decrease) in fair value of investments	19,386,957
Less: management fees	<u>(906,977)</u>
Net investment income (loss)	<u>18,479,980</u>
Total additions	42,058,444
<b>Deductions:</b>	
Benefit payments to plan members and beneficiaries	25,932,750
Refunds to plan members	695,863
Administrative expenses	795,119
Total deductions	<u>27,423,732</u>
Net increase	14,634,712
<b>Net assets:</b>	
Beginning of year	<u>162,293,964</u>
End of year	<u>\$ 176,928,676</u>

See notes to financial statements.

# CITY OF LYNN, MASSACHUSETTS

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

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

#### A. Reporting Entity

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

Blended Component Units - Blended component units are entities that are legally separate, but are so related that they are, in substance, the same as the primary government, providing services entirely or almost entirely for the benefit of the primary government. The following component unit is blended within the primary government:

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

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

##### Government-Wide Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues.

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

#### Fund Financial Statements

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

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

#### Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as 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 government 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 government 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 *police station capital project fund* is used to account for the financing and construction of a police station.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

- Seaport Marina Operations

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

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

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

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in

the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

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

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

#### *E. Investments*

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

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

#### *F. Property Tax Limitations*

Legislation known as "Proposition 2 1/2" 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 2005 tax levy reflected an excess capacity of \$ 4,146,207.

#### *G. Interfund Receivables and Payables*

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

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate the portion not available for appropriation and not available as expendable financial resources.

*H. Inventories*

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

*I. Capital Assets*

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

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

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

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

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

*J. Compensated Absences*

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

*K. Long-Term Obligations*

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

*L. Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

*M. Use of Estimates*

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

*N. Material Changes in Classifications*

The accompanying financial statements reflect various changes in classification from the prior year. Specifically, the health trust fund was reported as part of the General Fund in fiscal year 2004 and as an internal service fund in fiscal year 2005. The School lunch fund was reported as an enterprise fund in fiscal year 2004 and as a nonmajor governmental fund in fiscal year 2005. Also the ambulance and golf course funds were reported as enterprise funds in fiscal year 2004 and as part of the general fund in fiscal year 2005.

**2. Stewardship, Compliance and Accountability**

*A. Budgetary Information*

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the City Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at City Council meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the City Council is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes

expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

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

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

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

*B. Budgetary Basis*

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

*C. Budget/GAAP Reconciliation*

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 233,361,571	\$ 229,486,313
Other financing sources/uses (GAAP basis)	<u>613,204</u>	<u>150,000</u>
Subtotal (GAAP Basis)	233,974,775	229,636,313

(continued)

(continued)

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Adjust tax revenue to accrual basis	( 774,131)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	( 2,105,553)
Add end of year appropriation carryforwards to expenditures	-	3,045,993
To reverse the effect of non-budgeted State contributions for teachers retirement	( 12,421,536)	( 12,421,536)
Recognize use of fund balance as funding source	<u>7,362,517</u>	<u>1,035,803</u>
Budgetary basis	<u>\$ 228,141,625</u>	<u>\$ 219,191,020</u>

*D. Excess of Expenditures Over Appropriations*

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

Snow and ice	\$ (2,069,605)
--------------	----------------

The appropriation deficit is funded on the fiscal year 2006 recap.

*E. Deficit Fund Equity*

The following funds had deficits as of June 30, 2005:

Police Station Major Fund	\$ (13,510,481)
Nonmajor Governmental Funds:	
Chapter 90	\$ ( 907,411)
Byrne Grant	\$ ( 25,321)
Mass Family Network	\$ ( 7,526)
Daycare	\$ ( 14,936)
School Sale	\$ ( 6,900)
Manning Bowl Capital Project	\$ ( 170,164)
Police Detail	\$ ( 179,422)
Fire Detail	\$ ( 72,055)
Electrical Detail	\$ ( 36,318)

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

### 3. Cash and Short-Term Investments

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Massachusetts general law Chapter 44, section 55, limits 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 City does not have a deposit policy for custodial credit risk.

