

**CITY OF LYNN, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2010**

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## 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, 2010, (except for the Lynn Contributory Retirement System which is as of and for the year ended December 31, 2009) 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 an opinion 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, 2010, (except the Lynn Contributory Retirement System which is as of December 31, 2009), 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.

*Additional Offices:*

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

The management's discussion and analysis appearing on the following pages, and the supplementary information appearing on page 59, 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 March 30, 2011 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 assessing the results of our audit.

*Melanson, Heath + Company P.C.*

Andover, Massachusetts  
March 30, 2011

## **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, 2010.

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

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

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

The statement of net 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 separate information for the marina operations, which is considered to be a major fund.

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

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

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

**B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 108,312,290 (i.e., net assets), a change of \$ (4,779,437) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 39,389,612 a change of \$ 9,260,409 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 16,029,400, a change of \$ 5,654,323 in comparison with the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 85,029,802 a change of \$ (6,496,674) 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	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 91,413	\$ 73,031	\$ 148	\$ 172	\$ 91,561	\$ 73,203
Noncurrent assets	22,888	26,967	-	-	22,888	26,967
Capital assets	173,951	171,775	1,622	1,697	175,573	173,472
Total assets	<u>288,252</u>	<u>271,773</u>	<u>1,770</u>	<u>1,869</u>	<u>290,022</u>	<u>273,642</u>
Long-term liabilities outstanding	151,206	135,519	1,156	1,253	152,362	136,772
Other liabilities	29,167	23,595	181	183	29,348	23,778
Total liabilities	<u>180,373</u>	<u>159,114</u>	<u>1,337</u>	<u>1,436</u>	<u>181,710</u>	<u>160,550</u>
Net assets:						
Invested in capital assets, net	116,285	109,032	693	677	116,978	109,709
Restricted	21,433	16,859	-	-	21,433	16,859
Unrestricted	(29,839)	(13,232)	(260)	(244)	(30,099)	(13,476)
Total net assets	<u>\$ 107,879</u>	<u>\$ 112,659</u>	<u>\$ 433</u>	<u>\$ 433</u>	<u>\$ 108,312</u>	<u>\$ 113,092</u>

### CHANGES IN NET ASSETS

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 8,899	\$ 7,544	\$ 607	\$ 720	\$ 9,506	\$ 8,264
Operating grants and contributions	179,080	174,218	-	-	179,080	174,218
Capital grants and contributions	1,235	1,033	-	-	1,235	1,033
General revenues:						
Property taxes	92,928	88,970	-	-	92,928	88,970
Excises	4,153	5,311	-	-	4,153	5,311
Penalties and interest on taxes	1,176	1,158	-	-	1,176	1,158
Grants and contributions not restricted to specific programs	28,107	27,432	-	-	28,107	27,432
Investment income	546	(49)	-	1	546	(48)
Other	863	2,071	12	4	875	2,075
<b>Total revenues</b>	<u>316,987</u>	<u>307,688</u>	<u>619</u>	<u>725</u>	<u>317,606</u>	<u>308,413</u>
<b>Expenses:</b>						
General government	20,598	20,643	-	-	20,598	20,643
Public safety	35,715	36,216	-	-	35,715	36,216
Education	159,062	159,515	-	-	159,062	159,515
Public works	17,649	15,680	-	-	17,649	15,680
Human services	4,101	3,954	-	-	4,101	3,954
Culture and recreation	2,135	981	-	-	2,135	981
Employee benefits	79,361	71,756	-	-	79,361	71,756
Interest on long-term debt	1,061	1,662	-	-	1,061	1,662
Intergovernmental	2,085	1,651	-	-	2,085	1,651
Capital asset impairment	-	-	-	-	-	-
Marina	-	-	619	736	619	736
<b>Total expenses</b>	<u>321,767</u>	<u>312,058</u>	<u>619</u>	<u>736</u>	<u>322,386</u>	<u>312,794</u>
Decrease in net assets	(4,780)	(4,370)	-	(11)	(4,780)	(4,381)
Net assets - beginning of year (as restated)	<u>112,659</u>	<u>117,029</u>	<u>433</u>	<u>444</u>	<u>113,092</u>	<u>117,473</u>
Net assets - end of year	<u>\$ 107,879</u>	<u>\$ 112,659</u>	<u>\$ 433</u>	<u>\$ 433</u>	<u>\$ 108,312</u>	<u>\$ 113,092</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 \$ 108,312,290, a change of \$ (4,779,437) from the prior year.



The largest portion of net assets \$ 116,977,985 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, \$ 21,432,728, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ (30,098,423), results in a deficit.

**Governmental activities.** Governmental activities for the year resulted in a change in net assets of \$ (4,779,697). Key elements of this change are as follows (in thousands):

General fund revenues in excess of expenditures	\$ 6,965
Non-major funds on the accrual basis	274
Internal service fund revenues in excess of expenditures	574
Capital assets obtained from current year revenues	5,148
Massachusetts School Building Authority principal payment received in current year, however recognized in prior years	(5,066)
Principal debt service in excess of depreciation expense	3,469
Increase in deferred revenue over prior year	4,232
Increase in OPEB liability over prior year	(21,300)
Other	<u>924</u>
Total	<u>\$ (4,780)</u>

**Business-type activities.** Business-type activities were breakeven for the year.

#### **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 \$ 39,389,612, an increase of \$ 9,260,409 in comparison with the prior year. Key elements of this increase are as follows (in thousands):

General fund revenues in excess of expenditures primarily due to unexpended appropriations	\$ 6,227
Non-major capital project fund expenditures	(6,249)
Capital project related bond proceeds	5,000
Special revenue fund revenues in excess of expenditures due to unspent grant proceeds	3,276
Trust fund gain on investments	398
Refunding bond premium	534
Transfers, net	<u>74</u>
Total	<u>\$ 9,260</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 \$ 16,029,400, while total fund balance was \$ 20,691,948. 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 5.9 percent of total general fund expenditures, while total fund balance represents 7.7 percent of that same amount.

The fund balance of the general fund increased by \$ 6,965,558 during the current fiscal year. Key factors in this increase are as follows (in thousands):

Use of free cash and overlay surplus	\$ (5,025)
Prior year deficits raised in current year	1,850
Revenues received in excess of budget	2,127
Expenditures less than budget	4,657
Current year encumbrances in excess of prior year	1,311
Unspent prior year encumbrances	933
Other	<u>1,113</u>
Total	<u>\$ 6,966</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 a deficit balance of \$ (259,649) a decrease of \$ 15,455 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 change in appropriations of \$ 646,979. Major reasons for these amendments include:

- \$ 240,000 Additional workers compensation appropriations
- \$ 91,870 Additional parking appropriations
- \$ 208,781 Additional inspectional services appropriations
- \$ 74,000 Additional police department appropriations
- \$ 32,328 Additional city clerk appropriations

The increases were mostly funded from transfers from related special revenue funds.

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

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 175,573,606 (net of accumulated depreciation), an increase of \$ 2,101,343 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 (in thousands):

Repair of Lynn Classical High School	\$ 2,980
Infrastructure improvements	1,532
New school equipment	1,098
School building repairs	915
City hall elevator replacement	456
New public safety vehicles	399
New public safety equipment	369
City building improvements	177
DPW Vehicles	150
Other	35
Depreciation	<u>(6,010)</u>
Total	\$ <u>2,101</u>

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 \$ 85,029,802, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the footnotes to the financial statements.

