

CITY OF LYNN, MASSACHUSETTS

**Financial Statements and
Required Supplementary Information**

June 30, 2004

CITY OF LYNN, MASSACHUSETTS

Financial Statements and Required Supplementary Information

Year Ended June 30, 2004

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CITY OF LYNN, MASSACHUSETTS

Financial Statements and Required Supplementary Information

Year Ended June 30, 2004

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Independent Auditors' Report

To the Honorable 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 (the "City") as of and for the year ended June 30, 2004, (December 31, 2003 for the Contributory Retirement System) which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City'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 financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lynn at June 30, 2004, (December 31, 2003 for the Contributory Retirement System) and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 8, 2005, on our consideration of the City's internal control over financial reporting and 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.

The Management's Discussion and Analysis and the budgetary information on pages 3-10 and 17, respectively, 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 methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Independent Member of BKR International



Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Lynn. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Tofias PC

Cambridge, Massachusetts
February 8, 2005

Independent Member of BKR International

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MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF LYNN, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2004

The Management's Discussion and Analysis (MD&A) of the City of Lynn's financial statements provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. The information presented here should be considered in conjunction with the City's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 11 and 12) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 13. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

FINANCIAL HIGHLIGHTS

The total assets of the City exceeded its total liabilities at June 30, 2004 by \$90,597,352 (net assets). Unrestricted net assets of \$35,794,439 were available to meet the City's future obligations. This represented \$35,816,806 for governmental activities, which included the General Fund, and (\$22,367) for business-type activities, which included the City's Enterprise Funds (Marina, Ambulance, Golf Course and School Lunch Program).

The City's governmental funds total revenues of \$247,645,679 increased by less than 1% or \$573,489 and the City's total expenses decreased by 3.5% or \$8.5 million from FY 2003. The city's general revenues of \$215,378,062 were \$29,081,587 million higher than general expenses of \$186,296,475 before transfers.

At year-end, the General Fund's undesignated fund balance was \$2,010,500. The increase of \$6,971,584 resulted from economic factors as well as executive and legislative decisions. The City experienced significant cuts in state aid. These cuts were addressed and absorbed through increased property taxes as well as substantial reductions in personnel.

Other contributing factors included the subsequent cost savings resulting from the prior year closing of two nursing homes. Occurrences such as nursing home closures and extraordinary unemployment claims are not expected to impact future periods. Also, the City took aggressive measures to mitigate rising health care costs.

Commencing with Fiscal 2004, the City's retirees through MGL Chapter 32B Section 18 were enrolled in a Medicare based program. The program is designed to shift the majority of retiree claims to Medicare. Also, the City embarked on an ambitious campaign to auction off Tax Title Foreclosures.

The City's total debt increased by 3.5% primarily as a result of temporary borrowings related to the new police station.

CITY OF LYNN, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2004

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 11. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets - the difference between assets and liabilities - as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities** - Most of the City's basic services are reported here, including the schools, police, fire, libraries, parks, public works, community development, and general administration. Property taxes, excise taxes, licenses and permit fees, fines, and state and federal grants finance most of these activities.
- **Business-type activities** - The City charges fees to customers, either directly or through state or federal reimbursements, to help cover all or most of the cost of certain services it provides. The City's Marina, golf course, nursing homes, ambulance service, and school lunch programs are here.

CITY OF LYNN, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2004

Reporting the City as a Whole (Continued)

The Statement of Net Assets and the Statement of Activities (Continued)

Statement of Net Assets

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets	\$ 60,074,832	\$ 895,219	\$ 60,970,051
Noncurrent assets (excluding capital assets)	65,159,740	12,775	65,172,515
Capital assets (net)	<u>95,336,170</u>	<u>2,425,014</u>	<u>97,761,184</u>
Total assets	<u>220,570,742</u>	<u>3,333,008</u>	<u>223,903,750</u>
Liabilities			
Current liabilities (excluding debt)	20,812,254	1,169,668	21,981,922
Noncurrent liabilities (excluding debt)	3,639,506	-	3,639,506
Current debt	16,719,110	112,030	16,831,140
Noncurrent debt	<u>89,610,000</u>	<u>1,243,830</u>	<u>90,853,830</u>
Total liabilities	<u>130,780,870</u>	<u>2,525,528</u>	<u>133,306,398</u>
Net assets			
Invested in capital assets (net of related debt)	53,973,066	1,193,959	55,167,025
Restricted	-	(364,112)	(364,112)
Unrestricted	<u>35,816,806</u>	<u>(22,367)</u>	<u>35,794,439</u>
Total net assets	<u>\$ 89,789,872</u>	<u>\$ 807,480</u>	<u>\$ 90,597,352</u>

The largest portion of the City's total net assets (61%) represents the investment in capital assets (e.g., land, buildings and improvements, equipment and machinery, infrastructure and construction in progress) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens therefore these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay debt must be provided from other sources, since capital assets themselves, cannot be used to liquidate these liabilities.

An additional portion of the City's net assets represents resources that are subject to restrictions placed on how they may be used by parties external to the City. A summary of the major components of the restricted net assets may be found on page 18 of this report.

CITY OF LYNN, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2004

Reporting the City as a Whole (Continued)

The Statement of Net Assets and the Statement of Activities (Continued)

The unrestricted net assets available for the support of governmental activities amounted to approximately \$36 million at June 30, 2004, an increase of approximately \$12 million or 53% from the balance at June 30, 2003. There are no unrestricted net assets available for business-type activities at June 30, 2004.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 13 and provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like grants received from the Commonwealth of Massachusetts.) The City's two kinds of funds---governmental and proprietary---use different accounting approaches.

- Governmental funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called "Modified Accrual Accounting", which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between government-wide activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in the reconciliations on pages 15 and 16.
- Proprietary funds - When the City charges customers for the services it provides, they are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as a statement of cash flows.

The City as Trustee

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for the City of Lynn Retirement System. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 21. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

CITY OF LYNN, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2004

THE CITY AS A WHOLE

For the year ended June 30, 2004, net assets changed as follows:

	Governmental Activities	Business-type Activities	Total
Beginning net assets	\$ 86,108,784	\$ 1,067,529	\$ 87,176,313
Increase/(decrease) in net assets	<u>3,681,088</u>	<u>(260,049)</u>	<u>3,421,039</u>
Ending net assets	<u>\$ 89,789,872</u>	<u>\$ 807,480</u>	<u>\$ 90,597,352</u>

It should be noted that the increase in net assets for Governmental Activities and the decrease in net assets for Business-type Activities include depreciation expense of approximately \$3.5 million.

Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. Some of the individual line item revenues reported for each function are:

General government	Building permits, various licenses, and various inspections.
Public safety	Fines and 911 charges for services; federal and state grants for police, fire and civil emergency management are categorized as operating grants.
Education	Charges for use of schools are categorized as charges for services, federal and state grants are categorized as operating grants.
Public service	Federal and state grants are categorized at operating grants.
Community development	Operating grants include emergency shelter; Capital grants from CDBG.

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted for a specific purpose.

Business - Type Activities

It is important to note that the City has closed the facilities associated with the Lynn Public Medical and City Infirmary operations during the year ending June 30, 2003. The residual indirect costs associated with closing down these facilities have been reported in the General Fund, during 2004.

CITY OF LYNN, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2004

THE CITY'S FUNDS

The following schedule presents a summary of general, special revenue, capital project, and permanent fund revenues and expenditures for the fiscal year ended June 30, 2004 and June 30, 2003, and the amount and percentage in relation to the current year totals:

	2004		2003	
Revenues:				
Property taxes	\$ 75,618,997	30.53 %	\$ 69,497,718	26.13 %
Intergovernmental	156,203,186	63.07	161,378,306	60.67
Excise taxes	5,736,248	2.32	6,042,726	2.27
Charges for services	3,445,949	1.39	4,785,649	1.80
Licenses, permits and fines	2,204,339	0.90	2,047,375	0.77
Departmental	3,245,640	1.31	2,103,214	7.90
Invest income	1,191,320	0.48	1,217,202	0.46
	<u>\$ 247,645,679</u>	<u>100.00 %</u>	<u>\$ 247,072,190</u>	<u>100.00 %</u>
Expenditures:				
General Government	\$ 11,381,573	4.92 %	\$ 12,461,976	5.19 %
Public safety	31,501,685	13.60	33,349,292	13.90
Education	122,770,341	53.02	125,626,937	52.34
Public service	12,709,570	5.48	13,196,869	5.50
Health & welfare	1,618,690	0.70	6,112,983	2.55
Culture & pensions	895,605	0.39	1,311,937	0.55
Debt service	10,884,472	4.70	11,159,855	4.65
Employees pensions	293,841	0.13	418,133	0.17
Insurance	25,070,082	10.83	24,724,837	10.30
Intergovernmental	3,311,573	1.43	3,448,806	1.43
Capital outlay	294,671	1.27	348,797	0.15
Community dev. activities	8,166,000	3.53	7,838,834	3.27
	<u>\$ 231,550,146</u>	<u>100.00 %</u>	<u>\$ 239,999,256</u>	<u>100.00 %</u>

CITY OF LYNN, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2004

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2004, the City had \$178,421,059 million invested in capital assets including police and fire equipment, buildings, park facilities, roads, and infrastructure. (See table below.)