As of June 30, 2005, \$ 47,182,555 of the City's bank balance of \$ 47,885,358 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the City's name.

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

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

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Treasury notes	\$ 1,495
Corporate bonds	2,065
Corporate equities	163
Mutual funds	420
Federal agency securities	<u>1,637</u>
Total investments	\$ <u>5,780</u>

Presented below are the investments of the Lynn Contributory Retirement System as of December 31, 2004 (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Treasury notes	\$ 6,065
Money Market	5,566
Corporate bonds	16,647
Corporate equities	80,732
Federal agency securities	4,440
Pooled funds	<u>55,286</u>
Total investments	\$ <u>168,736</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 City does not have policies for custodial credit risk.

**C. Concentration of Credit Risk**

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

**D. Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City 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 credit quality and sensitivity of the fair values of the City's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>				<u>Average Rating</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater Than 10</u>	
Debt Related Securities:						
Corporate bonds	\$ 2,065,082	\$ 1,080,292	\$ 881,397	\$ 103,393	\$ -	A2
U.S. Treasury notes	1,495,304	580,381	399,100	515,823	-	Aaa
Federal agency securities	<u>1,637,588</u>	<u>-</u>	<u>981,327</u>	<u>-</u>	<u>656,261</u>	Aaa
Total	\$ <u>5,197,974</u>	\$ <u>1,660,673</u>	\$ <u>2,261,824</u>	\$ <u>619,216</u>	\$ <u>656,261</u>	

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>				<u>Average Rating</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater Than 10</u>	
Debt Related Securities:						
Corporate bonds	\$ 16,647,134	\$ -	\$ 4,523,985	\$ 2,596,434	\$ 9,526,715	Baa1
U.S. Treasury notes	6,065,321	-	904,276	4,138,701	1,022,344	Aaa
Federal agency securities	<u>4,439,628</u>	<u>12,250</u>	<u>2,289,406</u>	<u>1,343,380</u>	<u>794,592</u>	Aaa
Total	\$ <u>27,152,083</u>	\$ <u>12,250</u>	\$ <u>7,717,667</u>	\$ <u>8,078,515</u>	\$ <u>11,343,651</u>	



*E. Foreign Currency Risk*

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City does not have policies for foreign currency risk.

**5. Taxes Receivable**

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

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

Taxes receivable at June 30, 2005 consist of the following (in thousands):

Real Estate		
2005	\$ 1,962	
2004	(31)	
2003	(44)	
2002	10	
Prior	<u>1</u>	
		1,898
Personal Property		
2005	144	
2004	180	
2003	170	
2002	430	
Prior	<u>295</u>	
		1,219
Tax Liens		1,103
Deferred Taxes		<u>492</u>
Total		\$ <u>4,712</u>

**6. Allowance for Doubtful Accounts**

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

	<u>Governmental</u>
Property taxes	\$ 1,083
Excises	2,847

## 7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2005. Of the \$ 58,525,346 on intergovernmental receivables, \$ 57,370,635 is due from the Massachusetts School Building Authority for reimbursement of school construction projects.

## 8. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2005 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 21,242	\$ -
Trust and Agency Funds:		
Library Trust Fund	<u>-</u>	<u>21,242</u>
Total	<u>\$ 21,242</u>	<u>\$ 21,242</u>

## 9. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 200,254	\$ 616	\$ ( 128)	\$ 200,742
Machinery, equipment, and furnishings	16,993	501	( 617)	16,877
Land improvements	2,330	45	-	2,375
Infrastructure	<u>9,401</u>	<u>655</u>	<u>-</u>	<u>10,056</u>
Total capital assets, being depreciated	228,978	1,817	( 745)	230,050
Buildings and improvements	( 61,670)	( 3,580)	128	( 65,122)
Machinery, equipment, and furnishings	( 13,708)	( 850)	555	( 14,003)
Land improvements	( 1,115)	( 79)	-	( 1,194)
Infrastructure	<u>( 7,511)</u>	<u>( 119)</u>	<u>-</u>	<u>( 7,630)</u>
Total accumulated depreciation	<u>( 84,004)</u>	<u>( 4,628)</u>	<u>683</u>	<u>( 87,949)</u>