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

### **Overview**

Program year 2010 continued our ongoing progress in the area of economic development as the City is in the midst of implementing the findings and goals of the City's Economic Development Strategy. We have completed and adopted our Waterfront Master Plan and are awaiting final approval of our master harbor plan. We anticipate approval in early 2011. The completion and adoption of these two strategic plans will enable the City of Lynn to chart a positive economic course over the next twenty to thirty years.

The single largest development project of 2010 came to completion with the relocation of the power lines which bisected the waterfront and have prevented development for over thirty plus years. This project, undertaken jointly with National Grid was completed on time and under budget. The City is well-positioned to aggressively market the targeted area and numerous steps are being taken to encourage development by right on the property owned by private parties. Mayor Kennedy, her office and staff, as well as the City's economic development agency, EDIC are aggressively working toward future development of the waterfront.

With regard to the economic State of the City, this past calendars' year most pressing concerns revolves around employment as does most of the Commonwealth and our Nation. The City has taken a step backward rather than forward when comparing unemployment in calendar year 2009 of 7.6% to 10.3% for the last quarter of 2011. Furthermore, the unemployment rate never fell below 9.2% and hit a high an 11% in September. On a more positive note, investment by the federal government in the aircraft engine division produced positive economic news for this division of the company. Additionally, the City has recently become involved with the Commonwealth to work together with GE to begin the process of improving infrastructure at the Lynn Plant and stabilize and hopeful grow new manufacturing jobs at the Lynn Facility.

The Central Sq. 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. The Mount Vernon reconstruction and street scape project has been completed providing new lighting as well as aesthetic enhancements in our downtown. As reported in the past, the City continues to support downtown revival with over 250 new residents calling downtown home; it marks the halfway 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 sign is the recent purchase by a private developer of the former school administration building which has remained vacant in the

downtown for over six years. This project has the potential to reignite the progress made in the downtown halted only by the national economic recession.

Lynn Community Health Center and VNA ALL Care both are building new/ expansion facilities in downtown Lynn. This expansion has the potential to create in excess of 100 jobs and will cost approximately \$ 6 million dollars. 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.

Both locally and nationally, the real estate crisis has increased uneasiness and is of concern for the upcoming fiscal year. In 2008, over 250 homes were in or completed foreclosure, the highest foreclosure rate in the history of the Commonwealth. The impact has transcended the state and morphed into a national problem, the City is exploring ways to help impact homeowners, but look forward to additional Federal assistance in the coming year. On a more positive note, 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; re-lighting projects located on Monroe Street and Mount Vernon, as well as a new façade program targeted for Market Street. These efforts at beautification and revitalization have been well accepted by both the existing downtown community and investors alike. This trend will continue as 2010 will bring about an additional \$ 1,000,000 via CDBG and EDIC funds.

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. Many of these new homeowners attended the public hearings on the City's new economic initiatives. In 2009, the City completed, with the help of the new downtown residents, a vision plan for Market Street, one of the central corridors surrounding our downtown. Plans to expand and include the Lynn Common, as well as other target areas, will benefit the City and our ability to rebound once the overall economy improves.

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 is occupied and fully operational. This \$ 19 million investment exhibits further evidence of the City's financial commitment to the downtown and its new residents.

The City remains committed to providing a reasonable financial alternative for families to find safe and fun activities to participate in; the continued play of the North Shore Navigators' at the New Frasier Field will hopefully continue to grow and prosper. The recent success of the Navigators winning the 2010 New

England Collegiate Championship, as well as new local ownership, will no doubt make 2011 even more exciting for baseball fans on the North Shore and in the City of Lynn.

2008 completed the re-birth of Manning Field. For the past 60 years, Manning Bowl has served as a lynchpin to many sporting events. The stadium was rebuilt, and a new sports complex is now in place next to the refurbished Frasier Field. 2009 saw our City and Community take full advantage of the sporting complex. 2010 saw continued expansion of use of both facilities; we expect 2011 and beyond will provide additional opportunities to leverage this state of the art facility for the City and the Greater North Shore.

In terms of future development activities long term in nature, the City continues 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, dialogue continues with the hopes that reuse plans will be developed in calendar year 2011.

In 2011, EDIC will submit and will hopefully be awarded Federal grants/ assistance to update the City's entire Brownfield's inventory. As additional funding opportunities present themselves, the City will look for new sites for continued Brownfield redevelopment.

**Lynn Assessed Values**

<b><u>FY</u></b>	<b><u>Commercial</u></b>	<b><u>% Chg</u></b>	<b><u>Total All Classes</u></b>	<b><u>% Chg</u></b>
2000	\$ 224,464,562	1.6%	\$ 2,807,439,890	9.7%
2001	257,805,301	14.9%	3,151,034,450	12.2%
2002	293,909,090	14.0%	3,854,700,111	22.3%
2003	330,581,516	12.5%	4,656,277,295	20.8%
2004	352,109,922	6.5%	5,508,583,433	18.3%
2005	440,961,667	25.2%	6,249,264,921	13.4%
2006	460,329,322	4.4%	6,774,769,631	8.4%
2007	489,356,651	6.3%	7,030,173,447	3.8%
2008	529,546,785	8.2%	7,042,423,768	0.2%
2009	507,754,589	-4.1%	6,208,089,401	-11.8%
2010	464,501,219	-12.0%	5,246,831,500	-6.5%

Commercial and Residential real estate valuations have continued to decline from their historic highs from calendar years 2000-2005. The City of Lynn continues to place a reliance on the residential sector, bearing an increasing burden with regard to the overall tax levy, but is shifting that burden more equitably with our commercial.

The single family home median sale valuation continues in a negative trend from the historic highs just a few years ago. Median sales have reverted back to near 2001 sales as continued foreclosures and short sales burden the local real estate market.

<u>FY</u>	<u>Avg Value</u>	<u>% Chg</u>	<u>Calendar Yr</u>	<u>Median Sale Price</u>	<u>% Chng</u>
1997	\$ 98,418	N/A	1997	\$ 96,000	N/A
1998	98,712	0.3%	1998	115,700	20.5%
1999	111,459	12.9%	1999	134,500	16.2%
2000	124,571	11.8%	2000	160,000	19.0%
2001	139,174	11.7%	2001	190,000	18.8%
2002	168,817	21.3%	2002	245,000	28.9%
2003	198,415	17.5%	2003	267,673	9.3%
2004	229,600	15.7%	2004	280,000	4.6%
2005	256,992	11.9%	2005	299,000	6.8%
2006	276,031	7.4%	2006	290,000	-3.0%
2007	286,007	3.6%	2007	260,000	-10.3%
2008	286,002	0.0%	2008	200,000	-23.1%
2009	260,462	-11.2%	2009	196,000	-20.6%

Source: a) Mass. Dept. of Revenue  
b) Town Stats, the Warren Group

Information is based on Single Family Homes

## 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. The redevelopment of the Blossom Street public access pier is injecting \$ 2.2 million into our local economy and will provide a site for water shuttle service from Lynn to Boston in the future. 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

The local economy continued to slow in 2009. On a positive note, the City welcomed its first "Green" company, and the EDIC has provided work space for a green incubator by signing a three-year lease in a building located close to the downtown. The City also celebrated the opening of a new restaurant in our downtown on Oxford Street, the new business is off to a great start and is a bright light in troubled times.

The following table sets forth the City's average labor force and unemployment rates for calendar years 1999 through 2009 and the unemployment rates for the state and nation as a whole for the same period.