	Governmental Activities	Business-Type Activities	Total
Land	\$ 5,721,285	\$ 842,832	\$ 6,564,117
Land Improvements	1,903,712	37,908	1,941,620
Buildings and improvements	141,343,519	1,392,351	142,735,870
Infrastructure	9,401,607	-	9,401,607
Machinery, equipment and fixtures	6,485,360	1,838,635	8,323,995
Licensed Vehicles	<u>9,453,850</u>	<u>-</u>	<u>9,453,850</u>
	<u>\$ 174,309,333</u>	<u>\$ 4,111,726</u>	<u>\$ 178,421,059</u>

Total gross capital assets increased by \$4,281,954 or by 2.5%. Major capital asset events included the cost of construction of a new police station in the amount of approximately \$2,421,000, a street lighting improvement program costing approximately \$1,200,000 as well as significant asphalt paving. The Golf course recorded improvements of approximately \$354,000.

Debt

At June 30, 2004, the City had total long and short-term debt outstanding of \$106,329,110 for governmental activities and \$1,355,860 for business- type activities. The Governmental activity debt includes \$96,329,110 in bonds and \$10,000,000 in bond anticipation notes. All debt is a general obligation of the City, although the Marina debt service payments are made from the resources of the enterprise fund.

	Governmental Activities		Business-Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
General Obligation bonds	\$ 26,954,110	\$ 19,149,110	\$ 1,355,860	\$ 1,355,860	\$ 28,309,970	\$ 20,504,970
Capital Projects (high schools)	<u>79,375,000</u>	<u>83,490,000</u>	<u>-</u>	<u>-</u>	<u>79,375,000</u>	<u>83,490,000</u>
Totals	<u>\$ 106,329,110</u>	<u>\$ 102,639,110</u>	<u>\$ 1,355,860</u>	<u>\$ 1,355,860</u>	<u>\$ 107,684,970</u>	<u>\$ 103,994,970</u>

CITY OF LYNN, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2004

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Debt (Continued)

Government debt: The majority of City debt relates to school construction, specifically Chapter 70 of the MGL or Chapter 645 of the Acts of 1948. The debt incurred is reimbursed at a rate of 90% as a result of the City's acceptance into the Commonwealth's School Building Assistance Program. This is considered outside debt and has no bearing on the City's debt limitations. The new police station has secured permanent financing of \$2,360,000 as well as temporary borrowings, at the date of the report, equaling \$10,000,000. The project is expected to cost \$20 million and the City is well within its debt limitations to finance this venture. Total bonded debt is expected to decrease by \$6,719,110 in FY 2005.

Business Activity debt: The City owns and operates a Marina through its Economic Development Department. The Marina is financed by a Revenue Bond attained through the National Oceanic and Atmospheric Administration (NOAA). The proceeds from the Marina provide funding for both operations and the repayment of the Revenue Bond. The City is currently negotiating a restructuring of the debt with NOAA. Also included in this segment are various Section 108 loans secured through the City's Community Development Block Grant (CDBG) funds for the purpose of infrastructure improvements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

According to Commonwealth of Massachusetts Division of Employment and Training the unemployment rate for the City of Lynn for calendar year 2004 is 5.5%, which also compares with National and State averages of 5.2 % and 4.8, respectively.

According to U.S. Census Bureau, the median family income for the city for calendar year 1999 is \$37,364. This compares to the State average of \$50,502. The city's 1999 per capita income is \$17,492 compared to the state average of \$25,952.

With the anticipated level funding of State Aid for fiscal 2005, the fiscal 2005 budget is being prepared as a level service budget

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Richard Fortucci at the Chief Finance Officer's Office at 1 City Hall Square, Lynn, Massachusetts 01901.

CITY OF LYNN, MASSACHUSETTS

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business-Type Activities	Total
Assets			
Current:			
Cash and cash equivalents:			
Unrestricted	\$ 29,609,204	\$ -	\$ 29,609,204
Restricted	10,970,510	426,331	11,396,841
Investments	5,618,820	-	5,618,820
Property tax receivables:			
Current year real property tax levy	1,813,191	-	1,813,191
Current year personal property tax levy	192,541	-	192,541
Current year auto excise tax levy	1,164,037	-	1,164,037
Other receivables and tax titles:			
Departmental	4,869,205	-	4,869,205
Due from other governments	5,837,324	324,387	6,161,711
Accounts receivable, net	-	144,501	144,501
Noncurrent:			
Due from other funds	20,675	-	20,675
Due from other governments	59,509,091	-	59,509,091
Property tax receivables:			
Prior years' personal property taxes levies, net of reserve of \$884,000	82,672	-	82,672
Prior years' auto excise tax levies, net of reserve \$1,440,000	1,551,516	-	1,551,516
Tax liens - net of reserve of \$960,000	630,952	-	630,952
Tax possessions - net of reserve of \$461,000	115,610	-	115,610
Other assets	3,249,224	12,775	3,261,999
Investment in capital assets, net of accumulated depreciation	95,336,170	2,425,014	97,761,184
Total assets	220,570,742	3,333,008	223,903,750
Liabilities			
Current:			
Warrants payable	5,446,316	711,648	6,157,964
Accrued payroll and withholdings	5,470,934	-	5,470,934
Accrued claims payable	9,294,396	-	9,294,396
Bonds and notes payable - current	16,719,110	112,030	16,831,140
Accrued legal settlements - current	135,000	-	135,000
Deferred revenues	465,608	458,020	923,628
Noncurrent:			
Accrued sick leave	1,977,668	-	1,977,668
Due to other funds	20,674	-	20,674
Bonds and notes payable - noncurrent	89,610,000	1,243,830	90,853,830
Accrued legal settlements - long term	1,175,000	-	1,175,000
Other liabilities	466,164	-	466,164
Total liabilities	130,780,870	2,525,528	133,306,398
Net Assets			
Invested in capital assets, net of related debt	53,973,066	1,193,959	55,167,025
Restricted	-	(364,112)	(364,112)
Unrestricted	35,816,806	(22,367)	35,794,439
Total net assets	\$ 89,789,872	\$ 807,480	\$ 90,597,352

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

CITY OF LYNN, MASSACHUSETTS

Statement of Activities

Year Ended June 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net Expenses/(Revenues) and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental activities:						
General government	\$ 12,980,890	\$ 2,822,535	\$ 131,484	\$ 10,026,871	\$ -	\$ 10,026,871
Public safety	31,003,691	-	2,754,197	28,249,494	-	28,249,494
Education	122,770,341	283,862	121,622,953	863,526	-	863,526
Public service	12,636,585	-	2,296,577	10,340,008	-	10,340,008
Health and welfare	1,590,472	339,552	71,026	1,179,894	-	1,179,894
Culture and recreation	861,891	-	120,635	741,256	-	741,256
Debt service	5,430,617	-	-	5,430,617	-	5,430,617
Employee pensions	293,841	-	-	293,841	-	293,841
Insurance	25,070,082	-	-	25,070,082	-	25,070,082
Intergovernmental	3,311,573	-	-	3,311,573	-	3,311,573
Capital outlays	666,419	-	-	666,419	-	666,419
Community Development activities	<u>8,166,000</u>	<u>-</u>	<u>7,911,934</u>	<u>254,066</u>	<u>-</u>	<u>254,066</u>
Total governmental activities	<u>224,782,402</u>	<u>3,445,949</u>	<u>134,908,806</u>	<u>86,427,647</u>	<u>-</u>	<u>86,427,647</u>
Business-type activities:						
Marina enterprise fund	699,097	583,711	-	-	115,386	115,386
School lunch fund	4,940,252	872,433	4,108,077	-	(40,258)	(40,258)
Gannon golf course	512,095	743,997	-	-	(231,902)	(231,902)
Ambulance	<u>659,483</u>	<u>336,317</u>	<u>-</u>	<u>-</u>	<u>323,166</u>	<u>323,166</u>
Total business-type activities	<u>6,810,927</u>	<u>2,536,458</u>	<u>4,108,077</u>	<u>-</u>	<u>166,392</u>	<u>166,392</u>
Total government	<u>\$ 231,593,329</u>	<u>\$ 5,982,407</u>	<u>\$ 139,016,883</u>	<u>86,427,647</u>	<u>166,392</u>	<u>86,594,039</u>
General revenues:						
Property taxes				73,230,224	-	73,230,224
Intergovernmental				19,572,343	-	19,572,343
Excise taxes				5,779,045	-	5,779,045
Charges for services				-	-	-
Licenses, permits and fines				-	-	-
Departmental				2,179,871	-	2,179,871
Investment income				1,191,320	-	1,191,320
Special items:						
Transfer, net				<u>(11,844,068)</u>	<u>(93,657)</u>	<u>(11,937,725)</u>
Total general revenues, special items and transfers				<u>90,108,735</u>	<u>(93,657)</u>	<u>90,015,078</u>
Change in net assets				3,681,088	(260,049)	3,421,039
Net assets:						
Beginning of the year				<u>86,108,784</u>	<u>1,067,529</u>	<u>87,176,313</u>
End of the year				<u>\$ 89,789,872</u>	<u>\$ 807,480</u>	<u>\$ 90,597,352</u>