(continued)

(continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Total capital assets, being depreciated, net	144,974	( 2,811)	( 62)	142,101
Capital assets, not being depreciated:				
Land	5,721	-	-	5,721
Construction in progress	<u>4,467</u>	<u>10,258</u>	<u>-</u>	<u>14,725</u>
Total capital assets, not being depreciated	<u>10,188</u>	<u>10,258</u>	<u>-</u>	<u>20,446</u>
Governmental activities capital assets, net	\$ <u>155,162</u>	\$ <u>7,447</u>	\$ ( <u>62</u> )	\$ <u>162,547</u>

Note: The City has not yet fully capitalized infrastructure assets for governmental activities.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 2,043	\$ -	\$ -	\$ 2,043
Machinery, equipment, and furnishings	489	-	-	489
Land improvements	38	-	-	38
Infrastructure	<u>-</u>	<u>263</u>	<u>-</u>	<u>263</u>
Total capital assets, being depreciated	2,570	263	-	2,833
Less accumulated depreciation for:				
Buildings and improvements	( 377)	( 41)	-	( 418)
Machinery, equipment, and furnishings	( 370)	( 8)	-	( 378)
Land improvements	<u>( 38)</u>	<u>-</u>	<u>-</u>	<u>( 38)</u>
Total accumulated depreciation	<u>( 785)</u>	<u>( 49)</u>	<u>-</u>	<u>( 834)</u>
Total capital assets, being depreciated, net	<u>1,785</u>	<u>214</u>	<u>-</u>	<u>1,999</u>
Business-type activities capital assets, net	\$ <u>1,785</u>	\$ <u>214</u>	\$ <u>-</u>	\$ <u>1,999</u>

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

<b>Governmental Activities:</b>	
General government	\$ 942
Public safety	526
Education	2,741
Public works	330
Culture and recreation	<u>89</u>
Total depreciation expense - governmental activities	\$ <u>4,628</u>
<b>Business-Type Activities:</b>	
Marina	\$ <u>49</u>
Total depreciation expense - business-type activities	\$ <u>49</u>

**10. Warrants and Accounts Payable**

Warrants payable represent 2005 expenditures paid by July 15, 2005 as permitted by law. Accounts payable represent additional 2005 expenditures paid after July 15, 2005.

**11. Deferred Revenue**

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2005 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

**12. Anticipation Notes Payable**

The City had the following notes outstanding at June 30, 2005:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2005</u>
Bond anticipation	3.00%	10/15/04	10/14/05	\$ 15,000,000
Bond anticipation	2.78%	05/04/05	05/04/06	<u>4,185,000</u>
Total				<u>\$ 19,185,000</u>

The following summarizes activity in notes payable during fiscal year 2005 (in thousands):

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ <u>10,000</u>	\$ <u>19,185</u>	\$ <u>(10,000)</u>	\$ <u>19,185</u>

**13. Capital Lease Obligations**

The City is the lessee of certain equipment under capital leases expiring in various years through 2008. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2005:

2006	\$ 596,464
2007	483,692
2008	<u>38,678</u>
Total minimum lease payments	1,118,834
Less amount representing interest	<u>( 76,472)</u>
Present Value of Minimum Lease Payments	<u>\$ 1,042,362</u>