### Employment and Unemployment Rates

<u>Year</u>	<u>Labor Force</u>	<u>Employed</u>	<u>Unemployment Rate</u>	<u>MA Unemployment Rate</u>	<u>U.S. Unemployment Rate</u>
2009	41,614	36,997	9.7%	9.4%	10.0%
2008	41,617	38,835	6.7	5.5	5.6
2007	41,236	38,994	5.4	4.5	4.6
2006	41,544	39,043	6.0	4.8	4.6
2005	41,736	39,179	6.1	4.8	6.1
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

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.

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	3,400
Atlantic Care	Healthcare/Hospital	1,105
		(continued)



(continued)

<b><u>Largest Employers</u></b>	<b><u>Product</u></b>	<b><u>Employment</u></b>
Garelick Farms	Creamery/Milk Products	492
Visiting Nurse Association	Healthcare/Nursing	643
Greater Lynn Senior Services	Elderly Services	610
Eastern Bank	Banking	462
Lynn Community Health Center	Healthcare Services	330
Wal-Mart	Retail Store	250
North Shore Community College	Education	400
Harvard Folding Box	Corrugated Boxes	70
Willow Labs	Lab testing and services	520
Verizon	Utility	100

### **Organizational Structures**

The Office of Inspectional Services is in year five of operation and continues to receive 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:

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

## CITY OF LYNN, MASSACHUSETTS

## STATEMENT OF NET ASSETS

JUNE 30, 2010

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 60,715,593	\$ 98,972	\$ 60,814,565
Investments	6,022,142	-	6,022,142
Receivables, net of allowance for uncollectibles:			
Property taxes	3,443,112	-	3,443,112
Excises	1,732,230	-	1,732,230
Departmental and other	6,039,339	13,671	6,053,010
Intergovernmental	10,735,422	-	10,735,422
Other assets	2,725,000	34,944	2,759,944
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental	21,921,607	-	21,921,607
Property taxes	966,590	-	966,590
Capital assets, non-depreciable	8,369,202	-	8,369,202
Capital assets, depreciable, net of accumulated depreciation	<u>165,582,275</u>	<u>1,622,129</u>	<u>167,204,404</u>
<b>TOTAL ASSETS</b>	<b>288,252,512</b>	<b>1,769,716</b>	<b>290,022,228</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	3,139,875	-	3,139,875
Accounts payable	1,612,812	-	1,612,812
Accrued liabilities	12,202,657	30,109	12,232,766
Tax refunds payable	117,056	-	117,056
Notes payable	4,000,000	-	4,000,000
Unearned revenue	2,960,381	-	2,960,381
Other current liabilities	5,134,505	151,000	5,285,505
Current portion of long-term liabilities:			
Bonds payable	9,812,000	287,024	10,099,024
Other liabilities	1,841,733	-	1,841,733
Noncurrent:			
Bonds payable, net of current portion	74,062,000	868,778	74,930,778
Other liabilities, net of current portion	9,142,277	-	9,142,277
Net OPEB obligation	<u>56,347,731</u>	<u>-</u>	<u>56,347,731</u>
<b>TOTAL LIABILITIES</b>	<b>180,373,027</b>	<b>1,336,911</b>	<b>181,709,938</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	116,285,531	692,454	116,977,985
Restricted for:			
Grants and other statutory restrictions	15,135,700	-	15,135,700
Permanent funds:			
Nonexpendable	6,120,508	-	6,120,508
Expendable	176,520	-	176,520
Unrestricted	<u>(29,838,774)</u>	<u>(259,649)</u>	<u>(30,098,423)</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>107,879,485</u></b>	<b>\$ <u>432,805</u></b>	<b>\$ <u>108,312,290</u></b>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010

	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	\$ 20,597,691	\$ 2,254,818	\$ 1,164,022	\$ -	\$ (17,178,851)	\$ -	\$ (17,178,851)
Public safety	35,715,039	1,287,060	2,312,153	-	(32,115,826)	-	(32,115,826)
Education	159,061,581	545,912	164,355,730	-	5,840,061	-	5,840,061
Public works	17,649,445	2,857,628	7,102,942	1,235,118	(6,453,757)	-	(6,453,757)
Health and human services	4,100,907	1,007,655	2,740,618	-	(352,634)	-	(352,634)
Culture and recreation	2,135,207	945,695	703,909	-	(485,603)	-	(485,603)
Employee benefits	79,361,017	-	700,353	-	(78,660,664)	-	(78,660,664)
Interest	1,061,088	-	-	-	(1,061,088)	-	(1,061,088)
Intergovernmental	2,085,158	-	-	-	(2,085,158)	-	(2,085,158)
<b>Total Governmental Activities</b>	<b>321,767,133</b>	<b>8,898,768</b>	<b>179,079,727</b>	<b>1,235,118</b>	<b>(132,553,520)</b>	<b>-</b>	<b>(132,553,520)</b>
<b>Business-Type Activities:</b>							
Marina services	618,698	607,244	-	-	-	(11,454)	(11,454)
<b>Total Business-Type Activities</b>	<b>618,698</b>	<b>607,244</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(11,454)</b>	<b>(11,454)</b>
<b>Total</b>	<b>\$ 322,385,831</b>	<b>\$ 9,506,012</b>	<b>\$ 179,079,727</b>	<b>\$ 1,235,118</b>	<b>(132,553,520)</b>	<b>(11,454)</b>	<b>(132,564,974)</b>
<b>General Revenues:</b>							
Property taxes					92,928,264	-	92,928,264
Excises					4,152,692	-	4,152,692
Penalties, interest and other taxes					1,176,601	-	1,176,601
Grants and contributions not restricted to specific programs					28,106,917	-	28,106,917
Investment income					546,109	106	546,215
Other					863,240	11,608	874,848
<b>Total general revenues</b>					<b>127,773,823</b>	<b>11,714</b>	<b>127,785,537</b>
Change in Net Assets					(4,779,697)	260	(4,779,437)
<b>Net Assets:</b>							
Beginning of year, as restated					112,659,182	432,545	113,091,727
End of year					\$ 107,879,485	\$ 432,805	\$ 108,312,290

See notes to financial statements.

## CITY OF LYNN, MASSACHUSETTS

## GOVERNMENTAL FUNDS

## BALANCE SHEET

JUNE 30, 2010

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 30,454,045	\$ 20,657,757	\$ 51,111,802
Investments	-	6,022,142	6,022,142
Receivables:			
Property taxes	5,947,545	-	5,947,545
Excises	5,801,616	-	5,801,616
Departmental and other	969,952	5,069,387	6,039,339
Intergovernmental	-	6,448,975	6,448,975
Due from other funds	<u>21,242</u>	<u>-</u>	<u>21,242</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 43,194,400</u></b>	<b><u>\$ 38,198,261</u></b>	<b><u>\$ 81,392,661</u></b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Warrants payable	\$ 2,162,603	\$ 977,272	\$ 3,139,875
Accounts Payable	1,040,310	572,502	1,612,812
Accrued liabilities	7,498,962	-	7,498,962
Deferred revenues	11,653,092	13,929,581	25,582,673
Tax refunds payable	117,056	-	117,056
Due to other funds	-	21,242	21,242
Notes payable	-	4,000,000	4,000,000
Other liabilities	<u>30,429</u>	<u>-</u>	<u>30,429</u>
<b>TOTAL LIABILITIES</b>	<b>22,502,452</b>	<b>19,500,597</b>	<b>42,003,049</b>
Fund Balances:			
Reserved for:			
Encumbrances and continuing appropriations	4,662,548	-	4,662,548
Perpetual (nonexpendable) permanent funds	-	6,120,508	6,120,508
Unreserved:			
Undesignated, reported in:			
General fund	16,029,400	-	16,029,400
Special revenue funds	-	12,926,530	12,926,530
Capital project funds	-	(525,894)	(525,894)
Permanent funds	<u>-</u>	<u>176,520</u>	<u>176,520</u>
<b>TOTAL FUND BALANCES</b>	<b><u>20,691,948</u></b>	<b><u>18,697,664</u></b>	<b><u>39,389,612</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 43,194,400</u></b>	<b><u>\$ 38,198,261</u></b>	<b><u>\$ 81,392,661</u></b>