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

CITY OF LYNN, MASSACHUSETTS

Governmental Funds

Balance Sheet

June 30, 2004

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents:			
Unrestricted	\$ 21,932,327	\$ 7,676,877	\$ 29,609,204
Restricted	29,295	10,941,215	10,970,510
Investments	-	5,618,820	5,618,820
Property tax receivables:			
Current year's levy	2,005,732	-	2,005,732
Prior years' levy	966,672	-	966,672
Other receivables and tax titles:			
Tax liens	1,590,952	-	1,590,952
Excise taxes	4,155,553	-	4,155,553
Departmental	465,608	4,403,597	4,869,205
Tax possessions	576,610	-	576,610
Due from other funds	20,675	-	20,675
Due from other governments	64,966,006	380,409	65,346,415
Other assets	3,403,224	-	3,403,224
	Total assets	Total	Total
	\$ 100,112,654	\$ 29,020,918	\$ 129,133,572
Liabilities and fund balances			
Liabilities:			
Warrants payable	\$ 2,615,229	\$ 614,087	\$ 3,229,316
Accrued payroll and withholdings	5,470,934	-	5,470,934
Accrued claims payable	9,294,396	-	9,294,396
Due to other funds	-	20,674	20,674
Bond anticipation note payable	-	10,000,000	10,000,000
Other liabilities	466,164	-	466,164
Deferred revenue	73,009,102	4,338,617	77,347,719
Accrued legal settlements	1,310,000	-	1,310,000
Reserve for abatements and exemptions	5,379,413	-	5,379,413
	Total liabilities	Total	Total
	97,545,238	14,973,378	112,518,616
Fund balances:			
Reserved for encumbrances	556,916	6,657,219	7,214,135
Unreserved:			
Designated	-	6,987,517	6,987,517
Undesignated	2,010,500	-	2,010,500
Permanent	-	402,804	402,804
	Total fund balances	Total	Total
	2,567,416	14,047,540	16,614,956
	Total Liabilities and fund balances	Total	Total
	\$ 100,112,654	\$ 29,020,918	\$ 129,133,572

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

CITY OF LYNN, MASSACHUSETTS

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2004

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Property taxes	\$ 75,618,997	\$ -	\$ 75,618,997
Intergovernmental	128,510,737	27,692,449	156,203,186
Excise taxes	5,736,248	-	5,736,248
Charges for services	339,552	3,106,397	3,445,949
Licenses, permits and fines	2,204,339	-	2,204,339
Departmental	1,504,715	1,740,925	3,245,640
Investment income/(loss)	1,463,474	(272,154)	1,191,320
Total revenues	215,378,062	32,267,617	247,645,679
Expenditures:			
General government	8,651,173	2,730,400	11,381,573
Public safety	30,753,661	748,024	31,501,685
Education	104,154,400	18,615,941	122,770,341
Public service	10,843,593	1,865,977	12,709,570
Health and welfare	1,547,664	71,026	1,618,690
Culture and recreation	879,685	15,920	895,605
Debt service	790,803	10,093,669	10,884,472
Employee pensions	293,841	-	293,841
Insurance	25,070,082	-	25,070,082
Intergovernmental	3,311,573	-	3,311,573
Capital outlay	-	2,946,714	2,946,714
Community Development activities	-	8,166,000	8,166,000
Total expenditures	186,296,475	45,253,671	231,550,146
Excess/(deficiency) of revenues over expenditures	29,081,587	(12,986,054)	16,095,533
Other financing sources/(uses):			
Proceeds from debt issuance	-	10,470,000	10,470,000
Refunding payments	-	(8,110,000)	(8,110,000)
Transfers to other funds	(21,895,650)	10,051,582	(11,844,068)
Total other financing sources/(uses)	(21,895,650)	12,411,582	(9,484,068)
Excess/(deficiency) of revenues and other financing sources over expenditures and other financing uses	7,185,937	(574,472)	6,611,465
Fund balance/(deficit), beginning	(4,618,521)	14,622,012	10,003,491
Fund balance, ending	\$ 2,567,416	\$ 14,047,540	\$ 16,614,956

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

CITY OF LYNN, MASSACHUSETTS

**Reconciliation of the Governmental Funds Balance Sheet - Total Fund Balance
to the Statement of Net Assets**

June 30, 2004

Total governmental fund balance	\$ 16,614,956
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds	95,336,170
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:	
Due from Commonwealth of Massachusetts under Chapter 645 School Building Assistance Program	64,966,006
Other receivables, net of reserves	13,396,518
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due	(2,217,000)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds and notes payable	(96,329,110)
Compensated absences	<u>(1,977,668)</u>
Net assets of governmental activities	\$ <u><u>89,789,872</u></u>

CITY OF LYNN, MASSACHUSETTS

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds to the Statement of Activities**

Year Ended June 30, 2004

Net change in fund balances - total governmental funds	\$ 6,611,465
<p>Governmental funds report capital outlays as expenditures, however, in the Statement of Activities, the costs of certain assets purchased are allocated over their estimated useful lives and reported as depreciation expense. These amounts are as follows:</p>	
Capital outlays reported as expenditures on Statement of Revenues, Expenditures, and Changes in Fund Balances	3,927,955
Depreciation expense included in Statement of Activities.	(3,400,545)
Reimbursements from the Commonwealth of Massachusetts School Building, Building Assistance Program for principal payments on long-term debt provide current financial resources to governmental funds but have no effect on net assets, therefore are excluded from net assets.	(4,533,368)
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 differ between the two statements.	(2,804,753)
Compensated absences expense reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	786,479
In the statement of activities, interest is accrued on long-term debt, whereas in the governmental funds interest is not reported until due.	(716,145)
Long-term debt: The issuance of long-term debt provides current financial resources to governmental funds but have no effect on net assets, therefore are excluded from net assets.	(10,470,000)
The repayment of the principal of long-term debt consumes the financial	<u>14,280,000</u>
Net change in net assets of governmental activities	<u>\$ 3,681,088</u>

CITY OF LYNN, MASSACHUSETTS

General Fund

Statement of Revenues, Transfers, Expenditures and Changes in Fund Balances (Budgetary Basis) - Budget and Actual

Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Budgetary Amounts</u>	<u>Variances with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues:				
Property taxes	\$ 70,949,785	\$ 70,949,785	\$ 73,625,623	\$ 2,675,838
Intergovernmental	126,033,614	126,033,614	128,657,752	2,624,138
Excise taxes	5,559,229	5,559,229	5,548,087	(11,142)
Charges for services	4,458,476	4,458,476	1,292,899	(3,165,577)
Licenses, permits and fines	1,921,613	1,921,613	2,204,339	282,726
Departmental	1,447,634	1,447,634	2,047,948	600,314
Investment income	267,044	267,044	1,463,474	1,196,430
 Total revenues	 <u>210,637,395</u>	 <u>210,637,395</u>	 <u>214,840,122</u>	 <u>4,202,727</u>
Expenditures:				
General government	8,996,588	8,996,588	9,612,818	(616,230)
Public safety	31,019,697	31,019,697	31,056,538	(36,841)
Education	104,539,114	104,539,114	104,112,636	426,478
Public service	10,365,959	10,365,959	11,261,255	(895,296)
Health and welfare	1,605,594	1,605,594	1,543,891	61,703
Culture and recreation	907,460	907,460	875,129	32,331
Debt service	11,320,524	11,320,524	11,024,472	296,052
Employee pensions	426,500	426,500	293,841	132,659
Insurance	28,003,707	28,003,707	24,066,017	3,937,690
Intergovernmental	3,339,167	3,339,167	3,311,573	27,594
 Total expenditures	 <u>200,524,310</u>	 <u>200,524,310</u>	 <u>197,158,170</u>	 <u>3,366,140</u>
 Excess of revenues over expenditures	 10,113,085	 10,113,085	 17,681,952	 7,568,867
Other financing sources/(uses):				
Transfers to other funds	13,426,662	13,426,662	(12,245,023)	(25,671,685)
 Excess/(deficiency) of revenues and other financing sources over expenditures and other financing uses	 <u>\$ 23,539,747</u>	 <u>\$ 23,539,747</u>	 <u>\$ 5,436,929</u>	 <u>\$ (18,102,818)</u>