## 14. Long-Term Debt

### A. General Obligation Bonds

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

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2005</u>
Police, Library	02/01/2010	5.40	\$ 780,000
School Land acquisition	11/01/2010	5.0 - 5.2	870,000
General Obligation bonds	01/15/2011	3.5 - 5.0	6,845,000
Rooks Building	07/25/2011	3.7 - 5.8	154,000
RESCO General Obligation	06/01/2012	4.9 - 5.1	3,370,000
HUD 108 Note	08/01/2012	1.2 - 4.6	470,000
HUD 108 2004 A	08/01/2012	2.3 - 5.0	900,000
Lynn Arts CCMC	07/25/2016	4.9 - 6.6	490,000
School Project Loan	02/15/2017	2.3 - 2.5	33,410,000
School Project Loan	08/15/2017	2.3 - 4.2	22,335,000
School Project Loan	06/01/2018	2.3 - 3.7	19,310,000
New Police Station	01/15/2021	3.4 - 4.5	<u>2,220,000</u>
Total Governmental Activities:			\$ <u>91,154,000</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2005</u>
Marina	02/01/2014	7.00	\$ <u>1,311,620</u>
Total Business-Type Activities:			\$ <u>1,311,620</u>

### B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2005 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 6,942,000	\$ 4,213,060	\$ 11,155,060
2007	7,122,000	3,944,493	11,066,493
2008	7,312,000	3,666,243	10,978,243
2009	7,517,000	3,333,664	10,850,664
2010	7,752,000	2,976,696	10,728,696
2011 - 2015	35,814,000	9,667,449	45,481,449
2016 - 2020	18,560,000	1,552,540	20,112,540
2021 - 2025	<u>135,000</u>	<u>5,737</u>	<u>140,737</u>
Total	\$ <u>91,154,000</u>	\$ <u>29,359,882</u>	\$ <u>120,513,882</u>

The following governmental funds have been designated as the sources to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2005:

General fund			\$ <u>91,154,000</u>
Total			\$ <u>91,154,000</u>
<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 118,540	\$ 141,098	\$ 259,638
2007	54,410	83,516	137,926
2008	58,350	79,707	138,057
2009	62,560	75,622	138,182
2010	176,170	71,243	247,413
2011 - 2015	<u>841,590</u>	<u>152,411</u>	<u>994,001</u>
Total	\$ <u>1,311,620</u>	\$ <u>603,597</u>	\$ <u>1,915,217</u>

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

During the year ended June 30, 2005, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/04*</u>	Additions	Reductions	Total Balance <u>6/30/05</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/05</u>
<b><u>Governmental Activities</u></b>						
Bonds payable	\$ 97,935	\$ -	\$ (6,781)	\$ 91,154	\$ (6,942)	\$ 84,212
Other:						
Capital leases	1,576	-	( 534)	1,042	( 545)	497
Accrued employee benefits	1,027	-	-	1,027	( 103)	924
Workers compensation	<u>956</u>	<u>-</u>	<u>-</u>	<u>956</u>	<u>( 143)</u>	<u>813</u>
Totals	\$ <u>101,494</u>	\$ <u>-</u>	\$ <u>(7,315)</u>	\$ <u>94,179</u>	\$ <u>(7,733)</u>	\$ <u>86,446</u>
<b><u>Business-Type Activities</u></b>						
Bonds payable	\$ <u>1,356</u>	\$ <u>-</u>	\$ <u>( 44)</u>	\$ <u>1,312</u>	\$ <u>( 119)</u>	\$ <u>1,193</u>
Totals	\$ <u>1,356</u>	\$ <u>-</u>	\$ <u>( 44)</u>	\$ <u>1,312</u>	\$ <u>( 119)</u>	\$ <u>1,193</u>

\* As restated

**15. Restricted Net Assets**

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

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original

restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

**16. Reserves and Designations of Fund Equity**

“Reserves” of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at June 30, 2005:

Reserved for Encumbrances - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Perpetual Permanent Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

**17. General Fund Undesignated Fund Balance**

The undesignated 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 paragraphs summarize the major differences.