CITY OF LYNN, MASSACHUSETTS

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

JUNE 30, 2010

<b>Total governmental fund balances</b>	\$ 39,389,612
<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>	173,951,477
<ul style="list-style-type: none"> <li>• Long-term receivable from the Massachusetts School Building Authority are not available in the current period and, therefore, are not reported in the governmental funds.</li> </ul>	26,208,054
<ul style="list-style-type: none"> <li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li> </ul>	17,015,063
<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>	3,414,848
<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>	(893,828)
<ul style="list-style-type: none"> <li>• Future expenses related to providing other post employment benefits (OPEB's) are not due and payable in the current period and, therefore, are not reported in the governmental funds.</li> </ul>	(56,347,731)
<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>(94,858,010)</u>
<b>Net assets of governmental activities</b>	<b>\$ <u>107,879,485</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, 2010

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Revenues:</b>			
Property taxes	\$ 93,273,415	\$ -	\$ 93,273,415
Excises	4,790,307	-	4,790,307
Penalties, interest and other taxes	1,176,601	-	1,176,601
Charges for services	2,319,260	3,441,321	5,760,581
Intergovernmental	171,251,398	39,788,261	211,039,659
Contributions and donations	-	870,768	870,768
Licenses and permits	1,327,205	-	1,327,205
Fines and forfeitures	1,519,511	-	1,519,511
Investment income	137,034	409,075	546,109
Miscellaneous	322,539	319,033	641,572
Total Revenues	<u>276,117,270</u>	<u>44,828,458</u>	<u>320,945,728</u>
<b>Expenditures:</b>			
Current:			
General government	18,360,354	2,570,449	20,930,803
Public safety	33,614,323	1,842,673	35,456,996
Education	130,352,346	29,856,279	160,208,625
Public works	9,893,211	8,964,876	18,858,087
Health and human services	1,069,082	3,043,444	4,112,526
Culture and recreation	1,278,936	1,125,207	2,404,143
Employee benefits	59,320,365	-	59,320,365
Debt service	13,916,497	-	13,916,497
Intergovernmental	2,085,158	-	2,085,158
Total Expenditures	<u>269,890,272</u>	<u>47,402,928</u>	<u>317,293,200</u>
Excess (deficiency) of revenues over expenditures	6,226,998	(2,574,470)	3,652,528
<b>Other Financing Sources (Uses):</b>			
Bond Proceeds	-	5,000,000	5,000,000
Proceeds of refunding	38,440,000	-	38,440,000
Refunding premium	3,329,936	-	3,329,936
Payment to escrow agent	(41,236,055)	-	(41,236,055)
Transfers in	646,979	442,300	1,089,279
Transfers out	(442,300)	(572,979)	(1,015,279)
Total Other Financing Sources (Uses)	<u>738,560</u>	<u>4,869,321</u>	<u>5,607,881</u>
Change in Fund Balance	6,965,558	2,294,851	9,260,409
Fund Balance, at Beginning of Year, as restated	<u>13,726,390</u>	<u>16,402,813</u>	<u>30,129,203</u>
Fund Balance, at End of Year	<u>\$ 20,691,948</u>	<u>\$ 18,697,664</u>	<u>\$ 39,389,612</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, 2010

<b>NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	\$	9,260,409																																										
<ul style="list-style-type: none"> <li>• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:           <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 70%;">Capital outlay purchases</td> <td style="width: 5%;"></td> <td style="width: 25%; text-align: right;">8,127,613</td> </tr> <tr> <td>Depreciation</td> <td></td> <td style="text-align: right;">(5,934,897)</td> </tr> <tr> <td>Loss on sale</td> <td></td> <td style="text-align: right;">(16,003)</td> </tr> </table> </li>   <li>• Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.           <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 70%;"></td> <td style="width: 5%;"></td> <td style="width: 25%; text-align: right;">3,383,075</td> </tr> </table> </li>   <li>• The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets:           <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 70%;">Repayments of debt</td> <td style="width: 5%;"></td> <td style="width: 25%; text-align: right;">9,404,000</td> </tr> <tr> <td>Proceeds of notes</td> <td></td> <td style="text-align: right;">(5,000,000)</td> </tr> <tr> <td>Amortization of bond premium</td> <td></td> <td style="text-align: right;">221,666</td> </tr> <tr> <td>Payments of capital leases, net</td> <td></td> <td style="text-align: right;">19,998</td> </tr> </table> </li>   <li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.           <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 70%;"></td> <td style="width: 5%;"></td> <td style="width: 25%; text-align: right;">652,287</td> </tr> </table> </li>   <li>• Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities.           <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 70%;"></td> <td style="width: 5%;"></td> <td style="width: 25%; text-align: right;">500,187</td> </tr> </table> </li>   <li>• Some expenses reported in the Statement of Activities, such as certain employee benefits, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds:           <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 70%;">Decrease in compensated absences liability</td> <td style="width: 5%;"></td> <td style="width: 25%; text-align: right;">282,600</td> </tr> <tr> <td>Increase in net OPEB obligation</td> <td></td> <td style="text-align: right;">(21,300,274)</td> </tr> <tr> <td>Decrease in workers compensation liability</td> <td></td> <td style="text-align: right;">685,436</td> </tr> </table> </li>   <li>• Reimbursements from the Massachusetts School Building Authority for principal payments on long-term debt provide current financial resources to governmental funds but have no effect on changes in net assets, therefore are excluded from net assets           <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 70%;"></td> <td style="width: 5%;"></td> <td style="width: 25%; text-align: right;">(5,065,794)</td> </tr> </table> </li> </ul>			Capital outlay purchases		8,127,613	Depreciation		(5,934,897)	Loss on sale		(16,003)			3,383,075	Repayments of debt		9,404,000	Proceeds of notes		(5,000,000)	Amortization of bond premium		221,666	Payments of capital leases, net		19,998			652,287			500,187	Decrease in compensated absences liability		282,600	Increase in net OPEB obligation		(21,300,274)	Decrease in workers compensation liability		685,436			(5,065,794)
Capital outlay purchases		8,127,613																																										
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		(5,065,794)																																										
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>(4,779,697)</u></b>																																										