CITY OF LYNN, MASSACHUSETTS

Proprietary Funds

Statement of Net Assets

June 30, 2004

	Business-Type Activities Enterprise Funds				Totals
	Marina Enterprise Fund	School Lunch Fund	Gannon Golf Course	Ambulance	
Assets					
Current:					
Restricted cash and cash equivalents	\$ 426,331	\$ -	\$ -	\$ -	\$ 426,331
Accounts receivable, net	41,868	-	-	102,633	144,501
Due from other governments	-	324,387	-	-	324,387
Total current assets	468,199	324,387	-	102,633	895,219
Noncurrent:					
Other assets	12,775	-	-	-	12,775
Fixed assets, net	1,784,498	-	420,463	220,053	2,425,014
Total noncurrent assets	1,797,273	-	420,463	220,053	2,437,789
Total assets	2,265,472	324,387	420,463	322,686	3,333,008
Liabilities					
Current:					
Warrants payable	-	711,648	-	-	711,648
Deferred revenues	333,020	-	125,000	-	458,020
Bonds and notes payable	112,030	-	-	-	112,030
Total current liabilities	445,050	711,648	125,000	-	1,281,698
Noncurrent:					
Bonds and notes payable	1,243,830	-	-	-	1,243,830
Total liabilities	1,688,880	711,648	125,000	-	2,525,528
Net assets					
Invested in capital assets, net of related debt	553,443	-	420,463	220,053	1,193,959
Restricted	23,149	(387,261)	-	-	(364,112)
Unrestricted	-	-	(125,000)	102,633	(22,367)
Total Net Assets	\$ 576,592	\$ (387,261)	\$ 295,463	\$ 322,686	\$ 807,480

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

CITY OF LYNN, MASSACHUSETTS

Proprietary Funds

Statement of Revenues, Expenses, and Changes in Net Assets

Year Ended June 30, 2004

	Business-Type Activities Enterprise Fund				Totals
	Marina Enterprise Fund	School Lunch Fund	Gannon Golf Course	Ambulance	
Operating revenues:					
Rental income	\$ 331,726	\$ -	\$ -	\$ -	\$ 331,726
Intergovernmental revenues	-	4,108,077	-	-	4,108,077
Charges for services	251,985	872,433	743,997	336,317	2,204,732
Total operating revenues	583,711	4,980,510	743,997	336,317	6,644,535
Operating expenses:					
Depreciation	49,020	-	15,777	62,873	127,670
Food service	-	3,235,043	-	-	3,235,043
Insurance	92,840	-	32,176	-	125,016
Office expense	1,698	-	4,295	-	5,993
Outside services	220	-	-	36,656	36,876
Rental and lease expense	30,014	-	12,605	-	42,619
Repairs and maintenance	-	-	24,214	-	24,214
Salaries and benefits	152,518	1,705,209	146,050	501,698	2,505,475
Supplies and cost of fuel sold	180,536	-	793	58,256	239,585
Management	19,898	-	256,500	-	276,398
Utilities	32,201	-	19,685	-	51,886
Total operating expenses	558,945	4,940,252	512,095	659,483	6,670,775
Net operating income/(loss)	24,766	40,258	231,902	(323,166)	(26,240)
Non-operating revenues/(expenses):					
Debt service and interest	(140,152)	-	-	-	(140,152)
Income/(loss) before transfers	(115,386)	40,258	231,902	(323,166)	(166,392)
Transfers in/(out)	-	-	263,080	(356,737)	(93,657)
Change in net assets	(115,386)	40,258	494,982	(679,903)	(260,049)
Net assets at beginning of year	691,978	(427,519)	(199,519)	1,002,589	1,067,529
Net assets at end of year	\$ 576,592	\$ (387,261)	\$ 295,463	\$ 322,686	\$ 807,480

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

CITY OF LYNN, MASSACHUSETTS

Proprietary Funds

Statement of Cash Flows

Year Ended June 30, 2004

	Business-Type Activities Enterprise Funds				Totals
	Marina Enterprise Fund	School Lunch Fund	Gannon Golf Course	Ambulance	
Cash flows from operating activities:					
Receipts from customers and users	\$ 741,252	\$ 5,424,560	\$ 587,238	\$ 269,888	\$ 7,022,938
Payments to vendors and employees	<u>(522,700)</u>	<u>(5,424,560)</u>	<u>(496,318)</u>	<u>(596,610)</u>	<u>(7,040,188)</u>
Net cash provided by (used in) operating activities	<u>218,552</u>	<u>-</u>	<u>90,920</u>	<u>(326,722)</u>	<u>(17,250)</u>
Cash flows from noncapital financing activities:					
Transfers in/(out)	<u>-</u>	<u>-</u>	<u>263,080</u>	<u>(356,737)</u>	<u>(93,657)</u>
Cash flows from capital and related financing activities:					
Principal payments on bonds and notes	-	-	-	-	-
Interest expense	(140,152)	-	-	-	(140,152)
Acquisition of capital assets	<u>-</u>	<u>-</u>	<u>(354,000)</u>	<u>-</u>	<u>(354,000)</u>
Net cash used in capital related financing activities	<u>(140,152)</u>	<u>-</u>	<u>(354,000)</u>	<u>-</u>	<u>(494,152)</u>
Net change in cash and cash equivalents	78,400	-	-	(683,459)	(605,059)
Cash and cash equivalents, beginning	<u>347,931</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>347,931</u>
Cash and cash equivalents, ending	<u>\$ 426,331</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (683,459)</u>	<u>\$ (257,128)</u>
Reconciliation of operating income to net cash provided by/(used in) operating activities:					
Operating income (loss)	\$ 24,766	\$ 40,258	\$ 231,902	\$ (323,166)	\$ (26,240)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	49,020	-	15,777	62,873	127,670
Changes in:					
Accounts receivable	(7,469)	-	-	(66,429)	(73,898)
Due from other governments	-	444,050	-	-	444,050
Other assets	(12,775)	-	-	-	(12,775)
Warrants payable	-	(484,308)	-	-	(484,308)
Deferred revenues	<u>165,010</u>	<u>-</u>	<u>(156,759)</u>	<u>-</u>	<u>8,251</u>
Total adjustments	<u>193,786</u>	<u>(40,258)</u>	<u>(140,982)</u>	<u>(3,556)</u>	<u>8,990</u>
Net cash provided by (used in) operating activities	<u>\$ 218,552</u>	<u>\$ -</u>	<u>\$ 90,920</u>	<u>\$ (326,722)</u>	<u>\$ (17,250)</u>

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

CITY OF LYNN, MASSACHUSETTS

Retirement System Fiduciary Fund

Statement of Fiduciary Net Assets

December 31, 2003

Assets

Restricted cash and cash equivalents	\$ 4,914,449
Investments	150,321,265
Departmental receivables	<u>7,071,282</u>
Total assets	162,306,996

Liabilities

Investment purchases payable and other liabilities	<u>13,032</u>
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Net Assets

Held in trust for pension benefits and other purposes	<u><u>\$ 162,293,964</u></u>
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CITY OF LYNN, MASSACHUSETTS

Retirement System Fiduciary Fund

Statement of Changes in Fiduciary Net Assets

Year Ended December 31, 2003

Additions:

Contributions:

Members' retirement contributions	\$ 5,932,544
Intergovernmental contributions	11,814,557
Transfers from General Fund to fund employer contributions	<u>14,693,491</u>
Total contributions	<u>32,440,592</u>

Net investment earnings/(losses):

Interest and dividends	4,044,506
Realized gains on sale of investments	4,714,815
Unrealized gains in fair value of investments	<u>16,377,259</u>
Total net investment earnings	<u>25,136,580</u>

Total additions	<u>57,577,172</u>
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Deductions:

Employee pension benefits	32,878,808
Refunds of contributions	2,015,270
Administrative expenses	<u>905,362</u>
Total deductions	<u>35,799,440</u>

Change in net assets	21,777,732
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Net assets at beginning of year	<u>140,516,232</u>
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Net assets at end of year	<u>\$ 162,293,964</u>
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CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 1 - Summary of Significant Accounting Policies

The accompanying basic financial statements of the City of Lynn, Massachusetts (“the City”) are presented in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Financial Reporting Entity

In determining the financial reporting entity, the City complies with the provisions of GASB No. 14, “The Financial Reporting Entity,” as amended, and includes all component units of which the City appointed a majority of the units’ board, the City is either able to impose its will on the unit, or a financial benefit or burden relationship exists.

- **Blended Component Units**

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units’ funds are blended into those of the City’s by appropriate activity type to compose the primary government presentation. Currently, the City has no blended component units.

- **Discretely Presented Component Units**

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

Transactions involving the Lynn Housing Authority, the Economic Development and Industrial Corporation of Lynn and the Lynn Water and Sewer Commission are excluded because they do not meet the criteria under GASB No. 14. The financial statements and related disclosure included with respect to the Lynn Contributory Retirement System is as of, and for the year ended, December 31, 2003, the System's most recently completed fiscal year.

Basis of Presentation

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

The government-wide financial statements report information on all of the nonfiduciary activities of the City and its discretely presented component units. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely for the most part on fees and charges for support. Likewise, the City is reported separately from any legally separate component units for which the City is financially accountable. As of June 30, 2004, the City does not have any component units.