Massachusetts general laws include provisions to allow municipalities to overexpend certain appropriations if they are incurred in an emergency situation and for the safety of the public. The most common example involves the “snow and ice” appropriation. All such overexpenditures, however, must be funded in the subsequent year’s tax rate.

The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS.

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

GAAP basis balance	\$ 14,007,969
Snow and ice deficit	2,069,605
Tax refund estimate	<u>414,448</u>
Statutory (UMAS) Balance	\$ <u>16,492,022</u>

**18. Subsequent Events**

Subsequent Year Appropriations

Subsequent to June 30, 2005, the City appropriated \$ 7,800,000 of undesignated fund balance to be used in fiscal year 2006.

Debt

Subsequent to June 30, 2005, the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond anticipation note	\$ 2,500,000	4.00%	09/15/05	09/15/06
General Obligation Bond	15,000,000	3.0 - 6.0%	10/01/05	10/01/24

**19. Commitments and Contingencies**

Outstanding Lawsuits - There are several pending lawsuits in which the City is involved. The City'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 City expects such amounts, if any, to be immaterial.

Lynn Classical High School - The City of Lynn constructed a new high school on a former capped landfill site. The school has suffered damages resulting from shifting in the foundation slab and support system. Engineers believe repair to the existing structure can remediate the problem.

Costs needed for remediation are estimated at \$ 25 million including repairs, engineering, air quality monitoring, temporary costs of alternative space during reconstruction and costs of recovery from various parties participating in the design and construction.

The City has initiated claims for damages and is confident that the City will recover damages sufficient to cover the estimated costs.

Default of Marina Debt - The City is in default of \$ 67,790 of debt related to the Marina. The remainder of the debt will be repaid in fiscal 2006.



**20. Post-Employment Health Care and Life Insurance Benefits**

The City has accepted Chapter 32B of Massachusetts General Laws to provide for health care and life insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the City's group plans. The cost of these benefits are included in the total cost of benefits for both active and retired employees. The number of participants currently eligible to receive benefits, and cost of benefits for retirees, their dependents, or their survivors for the year ended June 30, 2005 was not available.

**21. Contributory Retirement System**

*A. Plan Description and Contribution Information*

Substantially all employees of the City (except teachers and administrators under contract employed by the School Department) are members of the Lynn Contributory Retirement System (LCRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the LCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the LCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The LCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2004, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	1,295
Inactive members	260
Active plan members	<u>1,459</u>
Total	<u>3,014</u>
Number of participating employers	3

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of \$ 30,000 per year. The percentages are as follows:

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

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

*B. Summary of Significant Accounting Policies*

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

Method Used to Value Investments - Investments are reported in accordance with PERAC requirements.

*C. Teachers*

As required by State statutes, teachers of the City are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The City 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, 2001	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 City's current year covered payroll for teachers and administrators was \$ 74,090,880.

In fiscal year 2005, the Commonwealth of Massachusetts contributed \$ 12,421,536 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

## 22. Self Insurance

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

### Health Insurance

The City contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the City is liable for claims up to \$ 1,800,000 per individual. The claims liability represents an estimate of claims incurred but unpaid at year end, based on past historical costs and claims paid subsequent to year end.

Changes in the aggregate liability for claims for the year ended June 30, 2005 are as follows:

	<u>Health Coverage</u>
Claims liability, July 1, 2004	\$ 3,932,613
Claims incurred/recognized in fiscal year 2005	27,545,800
Claims paid in fiscal year 2005	<u>(27,789,838)</u>
Claims liability, June 30, 2005	\$ <u>3,688,575</u>

## 23. Risk Management

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

**24. Beginning Fund Balance Reclassification**

The City's major governmental funds for fiscal year 2005, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity June 30, 2004 (as previously <u>reported</u> )	<u>Reclassification</u>	Fund Equity June 30, 2004 (as restated)
Nonmajor funds	\$ 13,982,932	\$ 3,119,977	\$ 17,102,909
School Lunch Fund	( 387,261)	387,261	-
Police Station Major Fund	<u>-</u>	<u>(3,507,238)</u>	<u>( 3,507,238)</u>
Total	\$ <u>13,595,671</u>	\$ <u>-</u>	\$ <u>13,595,671</u>