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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>Revenues and Other Sources:</b>				
Taxes	\$ 92,136,880	\$ 92,136,880	\$ 92,136,880	\$ -
Excise	4,854,000	4,854,000	4,790,307	(63,693)
Penalties, interest and other taxes	1,150,000	1,150,000	1,176,601	26,601
Charges for services	2,317,300	2,317,300	2,319,260	1,960
Intergovernmental	147,161,815	147,161,815	148,391,740	1,229,925
Licenses and permits	1,270,000	1,270,000	1,327,205	57,205
Fines and forfeits	1,351,000	1,351,000	1,519,511	168,511
Investment income	287,000	287,000	137,034	(149,966)
Miscellaneous	-	-	856,420	856,420
Transfers in	-	646,979	646,979	-
Other sources: (free cash)	5,025,104	5,025,104	5,025,104	-
<b>Total Revenues and Other Sources</b>	<b>255,553,099</b>	<b>256,200,078</b>	<b>258,327,041</b>	<b>2,126,963</b>
<b>Expenditures and Other Uses:</b>				
General government	20,178,401	19,392,853	18,717,065	675,788
Public safety	33,833,778	34,332,208	34,034,276	297,932
Education	112,866,597	112,866,597	108,735,526	4,131,071
Public works	9,297,202	9,373,131	10,158,803	(785,672)
Health and human services	1,020,106	1,114,333	1,070,978	43,355
Culture and recreation	1,262,085	1,268,726	1,200,789	67,937
Debt service	13,905,878	13,905,878	13,893,232	12,646
Intergovernmental	2,104,343	2,104,343	2,085,158	19,185
Employee benefits	59,235,014	59,550,014	59,355,535	194,479
Transfers out	-	442,300	442,300	-
Other uses	1,849,695	1,849,695	1,849,695	-
<b>Total Expenditures and Other Uses</b>	<b>255,553,099</b>	<b>256,200,078</b>	<b>251,543,357</b>	<b>4,656,721</b>
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 6,783,684	\$ 6,783,684

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2010

	Business-Type Activities <u>Enterprise Fund</u>	Governmental <u>Activities</u>
	Marina <u>Fund</u>	Internal Service <u>Fund</u>
<b><u>ASSETS</u></b>		
Current:		
Cash and short-term investments	\$ 98,972	\$ 9,603,791
User fees, net of allowance for uncollectibles	13,671	-
Inventory	34,944	-
Other assets	<u>-</u>	<u>2,725,000</u>
Total current assets	147,587	12,328,791
Noncurrent:		
Capital assets, net of accumulated depreciation	<u>1,622,129</u>	<u>-</u>
Total noncurrent assets	<u>1,622,129</u>	<u>-</u>
<b>TOTAL ASSETS</b>	1,769,716	12,328,791
<b><u>LIABILITIES</u></b>		
Current:		
Accrued liabilities	30,109	3,809,867
Other current liabilities	151,000	5,104,076
Current portion of long-term liabilities:		
Bonds payable	<u>287,024</u>	<u>-</u>
Total current liabilities	468,133	8,913,943
Noncurrent:		
Bonds payable, net of current portion	<u>868,778</u>	<u>-</u>
Total noncurrent liabilities	<u>868,778</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	1,336,911	8,913,943
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	692,454	-
Unrestricted	<u>(259,649)</u>	<u>3,414,848</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 432,805</u>	<u>\$ 3,414,848</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, 2010

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	Marina <u>Fund</u>	Internal Service <u>Fund</u>
<b>Operating Revenues:</b>		
Charges for services	\$ 618,852	\$ -
Employee and employer contributions	<u>-</u>	<u>42,284,188</u>
Total Operating Revenues	618,852	42,284,188
<b>Operating Expenses:</b>		
Personnel expenses	144,907	-
Non personnel expenses	354,229	-
Depreciation	75,370	-
Employee benefits	<u>-</u>	<u>41,710,001</u>
Total Operating Expenses	<u>574,506</u>	<u>41,710,001</u>
Operating income	44,346	574,187
<b>Nonoperating Revenues (Expenses):</b>		
Investment income	106	-
Interest expense	<u>(44,192)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(44,086)</u>	<u>-</u>
Transfers Out	<u>-</u>	<u>(74,000)</u>
Change in net assets	260	500,187
Net Assets at Beginning of Year	<u>432,545</u>	<u>2,914,661</u>
Net Assets at End of Year	\$ <u><u>432,805</u></u>	\$ <u><u>3,414,848</u></u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2010

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u> Internal Service <u>Fund</u>
	Marina <u>Fund</u>	
<b><u>Cash Flows From Operating Activities:</u></b>		
Receipts from customers and users	\$ 625,238	\$ -
Payments to vendors and employees	(521,262)	-
Receipts from employees and employer	-	42,284,188
Payments of employee benefits and expenses	<u>-</u>	<u>(40,283,287)</u>
Net Cash Provided By Operating Activities	103,976	2,000,901
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>		
Transfers out	<u>-</u>	<u>(74,000)</u>
Net Cash Provided by Noncapital Financing Activities	-	(74,000)
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>		
Principal payments on bonds	(97,674)	-
Interest expense	<u>(44,192)</u>	<u>-</u>
Net Cash Used For Capital and Related Financing Activities	(141,866)	-
<b><u>Cash Flows From Investing Activities:</u></b>		
Investment income	<u>106</u>	<u>-</u>
Net Cash Provided by Investing Activities	<u>106</u>	<u>-</u>
Net Change in Cash and Short-Term Investments	(37,784)	1,926,901
Cash and Short-Term Investments, Beginning of Year	<u>136,756</u>	<u>7,676,890</u>
Cash and Short-Term Investments, End of Year	<u>\$ 98,972</u>	<u>\$ 9,603,791</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u></b>		
Operating income	\$ 44,346	\$ 574,187
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	75,370	-
Changes in assets and liabilities:		
User fees	6,386	-
Inventory	(20,284)	-
Other assets	-	183,943
Accrued liabilities	(1,842)	902,550
Other liabilities	<u>-</u>	<u>340,221</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 103,976</u>	<u>\$ 2,000,901</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS  
 FIDUCIARY FUNDS  
 STATEMENT OF FIDUCIARY NET ASSETS  
 JUNE 30, 2010

	Pension Trust Fund (As of <u>December 31, 2009</u> )	Agency Funds
<b><u>ASSETS</u></b>		
Cash and short term investments	\$ 3,853,234	\$ 346,319
Investments	162,488,783	-
Accounts receivable	<u>10,598,762</u>	<u>-</u>
Total Assets	176,940,779	346,319
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
Other liabilities	<u>-</u>	<u>346,319</u>
Total Liabilities	<u>-</u>	<u>346,319</u>
 <b><u>NET ASSETS</u></b>		
Total net assets held in trust for pension benefits	\$ <u><u>176,940,779</u></u>	\$ <u><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, 2009

	Pension Trust Fund
<b>Additions:</b>	
Contributions:	
Employers	\$ 22,000,000
Plan members	6,097,625
Other	1,470,705
Total contributions	29,568,330
Investment Income (Gain):	
Change in fair value of investments	17,230,154
Less: management fees	(1,338,174)
Net investment (gain)	15,891,980
Total additions	45,460,310
<b>Deductions:</b>	
Benefit payments to plan members and beneficiaries	29,357,493
Refunds to plan members	560,613
Transfers to other systems	41,442
Administrative expenses	313,595
Total deductions	30,273,143
Net increase	15,187,167
<b>Net assets:</b>	
Beginning of year	161,753,612
End of year	\$ 176,940,779

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

#### Fund Financial Statements

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

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

#### Government-Wide Financial Statements

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

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

#### Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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.

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

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.

The *Agency Fund* is used to account for student activity funds and police details. Agency funds report only assets and liabilities, and thus have no measurement focus.

*D. Cash and Short-Term Investments*

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

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

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

*E. Investments*

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

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

*F. Property Tax Limitations*

Legislation known as "Proposition 2 ½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2010 tax levy reflected an excess capacity of \$ 379,881.