The statement of activities presents both the gross and net cost per functional category. Direct expenses are those that are clearly identifiable with a specific function and program revenues must be directly associated with that function. Program revenues include charges to customers or applicants who purchase goods, services, or privileges as well as grants and contributions that are restricted to meeting operational or capital requirements of the function. Other revenue sources, such as taxes and investment earnings not properly included among program revenues, are reported as general revenues.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. However, fiduciary funds are not included in government-wide statements since these assets are held for the benefit of private parties and pension participants and cannot be used to satisfy obligations of the City. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The funds of the financial reporting entity are described as below:

- **Governmental Funds**

General Fund - is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds - are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Capital Projects Funds - are used to account for resources restricted for the acquisition or construction of specific capital projects or items, except those financed entirely by the general or proprietary funds.

Permanent Fund - is used to account for assets held by the City pursuant to trust agreements. The principle portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

- **Proprietary Funds**

Enterprise Funds - are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Lynn Marina Enterprise Fund, the Lynn Public Golf Course, the Lynn Ambulance Service and the Lynn School Lunch Fund.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

- **Fiduciary Funds (not included in government-wide statements)**

Agency Fund - The Agency Fund accounts for the assets held by the City in a purely custodial capacity. Since Agency Funds are custodial in nature, they do not involve the measurement of results of operations.

Contributory Retirement Fund - The retirement Fund is used to report resources that are required to be held in trust for the members and beneficiaries of the City of Lynn Contributory Retirement System.

- **Major and Nonmajor Funds**

The funds are further classified as major and nonmajor as follows:

Major Funds:	Brief Description
General Fund	See above for description
Non-Major Funds:	
Special Revenue Funds	See above for description
Capital Projects Funds	See above for description

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item B. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- A. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources at the end of the period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Measurement Focus (Continued)

- B. Proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- C. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” “Measurable” means knowing or being able to reasonably estimate the amount of the transaction. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary sources of revenue susceptible to accrual consist principally of real estate and personal property taxes, motor vehicle excise tax, amounts due under grants, charges for services, and investment income. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within sixty days after year-end. In those instances where expenditures are the prime factor in determining eligibility for state and federal grants, revenues are recognized when the expenditure is incurred and all other grant requirements have been met. In the Capital Projects Funds, proceeds from the issuance of long-term debt are recognized as revenue upon receipt of the proceeds. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for sick pay which is not to be liquidated from expendable and current resources and general obligation bond principle and interest payments, which are recognized when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses recorded when the liability is incurred or economic asset used.

Cash and Cash Equivalents and Investments

For the purpose of the Statement of Net Assets, cash includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” include all highly liquid demand and savings accounts, certificates of deposit, and short-term investments held by financial institutions purchased with an original maturity of three months or less.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents and Investments (Continued)

Investments are reported at fair value based on quoted market price. Managed funds related to the City's retirement system not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales price of the underlying securities. See Note 4 for a summary of the investments held by the City.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts being owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfunds loans are reported as "inter-fund receivables and payables." Long-term interfund loans (non-current portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include property and motor vehicle excise taxes and grants. Business-type activities report ambulance and Medicare reimbursements and membership dues as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property and motor vehicle excise taxes, and grants and other similar inter-governmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with the modified accrual basis of accounting, but not deferred in the government-wide financial statements in accordance with the accrual basis of accounting. Interest and investment earnings are recorded when earned only if paid within sixty days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Ambulance and Medicare reimbursements and membership dues compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are established based upon historical trends and the periodic aging of accounts receivable.

Inventories

The cost of supplies and other inventorable items is recorded as an expenditure at the time of purchase (purchase method). No significant inventory balances were on hand at June 30, 2004.

Prepayments

Prepayments are recorded as expenditures when made.

Capital Assets

The accounting treatment over property, plant, and equipment ("fixed assets") depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

- **Government-wide Statements**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, curbs, gutters, streets, sidewalks, and drainage systems), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. These assets are valued at estimated historical cost if actual cost is not available. Cost includes not only purchase price or construction cost, but also ancillary charges necessary to place the assets in its intended location and condition for use. Donated capital assets are recorded at their estimated fair value at the time received.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of assets is as follows:

Buildings	25 - 50 Years
Improvements	10 - 50 Years
Machinery and equipment	3 - 20 Years
Utility system	25 - 50 Years
Infrastructure	25 - 50 Years
Licensed vehicles	8 years

- **Fund Financial Statements**

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash and investments of the proprietary and special revenues funds that are legally restricted as to their use. The primary restricted assets are related to Community Development and various Special Revenue funds included as nonmajor funds.

Long-Term Liabilities

For long-term liabilities, only that portion, which is matured, is reported as a fund liability of a governmental fund. All long-term liabilities are reported in the government-wide statement of net assets. The long-term debt consists primarily of bonds and notes payable and accrued compensation absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

Accrued Sick and Vacation Leave

Employees are granted vacation and sick leave benefits pursuant to City policy and collective bargaining agreements as they provide services to the City. All vacation must be taken within the fiscal year earned, except with permission of the City Mayor or, in the case of School Employees, the School Superintendent. The liability for these compensated absences is recorded as long-term debt in the government-wide statements.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Deferred Compensation Plan

The City has a City-sponsored deferred compensation plan administered by an independent plan administrator, which was established in accordance with Section 457 of the Internal Revenue Code (the "Code") to conform with changes made to the Code. The City adopted the provisions of GASB No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, which requires that the deferred compensation plan sponsored by the City for which they do not have fiduciary responsibility not be reported in the City's general purpose financial statements.

Equity Classifications

- **Government-wide Statements:**

Equity is classified as net assets and displayed in three components:

- A. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- B. Restricted net assets consist of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- C. Unrestricted net assets consist of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

- **Fund Statements**

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

Encumbrances and Continuing Appropriations

Encumbrance accounting, under which purchase orders, contracts and other commitments funds expenditures are recorded in order to reserve portions of applicable appropriations, is employed in governmental funds. Open encumbrances at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Certain unexpended and unencumbered appropriations for incomplete projects are carried over to succeeding years. Such continuing appropriations are accounted for similar to encumbrances. Other unencumbered appropriations lapse at year end.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds - by character:	Current (further classified by function)
	Debt service
	Capital outlay
Proprietary Funds - by operating and non-operating	

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Transfers

Transfers of resources from a fund receiving revenue to the fund through which the resources are to be expended are recorded as operating transfers and are reported as other financing sources/(uses.)

On-Behalf Payments

The financial statements of the City are prepared in accordance with Government Accounting Standards Statement No. 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance. This statement requires the City to recognize, as income, certain payments made on behalf of the City by the Commonwealth. Specifically, the Commonwealth makes contributions to a contributory retirement plan administered by the Massachusetts Teacher's Retirement Board (the "State Plan") on behalf of the City's teaching employees. The City is not legally required to contribute to the State Plan, which is fully funded by the Commonwealth.

For the fiscal year ended June 30, 2004, the Commonwealth paid \$10,969,473 on behalf of the City's teaching employees. Intergovernmental revenues and employee pension expenditures of the contributory retirement system have been increased accordingly by the amount paid by the Commonwealth.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the general purpose financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 2 - Budgets and Appropriations

Annual budgets are adopted for the General Fund. Appropriations for the General Fund of the City are presented by the City Mayor and approved by the City Council annually at a City Council Meeting held in May. Additional appropriations may also be voted at City Council meetings throughout the fiscal year subject to available resources. Typically the City Mayor would submit requests for additional appropriations to the City Council. The City does not establish budgets nor does it vote on annual appropriations for the Special Revenue and Capital Projects Funds.

The appropriated budget is prepared by fund, function and department. City department heads may make transfers of appropriations within a department. The City Council, however, must approve any transfer of unencumbered appropriation balances between departments or between certain categories in the departmental budget.

All annual appropriations lapse at fiscal year end. Appropriations for certain projects and specific items not fully expended at the fiscal year end, however, are carried forward as continued appropriations to the new fiscal year and are reported as a component of fund balance. Expenditures from continued appropriations are recorded as current year expenditures of the General Fund in the combined statement of revenues, expenditures and changes in fund balances.

The school budget, included within the General Fund, is limited to the amount appropriated by the City Council, but the School Committee retains full power to allocate the funds appropriated.

The City Council does not vote general operating appropriations for the Marina Enterprise Fund but rather authorizes this self-supporting enterprise to incur expenses from receipts.

It is unlawful to authorize expenditures in excess of the amounts that have been appropriated by the City Council, with the exception of expenditures for snow and ice removal per Massachusetts General Laws, Chapter 44, Section 31D.

The City prepares its annual operating budget on a basis (budgetary basis), which differs from generally accepted accounting principles (GAAP basis). In order to provide a comparison of actual results with the budget, the actual and budget amounts are presented in accordance with the City's method (budgetary basis) in the combined statement of revenues, expenditures and other financing sources (uses) - budget and actual (budgetary basis), General Fund.