**25. Beginning Fund Balance Net Assets Restatement**

The beginning (July 1, 2004) fund balances of the City have been restated as follows (in thousands):

Government-Wide Financial Statements:

	Gov'tl <u>Activities</u>	<u>Enterprise Funds</u>				Total Bus.-Type <u>Activities</u>
		<u>Gannon Golf Course</u>	<u>Ambu- lance</u>	<u>School Lunch</u>	<u>Marina</u>	
As previously reported	\$ 89,790	\$ 295	\$ 323	\$ (387)	\$ 577	\$ 808
Record add'l capital assets	59,185	-	-	-	-	-
Record add'l bonds payable	( 1,606)	-	-	-	-	-
Record add'l capital leases	( 1,576)	-	-	-	-	-
Record tax refund liability	( 145)	-	-	-	-	-
Record workers' comp. liability	( 956)	-	-	-	-	-
Correct accrued interest payable	798	-	-	-	-	-
Correct MSBA receivable	986	-	-	-	-	-
Correct prior year deferred rev.	466	-	-	-	-	-
Correct prior year comp. absences	951	-	-	-	-	-
Correct housing authority	( 66)	-	-	-	-	-
Reclassify activities	<u>231</u>	<u>(295)</u>	<u>(323)</u>	<u>387</u>	<u>-</u>	<u>(231)</u>
As restated	\$ <u>148,058</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>577</u>	\$ <u>577</u>

Fund Basis Financial Statements:

	<u>Governmental Funds</u>			
	<u>General Fund</u>	<u>Police Station Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Proprietary Fund</u>
As previously reported	\$ 2,567	\$ -	\$ 14,049	\$ -
Reclassify self insurance	5,452	-	-	5,452
Additional overlay	4,841	-	-	-
Prior year ATB liability	( 145)	-	-	-
Prior year MVE accrual	-	-	-	-
School lunch as nonmajor	-	-	( 387)	-
Housing Authority	-	-	( 66)	-
Reclass Police Station major fund	<u>-</u>	<u>(3,507)</u>	<u>3,507</u>	<u>-</u>
As restated	<u>\$ 12,715</u>	<u>\$ (3,507)</u>	<u>\$ 17,103</u>	<u>\$ (5,452)</u>

**CITY OF LYNN, MASSACHUSETTS  
CONTRIBUTORY RETIREMENT SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION**

**Schedules of Funding Progress and Employer Contributions**

The following schedules are presented in accordance with the Governmental Accounting Standards Board Statement 25.

**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 Percentage of Covered Payroll [(b - a)/c]
1/1/04	\$ 178,523,359	\$ 351,319,226	\$ 172,795,867	50.8%	\$ 63,050,947	274.1%
1/1/02	\$ 166,986,318	\$ 317,252,740	\$ 150,226,422	52.6%	\$ 66,007,910	227.6%
1/1/00	\$ 168,279,923	\$ 278,031,058	\$ 109,751,135	60.5%	\$ 58,953,757	186.2%
1/1/98	\$ 109,785,999	\$ 200,056,186	\$ 90,270,187	54.9%	\$ 47,985,127	188.1%

**Schedule of Employer Contributions:**

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2003	\$ 14,054,394	100%
2004	14,693,491	100%
2005	16,354,707	100%

The required information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	1/1/04
Actuarial cost method	Individual entry age normal
Amortization method	4.5% increasing
Remaining amortization period	24 years
Asset valuation method	Actuarial value, 5 year smoothing
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increase	Service based table with ultimate rates of 4.75%, 5.00%, and 5.25% for groups 1, 2, and 4 respectively

See Independent Auditors' Report.