*G. Interfund Receivables and Payables*

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

*H. Inventories*

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

*I. Capital Assets*

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

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

*A. Budgetary Information*

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by City Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town 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)	\$ 276,117,270	\$ 269,890,272
Other financing sources/uses (GAAP basis)	<u>42,416,915</u>	<u>41,678,355</u>
Subtotal (GAAP Basis)	318,534,185	311,568,627

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<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Adjust tax revenue to accrual basis	(1,136,535)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(2,418,535)
Add end of year appropriation carryforwards to expenditures	-	4,662,548
To reverse the effect of non-budgeted State contributions for teachers retirement	(22,859,658)	(22,859,658)
To reverse the effect of short term interest accrual	-	(23,265)
To reverse the effect of refunding bond proceeds	(41,236,055)	(41,236,055)
Recognize use of fund balance and raising of prior year deficits	<u>5,025,104</u>	<u>1,849,695</u>
Budgetary Basis	<u>\$ 258,327,041</u>	<u>\$ 251,543,357</u>

*D. Excess of Expenditures Over Appropriations*

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

Snow and ice \$ 1,031,567

The appropriation deficit was funded on the fiscal year 2011 recap.

*E. Deficit Fund Equity*

The following funds had deficits as of June 30, 2010:

Non-major Governmental Funds:

Chapter 90	\$ (1,329,084)
CPC	(103,070)
After School Meals	(11,640)
Mass Family Network	(5,301)
School Sale	(6,900)

(continued)

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Non-major Governmental Funds:

Fire Detail	(2,493)
Electrical Detail	(7,838)
Division of Fish & Wildlife	(1,274)
Early Literacy	(37,636)
MCAS 4-8	(16,504)
Essex City Foundation	(4,544)
Commonwealth Corp	(17,689)
Health Access Grant	(7,068)
Energy Efficiency & Conservation Grant	(622,562)
ARRA Police Staffing	(33,215)
ARRA Fire Staffing	(167,816)
Power Lines Project	(2,864,995)

The deficits in these funds will be eliminated through future departmental or intergovernmental 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 and Contributory Retirement System's (the System) deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The City and System do not have a deposit policy for custodial credit risk

As of June 30, 2010 and December 31, 2009, \$ 8,057,713 and \$ 2,500,616 of the City's and System's bank balances of \$ 63,038,074 and \$ 4,351,682 respectively, were exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the City's and System's name.

Of the System's total exposed balance, \$ 2,500,616 was invested in PRIT.

#### 4. Investments

##### A. Credit Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Treasury notes	\$ 1,429
Corporate bonds	2,151
Corporate equities	1,229
Mutual funds	556
Federal agency securities	<u>657</u>
Total investments	<u>\$ 6,022</u>

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

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

Presented below are the investments of the Lynn Contributory Retirement System as of December 31, 2009 (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>
Pooled funds	\$ 12,494
State investment pool*	<u>149,994</u>
Total investments	<u>\$ 162,488</u>

*\*Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor,*



*approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.*

#### **B. Custodial Credit Risk**

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

The System's investments of \$ 162,488,783, were exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the System's brokerage firm, which is also the Counterparty to these securities. The System manages this risk with SIPC, Excess SIPC and because the assets are held in separately identifiable trust accounts. Of the System's total exposure, \$ 149,994,195 is invested in the State Investment Pool (PRIT).

Of the City's investment of \$ 6,022,142, the government has a custodial credit risk exposure of \$ 6,022,142 because the related securities are uninsured, unregistered and held by the City's brokerage firm, which is also the Counterparty to these securities. The City manages this custodial credit risk with SIPC and excess SIPC.

#### **C. Concentration of Credit Risk**

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

#### **D. Interest Rate Risk**

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

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

Investment Type	Fair Value	Investment Maturities (in Years)				Average Rating
		Less Than 1	1-5	6-10	Greater Than 10	
Debt Related Securities:						
U.S. Treasury notes	\$ 1,429	\$ 50	\$ 793	\$ 586	\$ -	Aaa
Corporate bonds	2,151	306	974	871	-	A1
Federal agency securities	657	-	-	75	582	Aaa
Total	\$ 4,237	\$ 356	\$ 1,767	\$ 1,532	\$ 582	

*E. Foreign Currency Risk*

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

**5. Taxes Receivable**

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

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The 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, 2010 consist of the following (in thousands):

Real Estate		
2010	\$ 2,806	
2009	12	
2008	5	
2007	5	
Prior	<u>2</u>	
		2,830

(continued)

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Personal Property		
2010	62	
2009	44	
2008	33	
2007	21	
2006	25	
2005	26	
2004	172	
Prior	<u>852</u>	
		1,235
Tax Liens		1,052
Deferred Taxes		<u>830</u>
Total		<u>\$ 5,947</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	\$ 1,538
Excises	4,069

**7. Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2010. Of the \$ 32,657,029 of intergovernmental receivables, \$ 26,208,054 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, 2010 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	\$ -
Nonmajor Governmental Funds:		
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, 2010 was as follows (in thousands):

	<u>Beginning Balance*</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 233,306	\$ 4,678	\$ (178)	\$ 237,806
Machinery, equipment, and furnishings	16,252	2,067	(125)	18,194
Land improvements	2,946	482	-	3,428
Infrastructure	<u>15,439</u>	<u>900</u>	<u>-</u>	<u>16,339</u>
Total capital assets, being depreciated	267,943	8,127	(303)	275,767
Buildings and improvements	(81,036)	(4,760)	162	(85,634)
Machinery, equipment, and furnishings	(13,187)	(650)	125	(13,712)
Land improvements	(1,605)	(103)	-	(1,708)
Infrastructure	<u>(8,709)</u>	<u>(422)</u>	<u>-</u>	<u>(9,131)</u>
Total accumulated depreciation	<u>(104,537)</u>	<u>(5,935)</u>	<u>287</u>	<u>(110,185)</u>
Total capital assets, being depreciated, net	163,406	2,192	(16)	165,582
Capital assets, not being depreciated:				
Land	<u>8,369</u>	<u>-</u>	<u>-</u>	<u>8,369</u>
Total capital assets, not being depreciated	<u>8,369</u>	<u>-</u>	<u>-</u>	<u>8,369</u>
Governmental activities capital assets, net	<u>\$ 171,775</u>	<u>\$ 2,192</u>	<u>\$ (16)</u>	<u>\$ 173,951</u>

\* - as restated

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 2,043	\$ -	\$ -	\$ 2,043
Machinery, equipment, and furnishings	489	-	-	489
Land improvements	38	-	-	38
Infrastructure	<u>263</u>	<u>-</u>	<u>-</u>	<u>263</u>
Total capital assets, being depreciated	2,833	-	-	2,833
Less accumulated depreciation for:				
Buildings and improvements	(582)	(41)	-	(623)
Machinery, equipment, and furnishings	(410)	(8)	-	(418)
Land improvements	(39)	-	-	(39)
Infrastructure	<u>(105)</u>	<u>(26)</u>	<u>-</u>	<u>(131)</u>
Total accumulated depreciation	<u>(1,136)</u>	<u>(75)</u>	<u>-</u>	<u>(1,211)</u>
Total capital assets, being depreciated, net	<u>1,697</u>	<u>(75)</u>	<u>-</u>	<u>1,622</u>
Business-type activities capital assets, net	<u>\$ 1,697</u>	<u>\$ (75)</u>	<u>\$ -</u>	<u>\$ 1,622</u>

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

Governmental Activities:	
General government	\$ 1,033
Public safety	773
Education	3,175
Public works	505
Culture and recreation	<u>449</u>
Total depreciation expense - governmental activities	<u>\$ 5,935</u>
Business-Type Activities:	
Marina	<u>\$ 75</u>
Total depreciation expense - business-type activities	<u>\$ 75</u>

## 10. Warrants and Accounts Payable

Warrants payable represent 2010 expenditures paid by July 15, 2010.