The major differences between the GAAP and the budgetary basis are as follows:

1. Encumbrances - Reported as a reservation of fund balance (GAAP basis) as opposed to being recorded as an expenditure (budgetary basis).
2. Revenue Recognition - Budget revenues are recorded when cash is received, except for real estate and personal property taxes, and certain other revenues, which are recorded as revenues when levied (budgetary basis), as opposed to when susceptible to accrual (GAAP basis).
3. Appropriation of Unreserved Fund Balance - Classified as another financing source for the budgetary basis; it is not reflected in the GAAP basis amounts.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 2 - Budgets and Appropriations (Continued)

Budgetary - GAAP Reporting Reconciliation

A reconciliation of budgetary-basis to GAAP-basis for the general fund results is as follows:

Excess of revenues and other financing sources over expenditures and other financing uses - budgetary basis	\$ 5,436,929
Effect of using the modified accrual method for recognizing revenues	537,940
Timing differences in recognizing expenditures	<u>1,211,068</u>
Excess of revenues and other financing sources over expenditures and other financing uses - GAAP basis	<u>\$ 7,185,937</u>

Note 3 - Property Taxes

Property taxes are based upon values assessed as of January 1 and are levied each July for the following fiscal year ending June 30. Taxes for each year are due in quarterly installments and are normally payable August 1, November 1, February 1 and May 1. Property taxes are recorded as receivables and deferred revenue at the time quarterly installments are billed. Interest accrues on delinquent taxes at the rate of 16% per annum and is recognized as revenue when received.

Real property (land and buildings) is subject to a lien for the taxes assessed upon it, subject to any paramount federal lien and bankruptcy and insolvency laws. In addition, real property is subject to a lien for certain unpaid municipal charges or fees. If the property has been transferred, an unenforced lien expires on the third October 1 after the fiscal year levied. If the property has not been transferred by the third October 1, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien when it cannot be enforced because of a legal impediment.

The persons against whom real or personal property taxes are assessed are personally liable for the tax (subject to bankruptcy and insolvency laws). In the case of real property, this personal liability is effectively extinguished by the sale or taking of the property by the City.

The City is subject to certain limitations on the amount of property taxes it may levy. Levies are generally limited to 2 and 1/2% of the City's total assessed valuation of real property. In addition, the assessed valuation of real property is limited to an annual increase of 2 and 1/2%.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 4 - Cash and Investments

State and local statutes place certain limitations on the nature of deposits and investments available to the City. Deposits (including demand deposits, money market deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain prescribed levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government or its agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by the U.S. government or its agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase, and units in the Massachusetts Municipal Depository Trust.

Deposits

The following summary presents the amount of City deposits as of June 30, 2004 (except for the retirement system which is as of December 31, 2003) as recorded by various banks, with the corresponding total per the City's books as reflected in the accompanying balance sheet, categorized below as Category 1 (fully insured deposits, or deposits collateralized with securities held by the City or its agent in the City's name), Category 2 (collateralized deposits with securities held by the pledging financial institution's trust department in the City's name) or Category 3 (deposits neither fully insured nor collateralized as per criteria in Category 1 or 2 above).

	Category 1	Category 2	Category 3	Total
Government funds	\$ 11,386,944	\$ -	\$ 40,097,947	\$ 51,484,891
Business-type funds	100,000	-	338,318	438,318
Retirement funds	<u>31,463</u>	<u>-</u>	<u>4,882,986</u>	<u>4,914,449</u>
Total bank recorded balance	\$ <u>11,518,407</u>	\$ <u>-</u>	\$ <u>45,319,251</u>	56,837,658
Reconciling items (deposits in transit outstanding checks, etc.), net				<u>(10,917,164)</u>
Total cash and cash equivalents per City				\$ <u>45,920,494</u>

The composition of the City's bank recorded deposits fluctuates depending primarily on the timing of real estate tax receipts, proceeds from borrowings, collections of state and federal aid, and capital outlays throughout the year.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 4 - Cash and Investments (Continued)

Investments

The City categorizes investments according to the level of risk assumed by the City. Category 1 includes investments that are insured, registered or held by the City or the City's agent in the City's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured, unregistered investments held by the counterparty, its trust department or its agent, but not in the City's name. The summary of total retirement system investments as of December 31, 2003, and City investments as of June 30, 2004 per the above criteria is below.

General Treasury	Category 1	Category 2	Category 3
Type of Investment			
Stocks	\$ -	\$ -	\$ 46,138
Corporate and Foreign Bonds	-	-	1,955,792
U.S. Treasury and Municipal Obligations	-	-	3,616,890
	<u> </u>	<u> </u>	<u> </u>
Total general treasury	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,618,820</u></u>
	Category 1	Category 2	Category 3
Retirement System			
Type of Investment			
Stocks	\$ -	\$ -	\$ 85,618,666
Bonds and U.S. Treasury	-	-	55,501,152
Interest in Real Estate Limited Partnerships	-	-	7,366,407
Interest in Venture Capital Limited Partnership	-	-	1,485,383
Accrued Interest	-	-	349,657
	<u> </u>	<u> </u>	<u> </u>
Total retirement system	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 150,321,265</u></u>

In addition to the interest in the Venture Capital Limited Partnership at December 31, 2003, the City has a commitment to provide up to an additional \$575,000 in capital contributions to the partnership, as needed, to enable the partnership to make additional investments.

Note 5 - Accounts Receivable

Accounts receivable of the business-type activities consists of:

Accounts receivable	\$ 1,617,960
Allowance for doubtful accounts	<u>(1,473,459)</u>
Net accounts receivable	<u><u>\$ 144,501</u></u>

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 6 - Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance at July 1, 2003	Fiscal 2004 Changes	Balance at June 30, 2004
Governmental activities:			
Land	\$ 6,427,595	\$ (706,310)	\$ 5,721,285
Land improvements	1,524,086	379,626	1,903,712
Buildings	138,922,519	2,421,000	141,343,519
Machinery and equipment	6,446,177	39,183	6,485,360
Infrastructure	7,700,386	1,701,221	9,401,607
Licensed vehicles	<u>9,360,615</u>	<u>93,235</u>	<u>9,453,850</u>
Totals at historical cost	<u>\$ 170,381,378</u>	<u>\$ 3,927,955</u>	<u>\$ 174,309,333</u>
Less accumulated depreciation			
Land improvements	\$ 1,054,097	\$ 45,664	\$ 1,099,761
Buildings	55,080,723	2,406,903	57,487,626
Machinery and equipment	5,451,476	276,184	5,727,660
Infrastructure	7,466,799	44,407	7,511,206
Licensed vehicles	<u>6,519,523</u>	<u>627,387</u>	<u>7,146,910</u>
Total accumulated depreciation	<u>\$ 75,572,618</u>	<u>\$ 3,400,545</u>	<u>\$ 78,973,163</u>
Business-type activities:			
Land	\$ 488,834	\$ 353,998	\$ 842,832
Land improvements	37,908	-	37,908
Licensed vehicles, equipment and fixtures	1,838,635	-	1,838,635
Marina improvements	<u>1,392,351</u>	<u>-</u>	<u>1,392,351</u>
Totals at historical cost	<u>\$ 3,757,728</u>	<u>\$ 353,998</u>	<u>\$ 4,111,726</u>
Less accumulated depreciation			
Land improvements	\$ 37,908	\$ -	\$ 37,908
Licensed vehicles, equipment and fixtures	1,029,209	99,822	1,127,363
Marina improvements	<u>491,927</u>	<u>27,846</u>	<u>521,441</u>
Total accumulated depreciation	<u>\$ 1,559,044</u>	<u>\$ 127,668</u>	<u>\$ 1,686,712</u>

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 6 - Capital Assets (Continued)

Depreciation expense was charged to governmental activities as follows:

Mayor	\$	3,984
Data Processing		3,936
General government		964,427
Election office		<u>17,020</u>
Total general government		<u>989,367</u>
Public safety and judiciary:		
Police		145,959
Fire		<u>334,217</u>
Total public safety and judiciary		<u>480,176</u>
Education		<u>1,593,408</u>
Public service		<u>309,734</u>
Cultural and recreation		<u>4,800</u>
Community development		<u>23,060</u>
Total depreciation expense	\$	<u><u>3,400,545</u></u>

Note 7 - Long-Term Debt

General Obligation Debt

State law permits a City, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, a City may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Notes Payable

The City is authorized, through its Treasurer, to borrow on a temporary basis to fund operating costs incurred prior to receipt of tax revenues by issuing tax anticipation notes (TANs). It may also borrow to fund capital projects in anticipation of the issuance of bonds (BANs), or receipt of federal (FANs) and state (SANs) grants. The City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 7 - Long-Term Debt (Continued)

Governmental Activities:

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Retired FY 2004</u>
School project	5.00-7.85	01/15/04	\$ -	\$ 1,060,000
School project refunding	2.00-5.00	01/15/11	8,110,000	8,110,000
School land acquisition	5.00 - 5.75	11/01/10	1,015,000	145,000
Section 108	3.73-7.90	08/01/12	510,000	40,000
Solid Water Disposal	4.75-5.10	06/01/12	3,855,000	485,000
High School	4.40-5.25	02/15/17	35,345,000	1,835,000
Voting machine	4.50	12/31/02	34,110	35,000
High School	4.00-5.375	08/15/17	23,625,000	1,230,000
High School	4.00-5.25	06/01/18	20,405,000	1,050,000
Police Station	2.00-5.00	01/15/21	2,360,000	-
Police Station	2.00	10/15/04	10,000,000	-
Capital Projects	5.375-5.40	02/01/10	1,070,000	290,000
Subtotal			106,329,110	14,280,000
Total Accrued Compensated Absences			1,977,668	-
Total Governmental Activities Debt			\$ 108,306,778	\$ 14,280,000

Business-Type Activities:

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Retired FY 2004</u>
Marina	7.00	2/1/2014	\$ 1,355,860	-
Total Business-Type Activities Debt			\$ 1,355,860	-

At June 30, 2004, the City did not maintain sufficient funds in the "Reserve Fund" and the "Depreciation Reserve Fund," which has requirements of \$135,720 and \$130,000, respectively.

There have been a number of defaults with respect to certain covenants contained in the bond agreement through which the marina redevelopment project was financed. These defaults are primarily of an administrative nature and relate to the period the facility was operated by the previous lessee. Lynn Community Development has commenced actions that will ultimately affect compliance with the bond agreement, and have communicated these ongoing efforts to the funding agency. While the City does not believe it will be declared to be in default, no formal waivers have been obtained. Therefore, the financial impact to the City, if any, of these defaults is unable to be determined.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 7 - Long-Term Debt (Continued)

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004	Amounts Due within One Year
Governmental Activities:					
Bonds Payable	\$ 100,139,110	\$ 10,470,000	\$ 14,280,000	\$ 96,329,110	\$ 6,719,110
Notes Payable	2,500,000	20,000,000	12,500,000	10,000,000	10,000,000
Accrued Compensated Absences	<u>2,764,147</u>	<u>-</u>	<u>786,479</u>	<u>1,977,668</u>	<u>-</u>
Total Governmental Activities Debt	<u>\$ 105,403,257</u>	<u>\$ 30,470,000</u>	<u>\$ 27,566,479</u>	<u>\$ 108,306,778</u>	<u>\$ 16,719,110</u>
Business-Type Activities:					
Bonds Payable	\$ 1,355,860	\$ -	\$ -	\$ 1,355,860	\$ 112,030
Total Business-type Activities Debt	<u>\$ 1,355,860</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,355,860</u>	<u>\$ 112,030</u>

During the year ended June 30, 2004, the City issued three short-term notes, two in the amount of \$5 million and one in the amount of \$10 million. The purpose of these notes were to fund the City's payroll, to fund the City's operations in anticipation of future property tax revenues and to support building renovations of the Lynn police station, respectively. At June 30, 2004, only the \$10 million bond anticipation note remained outstanding.

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2004, are as follows:

Years Ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 16,719,110	\$ 4,468,191	\$ 112,030	\$ 229,705
2006	6,770,000	4,159,688	50,750	86,180
2007	6,950,000	3,894,960	54,410	82,563
2008	7,140,000	3,621,460	58,350	78,686
2009	7,345,000	3,294,310	62,560	74,528
Thereafter	<u>61,405,000</u>	<u>14,071,421</u>	<u>1,017,760</u>	<u>205,843</u>
Total	<u>\$ 106,329,110</u>	<u>\$ 33,510,030</u>	<u>\$ 1,355,860</u>	<u>\$ 757,505</u>

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 8 - Fund Balance Deficits

As of June 30, 2004, various funds included in the financial statements as Non-major Governmental Funds had deficits. These deficits will be funded via the receipt of federal and state grants and reimbursements. The deficit in the General Fund will be funded through use of overlay, reduction in one time expenses the City experienced in fiscal 2004 and alternative sources for revenue raising.

Note 9 - Retirement Plans

System Descriptions

The following description of the City of Lynn Contributory Retirement System (the "System"), a Blended component unit of the City, is provided for general information purposes only. Users should refer to the General Laws of the Commonwealth (Chapter 32) and the rules, regulations and the procedures adopted by the Public Employee Retirement Administration Commission (PERAC) and by the City of Lynn Retirement Board for more complete information.

The System issues publicly available financial report in accordance with guidelines established by the PERAC. That report may be obtained from the System located at City Hall, Room 106, Lynn, Massachusetts 01901.

The System is a contributory single-employer defined benefit pension plan covering City employees deemed eligible by the System's Retirement Board, with the exception of School Department employees who serve in a teaching capacity. The pensions of such teachers are administered by the Massachusetts Teachers' Retirement Board (see Note 10). Participation in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

Massachusetts's contributory retirement system benefits are uniform from system to system, including the Massachusetts Teachers Retirement System. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest three-year average annual rate of regular compensation, as defined. Benefit payments are based upon a participant's age, length of creditable service, level of compensation, and group classification.

Non-teaching employees of the City who are employed on a basis, which anticipates work at an annual rate to exceed 1,040 hours, are eligible to participate in the System. Full-time employees are eligible immediately, and part-time employees are eligible six months after the date of employment.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 9 - Retirement Plans (Continued)

System Descriptions (Continued)

Participants become vested after ten years of creditable service. Participants' contributions are fully vested at all times. A superannuation retirement allowance may be received upon completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55). As of December 31, 2003, the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them.	1,307
Inactive employees	217
Active employees	<u>1,593</u>
	<u><u>3,117</u></u>

A retirement allowance consists of two parts, an annuity and a pension. Participants' accumulated total contributions and a portion of the interest their contributions generate constitute the annuity. The differential between the total retirement benefit and the annuity benefit is the pension benefit. The average retirement benefit is approximately 80% - 85% pension and 15% - 20% annuity.

Contribution requirements of the City and the participants are established by Massachusetts General Laws and the System and may be amended. Active participants contribute 5%, 7%, 8%, or 9% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's participation or membership commences. Active participants who were hired on or after January 1, 1979 contribute an additional 2% of salary in excess of \$30,000. All participant contributions are deposited in the Annuity Savings Fund and earn interest at a rate determined by PERAC's actuary (3.00% during calendar 2003) according to statute. When a participant's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. The City is required to contribute at an actuarially determined rate. The current rate is 25.9% of annual covered payroll. The pension portion of any retirement benefit is paid from the Pension Fund of the System.

From time to time, the Massachusetts legislature may grant cost-of-living increases to benefits being paid to retirees. These increases are expressed as a percentage of the retiree's allowance, subject to a maximum dollar increase. Since 1982, cost-of-living increases granted to members of local retirement systems have been the financial responsibility of the Commonwealth. As of July 1, 1999, each City Retirement Board must vote to award cost-of-living increases. The percentage increase is mandated by the Massachusetts Legislature and is the financial responsibility of the electing System.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 9 - Retirement Plans (Continued)

System Descriptions (Continued)

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as determined by PERAC's Actuary. Prior to 1977, retirement systems were paying only the actual retirement benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees now working. Large unfunded liabilities resulted from this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations. In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. This has significantly reduced the rate of growth of the retirement's systems' unfunded liabilities, and in some systems has actually reduced such liability.

Administrative expenses are funded through excess investment income.

Participants who become permanently and totally disabled from further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors, including whether the disability is work-related, the participant's age, years of creditable service, level of compensation, veteran's status, and group classification.

Participants who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated contributions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive 0%, 50%, or 100% of the regular interest that has accrued upon those contributions. Survivor benefits are extended to eligible beneficiaries of participants whose deaths occur prior to or following retirement.

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination will be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of the Commonwealth, if such member has paid the stipulated contributions specified in sections or provisions of such laws.

Summary of Significant Accounting Policies

Basis of Accounting - The System follows the policies mandated by the Commonwealth of Massachusetts. The financial statements of the System are on the accrual basis of accounting on a calendar year basis. City and participant contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of Massachusetts General Law and the plan.

Method Used to Value Investments - Plan investments are reported at fair value at the end of the year except for fixed income securities that are at amortized cost basis. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future plan principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based upon independent appraisals. Investments that do not have an established market are reported at estimated fair values.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 9 - Retirement Plans (Continued)

Funding Policy

The City has adopted, and PERAC has approved, a schedule that provides for the funding of the normal cost plus funding of the unfunded actuarial liability over a twenty-nine year period, ending June 30, 2024. The funding amount for the fiscal year ended June 30, 2004 was \$13,426,662 equal to the required contribution.

The most recent actuarial valuation of the System was prepared as of January 1, 2004. The City's total covered payroll for the year ended December 31, 2002 was approximately \$63,050,947.

Employer contributions are funded on a pay-as-you-go basis as directed by PERAC and the Teacher's Retirement Board.