Accounts payable represent additional 2010 expenditures paid after July 15, 2010.

**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, 2010 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

**12. Tax Refunds Payable**

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

**13. Anticipation Notes Payable**

The City had the following notes outstanding at June 30, 2010:

	Interest Rate	Date of Issue	Date of Maturity	Balance at 6/30/10
Bond Anticipation	1.45%	10/16/09	10/15/10	\$ 2,000,000
Bond Anticipation	1.75%	10/16/09	10/15/10	<u>2,000,000</u>
Total				<u>\$ 4,000,000</u>

The following summarizes activity in notes payable during fiscal year 2010 (in thousands):

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Power Lines	\$ -	\$ 4,000	\$ (4,000)	\$ -
Power Lines	-	2,000	-	2,000
Power Lines	-	2,000	-	2,000
Cemetery	1,000	-	(1,000)	-
High School	<u>4,000</u>	<u>-</u>	<u>(4,000)</u>	<u>-</u>
Total	<u>\$ 5,000</u>	<u>\$ 8,000</u>	<u>\$ (9,000)</u>	<u>\$ 4,000</u>

**14. Accrued Liability**

The \$ 2,960,381 in unearned revenue reported on the Statement of Net Assets is related to the fiscal year 2010 State Fiscal Stabilization Fund grant that was received in FY 10 but not spent until FY 11.

**15. Capital Lease Obligations**

The City is the lessee of certain equipment under capital leases expiring in various years through 2012. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2010:

2011	\$ 925,187
2012	704,405
2013	<u>227,985</u>
Total minimum lease payments	1,857,577
Less amount representing interest	<u>(93,309)</u>
Present Value of Minimum Lease Payments	<u>\$ 1,764,268</u>

**16. 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:

Governmental Activities:	Serial Maturities <u>Through</u>	Interest Rate(s)%	Amount Outstanding as of <u>6/30/10</u>
School Land acquisition	11/01/10	5.0 - 5.2 \$	145,000
General Obligation bonds	01/15/11	3.5 - 5.0	1,035,000
Rooks Building <sup>(1)</sup>	07/25/11	3.7 - 5.8	44,000
HUD 108 Note <sup>(1)</sup>	08/01/12	1.2 - 4.6	210,000
HUD 108 2004 A <sup>(1)</sup>	08/01/12	2.3 - 5.0	350,000
Lynn Arts CCMC <sup>(1)</sup>	07/25/16	4.9 - 6.6	290,000
School Project Loan	08/15/17	2.3 - 4.2	14,835,000

(continued)

(continued)

	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of 6/30/10
Governmental Activities:			
General Obligation refunding bonds	12/01/17	2.0 - 5.0	34,275,000
New Police Station	01/15/21	3.4 - 4.5	1,520,000
New Police Station	10/01/24	3.0 - 6.0	11,700,000
Police Station, Manning Field	03/01/26	4.0 - 6.0	5,305,000
Remodeling	07/15/27	4.0 - 6.0	9,165,000
Pine Grove Cemetary	03/01/28	3.0 - 5.0	1,000,000
Classical High School	03/01/29	3.0 - 5.0	4,000,000
Total Governmental Activities:			<u>\$ 83,874,000</u>

(1) Repaid through CDBG program

	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of 6/30/10
Business-Type Activities:			
Marina	02/01/14	7.0	\$ 929,675
Marina	04/14/26	4.5	<u>226,127</u>
Total Business-Type Activities:			<u>\$ 1,155,802</u>

**B. Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2010 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 9,812,000	\$ 3,542,867	\$ 13,354,867
2012	8,872,000	3,178,142	12,050,142
2013	8,700,000	2,791,261	11,491,261
2014	8,795,000	2,392,879	11,187,879
2015	9,105,000	1,985,436	11,090,436
2016-2020	28,245,000	4,571,245	32,816,245
2021-2025	8,275,000	1,340,317	9,615,317
2026-2030	<u>2,070,000</u>	<u>159,094</u>	<u>2,229,094</u>
Total	<u>\$ 83,874,000</u>	<u>\$ 19,961,241</u>	<u>\$ 103,835,241</u>



<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 287,024	\$ 68,882	\$ 355,906
2012	213,050	55,198	268,248
2013	228,182	40,536	268,718
2014	244,386	24,828	269,214
2015	12,003	7,997	20,000
2016-2020	68,813	31,187	100,000
2021-2025	86,139	13,860	99,999
2026-2030	16,205	334	16,539
Total	\$ <u>1,155,802</u>	\$ <u>242,822</u>	\$ <u>1,398,624</u>

The general fund has been designated as the source, except as noted on the previous page, to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2010.

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

During the year ended June 30, 2010, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/09</u>	Additions	Reductions	Total Balance <u>6/30/10</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/10</u>
Governmental Activities						
Bonds payable	\$ 90,273	\$ 43,440	\$ (49,839)	\$ 83,874	\$ (9,812)	\$ 74,062
Other:						
Capital leases	1,784	924	(944)	1,764	(875)	889
Accrued employee benefits	3,541	-	(283)	3,258	(326)	2,932
Workers compensation	4,874	-	(686)	4,188	(419)	3,769
Bond premium liability	-	1,995	(222)	1,773	(222)	1,551
Net OPEB obligation	35,048	32,896	(11,596)	56,348	-	56,348
Totals	\$ <u>135,520</u>	\$ <u>79,255</u>	\$ <u>(63,570)</u>	\$ <u>151,205</u>	\$ <u>(11,654)</u>	\$ <u>139,551</u>
Business-Type Activities						
Bonds payable	\$ 1,253	\$ -	\$ (98)	\$ 1,155	\$ (287)	\$ 868
Totals	\$ <u>1,253</u>	\$ <u>-</u>	\$ <u>(98)</u>	\$ <u>1,155</u>	\$ <u>(287)</u>	\$ <u>868</u>

**D. Advance and Current Refundings**

**Current Year**

On September 22, 2009, the City issued general obligation bonds in the amount of \$ 38,440,000 with interest rates ranging from 2.0% to 5.0% to current refund \$ 1,440,000 of the June 1, 1997 Bonds, comprised of serial bonds with an interest rate of 5.10%, to current refund \$ 24,555,000 of the

February 15, 1998 Bonds, comprised of serial bonds with interest rates of 4.60% to 5.0% and to current refund \$ 14,440,000 of the March 1, 1999 Bonds, comprised of serial bonds with interest rates ranging from 4.30% to 5.25%. The 1997 serial bonds mature on June 1, 2010 through June 1, 2012 and were callable on December 1, 2009. The 1998 serial bonds mature on February 15, 2010 through February 15, 2017 and were callable on October 23, 2009. The 1999 serial bonds mature on June 1, 2010 through June 1, 2018 and are callable on October 23, 2009.

The general obligation bonds were issued at a true interest cost of 2.435%. The refunding met the requirements of an in-substance debt defeasance and the serial bonds were removed from the City's financial statements.

As a result of the 1997 current refunding, the City reduced its total debt service cash flow requirements by \$ 80,216.51, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$ 66,113.56.

As a result of the 1998 current refunding, the City reduced its total debt service cash flow requirements by \$ 2,360,332.85, which resulted in an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$ 2,068,650.25.

As a result of the 1999 current refunding, the City reduced its total debt service cash flow requirements by \$ 1,619,755.69, which resulted in an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$ 1,274,858.59.

Defeased debt for the 1997 issue still outstanding at June 30, 2010 is \$ 0.

Defeased debt for the 1998 issue still outstanding at June 30, 2010 is \$ 0.

Defeased debt for the 1999 issue still outstanding at June 30, 2010 is \$ 0.

## **17. 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.

**18. Reserves 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, 2010:

Reserved for Encumbrances and Continuing Appropriations - 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.

**19. 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 budgetary basis of reporting the general fund undesignated fund balance:

GAAP basis balance	\$ 16,029,400
Snow and ice deficit	1,031,567
Tax refund estimate	<u>117,056</u>
Statutory (UMAS) Balance	<u><u>\$ 17,178,023</u></u>

## 20. Subsequent Events

### A. Debt

Subsequent to June 30, 2010, the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General obligation state qualified bond	\$ 14,200,000	2.0 - 4.0%	09/21/10	09/01/28
General obligation BAN	1,000,000	1.70%	10/15/10	01/28/11

## 21. 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 structural 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 \$ 14 million including repairs, engineering, air quality monitoring, and costs of recovery from various parties participating in the design and construction.

The City has initiated claims for damages, and as of June 30, 2010 had received \$ 10.1 million in settlement claims.

## 22. Post-Employment Health Care and Life Insurance Benefits

### Other Post-Employment Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to

account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

*A. Plan Description*

In addition to providing the pension benefits described, the City provides post-employment health care and life insurance benefits for retired employees through the City's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2010 the actuarial valuation date, approximately 2,394 retirees and 2,576 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

*B. Benefits Provided*

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

*C. Funding Policy*

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

*D. Annual OPEB Costs and Net OPEB Obligation*

The City's fiscal 2010 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years.

The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2010, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of June 30, 2010 (in thousands):

Annual Required Contribution (ARC)	\$ 32,896
Interest on net OPEB obligation	-
Adjustment to ARC	<u>-</u>
Annual OPEB cost	32,896
Contributions made	<u>(11,596)</u>
Increase in net OPEB obligation	21,300
Net OPEB obligation - beginning of year	<u>35,048</u>
Net OPEB obligation - end of year	<u><u>\$ 56,348</u></u>

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

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 32,896	35.25%	\$ 56,348
2009	\$ 28,993	37.96%	\$ 35,048
2008	\$ 27,498	37.96%	\$ 17,060

The City's net OPEB obligation as of June 30, 2010 is recorded as a component of the "other long-term liabilities" line item.

*E. Funded Status and Funding Progress*

The funded status of the plan as of June 30, 2010 the date of the most recent actuarial valuation was as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 531,170
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 531,170</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 140,290</u>
UAAL as a percentage of covered payroll	<u>378.6%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required

contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*F. Actuarial Methods and Assumptions*

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

In the June 30, 2010 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advance funded its obligation. The actuarial assumptions included a 3.5% investment rate of return and an initial annual healthcare cost trend rate of 8% which decreases to a 5% long-term rate for all healthcare benefits after six years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.5%.

**23. 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, 2009:

Retirees and beneficiaries receiving benefits	1,213
Inactive members	217
Active plan members	<u>1,348</u>
Total	<u><u>2,778</u></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). The City's Schedule of Employer Contributions is as follows:

Schedule of Employer Contributions:

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2003	\$ 14,054,394	100%
2004	14,693,491	100%
2005	16,354,707	100%
2006	17,501,805	100%
2007	18,282,652	100%
2008	19,500,000	100%
2009	20,700,000	100%
2010	22,000,000	100%



**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 at fair value in accordance with PERAC requirements.

**C. Funded Status and Funding Progress**

The information presented below is from the Lynn Contributory Retirement System's most recent valuation.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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]
01/01/09	\$ 186,016	\$ 443,629	\$ 257,613	41.9%	\$ 69,357	371.4%

The Schedule of Funding Progress following the notes to the financial statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

**D. Actuarial Methods and Assumptions**

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$ 444 million was calculated. The actuarial assumptions included (a) 8.25% investment rate of return and (b) a projected salary increase of 4.75%, 5.00%, and 5.25% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3.0%, on the first \$ 12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.25%) and accounting for deposits and disbursements with interest at the assumed rate of return.

An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of December 31, 2009, the unfunded actuarially accrued liability is being

amortized over 20 years using an open group method which assumes a 4.5% per year increase in payroll.

*E. 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 unavailable.

In fiscal year 2010, the Commonwealth of Massachusetts contributed \$ 22,859,658 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

**24. 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, 2010 are as follows:

	<u>Heath Coverage</u>
Claims liability, July 1, 2009	\$ 7,671,172
Claims incurred/recognized in fiscal year 2010	41,710,001
Claims paid in fiscal year 2010	<u>(40,467,230)</u>
Claims liability, June 30, 2010	<u>\$ 8,913,943</u>

The \$ 5,104,076 estimated liability for claims incurred but not reported includes only an estimate for known loss events expected to later be presented as claims. The City is unable to estimate the amount of unknown loss events expected to become claims and expected future developments on claims already reported.

## **25. 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.

## **26. Beginning Fund Balance Net Assets Restatement/Reclassification**

The beginning (July 1, 2009) fund balances of the City have been restated as follows (in thousands):

Government-Wide Financial Statements:

	Governmental <u>Activities</u>
As previously reported	\$ 111,472
Correct prior year fixed assets	<u>1,187</u>
As restated	<u><u>\$ 112,659</u></u>

Fund Basis Financial Statements:

	<u>Governmental Funds</u>		
	High School <u>Capital Project</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
As previously reported	\$ 880	\$ 15,523	\$ 16,403
Reclass major funds	<u>(880)</u>	<u>880</u>	<u>-</u>
As restated	<u><u>\$ -</u></u>	<u><u>\$ 16,403</u></u>	<u><u>\$ 16,403</u></u>

**CITY OF LYNN, MASSACHUSETTS**  
**SCHEDULE OF FUNDING PROGRESS**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2010**  
**(Unaudited)**  
**(Amounts Expressed in thousands)**

**Employee's Retirement System**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
1/1/09	\$ 186,016	\$ 443,629	\$ 257,613	41.93%	\$ 69,357	371.4%
1/1/07	\$ 198,161	\$ 412,239	\$ 214,078	48.07%	\$ 67,206	318.5%
1/1/06	\$ 186,959	\$ 400,013	\$ 213,054	46.74%	\$ 65,445	325.5%
1/1/04	\$ 178,523	\$ 351,319	\$ 172,796	50.82%	\$ 63,051	274.1%
1/1/02	\$ 166,986	\$ 317,253	\$ 150,267	52.63%	\$ 66,008	227.6%
1/1/00	\$ 168,280	\$ 278,031	\$ 109,751	60.53%	\$ 58,954	186.2%
1/1/98	\$ 109,786	\$ 200,056	\$ 90,270	54.88%	\$ 47,985	188.1%

**Other Post-Employment Benefits**  
**(Amounts Expressed in thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
06/30/10	\$ -	\$ 531,170	\$ 531,170	0.0%	\$ 140,290	378.6%
06/30/08	\$ -	\$ 450,682	\$ 450,682	0.0%	\$ 149,762	300.9%

See Independent Auditors' Report.