Annual Pension Cost

The annual required contribution for the current year was determined as part of the January 1, 2004 actuarial valuation using the entry age actuarial cost method. Significant actuarial assumptions used include (1) a rate of return on investment of present and future assets of 8.25% per year compounded annually, (2) projected salary increases of 4.75%, 5.00% and 5.25% per year for various employee groups compounded annually, and (3) no postretirement benefit increases. The unfunded actuarial accrued liability is being amortized using a 4.5% increasing basis method on an open basis.

The remaining amortization period at January 1, 2004 was 24 years. The City's contribution to the System for the years ending June 30, 2002, 2003 and 2004 were \$12,076,173, \$12,808,698, and \$13,426,662, respectively, equal to the required contributions for each year.

A schedule of the funding progress for 2004 and the two previous valuations are as follows:

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) * Entry Age	(3) Unfunded AAL (UAAL) (2)-(1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll	(6) UAAL as of % of Covered Payroll (3)/(5)
12/31/2003	\$ 178,523,359	\$ 351,319,226	\$ 172,795,867	50.8%	\$ 63,050,947	274.1%
12/31/2002	166,986,318	317,252,740	150,266,422	52.6%	66,007,910	227.6%
12/31/1999	168,279,923	278,031,058	109,751,135	60.5%	58,953,757	186.2%
12/31/1998	109,785,999	200,056,186	90,270,187	54.9%	47,985,127	188.1%

*Excludes State reimbursed COLA

Noncontributory Retirement Plan

The City also has a noncontributory pension plan that covers certain employees hired prior to the adoption of the System. Total payments for the plan amounted to \$293,841 during the year ended June 30, 2004.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 10 - Massachusetts Teachers' Retirement Plan

The majority of the teaching employees of the School Department participate in a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board (the "State Plan"). The City does not contribute to this plan.

Teaching employees of the School Department who meet certain requirements and are employed on a basis, which anticipates work at an annual rate to exceed 1,040 hours, are required to participate in the State Plan.

For participants who became members of the State Plan prior to January 1, 1978, benefits become vested after twenty or more years of creditable service or upon reaching the age of 55. Benefits relating to participants who became members of the State Plan subsequent to December 31, 1997 become vested after twenty or more years of creditable service or after ten or more years of creditable service and having reached the age of 55.

Teaching employees contribute 5% of regular compensation if they became members of the State Plan prior to January 1, 1975, 7% if they became members from January 1, 1975 to December 31, 1983, 8% if they became members on or after January 1, 1984, or 9% if they became members on or after January 1, 1996.

In addition, if they became members on or after January 1, 1979, employees are required to contribute an additional 2% of regular compensation in excess of \$30,000.

The Commonwealth is obligated to fund the State Plan. State law requires that public employee retirement systems in the Commonwealth be funded on a pay-as-you-go basis, that is, an amount necessary to pay pensions actually falling due must be funded each year. The on-behalf payments funded by the Commonwealth to the State Plan are not analyzed by community; funding is made in total for participating employees throughout the Commonwealth.

Note 11 - Other Post-Employment Benefits

In addition to the pension benefits described in Notes 9 and 10, the City provides post-employment health care benefits to all employees who are eligible for retirement with at least ten years of service and who were receiving health benefits from the City at retirement. The City provides health and life insurance premium assistance at the level, which the employee received when employed. This currently averages 80%, unless the individual is covered by Medicare, in which case a Medicare Supplement is provided. The City funds the benefits on a pay-as-you-go basis. The City's expenditure for these benefits was approximately \$7,885,342 for the year ended June 30, 2004.

There are approximately 1,763 participants currently eligible.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 12 - Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has purchased commercial insurance for these risks, except for those risks identified in the following paragraphs that the City accounts for in its General Fund.

Group Health

The City self-insures its health insurance costs of its current and retired employees and their covered dependents to minimize the cost of annual medical insurance. Contributions to a plan, which administers the self-insurance, are made monthly in the following proportions: City 80%, employees 20%. Medical claims which exceed \$150,000 per individual per plan year are covered through a private insurance carrier.

The total charge allocated to the General Fund is calculated using trends in actual claims experience. Provisions are also made for unexpected and unusual claims.

Liabilities of the Medical Claims Trust Fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported ("IBNR"). Claim liabilities are calculated based on recent claim settlement trends, including frequency and amount of payouts. Self-insurance is, in effect, up to a specific stop-loss amount of \$150,000 per insured employee for fiscal 2004. Coverage from a private insurance company is maintained for losses in excess of the specific stop-loss amount. All claim an independent claims administrator performs handling procedures.

Group Health (Continued)

An analysis of group health claims activity is presented below:

Liability at July 1, 2003	\$ 8,994,173
Current year claims and changes in estimates	25,070,082
Actual claims paid	<u>24,769,859</u>
Liability at June 30, 2004	<u>\$ 9,294,396</u>

Unemployment Compensation

The City provides statutory workers' compensation (injured on duty) and unemployment benefits under self-insurance plans. The City administers both plans with the assistance of outside advisors. Related claims are recorded as expenditures in the year payment are made through annual appropriations. There is no reserve as of June 30, 2004 to cover unforeseen claims.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

June 30, 2004

Note 13 - Commitments and Contingencies

Litigation

Various legal actions and other claims are pending against the City. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable with assurance. Although the amount of liability, if any at June 30, 2004 cannot be ascertained, management believes that any resulting liability not already accrued for should not materially affect the financial position of the City at June 30, 2004.

Grants

In the normal course of operations, the City receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement, which may arise, as the result of these audits is not believed to be material.

Note 14 - Fiscal 2005 Budget

The City has authorized a fiscal year 2005 operating and capital budget totaling \$214,328,070. In addition, the City has carried forward appropriations totaling \$9,813,939 from 2004 and prior years for projects authorized by the Mayor and City Council, but not yet completed.

**REPORTING UNDER
*GOVERNMENT AUDITING STANDARDS***



*Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards*

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

We have audited the 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 (“the City”) as of and for the year ended June 30, 2004, which collectively comprise the City’s basic financial statements and have issued our report thereon dated February 8, 2005. 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 of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor, City Council, management and federal awarding agencies and pass-through entities of the City of Lynn and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Tofias PC". The signature is written in a cursive, flowing style.

February 8, 2005
Cambridge, Massachusetts

OMB CIRCULAR A-133 REPORTING

*Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133*

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

Compliance

We have audited the compliance of the City of Lynn, Massachusetts (“the City”) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The City’s major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City’s management. Our responsibility is to express an opinion on the City’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City’s compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City’s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor, City Council, management and federal awarding agencies and pass-through entities of the City and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Tofias PC". The signature is written in a cursive, flowing style.

February 8, 2005
Cambridge, Massachusetts

CITY OF LYNN, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

Federal Grantor/Pass-Through Grantor Program Title	Federal Catalogue Number	Pass-Through Grantor's Number	Federal Expenditures
Department of Agriculture:			
National School Lunch Program	10.555	-	\$ <u>4,095,761</u>
Department of Housing and Urban Development:			
Community Development Block Grant	14.218	B-95-MC-25-0015	5,253
Community Development Block Grant	14.218	B-96-MC-25-0015	78,192
Community Development Block Grant	14.218	B-97-MC-25-0015	53,666
Community Development Block Grant	14.218	B-98-MC-25-0015	57,583
Community Development Block Grant	14.218	B-99-MC-25-0015	251,499
Community Development Block Grant	14.218	B-00-MC-25-0015	408,493
Community Development Block Grant	14.218	B-01-MC-25-0015	466,819
Community Development Block Grant	14.218	B-02-MC-25-0015	655,906
Community Development Block Grant	14.218	B-03-MC-25-0015	1,790,625
Emergency Shelter Program	14.231	S-00-MC-25-0015	10,000
Emergency Shelter Program	14.231	S-01-MC-25-0015	11,093
Emergency Shelter Program	14.231	S-02-MC-25-0015	14,221
Emergency Shelter Program	14.231	S-03-MC-25-0015	79,900
Home Investment Program	14.239	M-99-MC-25-0206	49,800
Home Investment Program	14.239	M-00-MC-25-0206	138,000
Home Investment Program	14.239	M-01-MC-25-0206	153,600
Home Investment Program	14.239	M-02-MC-25-0206	859,931
Home Investment Program	14.239	M-03-MC-25-0206	<u>711,936</u>
Total Department of Housing and Urban Development			<u>5,796,517</u>
Department of Justice:			
Law enforcement Block Grant	16.592	97LBVX2538	<u>213,619</u>
Total Department of Justice			<u>213,619</u>
Total this page			\$ <u>10,105,897</u>

CITY OF LYNN, MASSACHUSETTS

Schedule of Expenditures of Federal Awards (Continued)

Year Ended June 30, 2004

Federal Grantor/Pass-Through Grantor Program Title	Federal Catalogue Number	Pass-Through Grantor's Number	Federal Expenditures
Total from previous page			\$ <u>10,105,897</u>
Department of Education			
Passed through State Department of Education:			
Title I	84.010	305-102-3-0163-D	6,469,892
Comprehensive School Reform Demo	84.010	573-022-2-0163-D	96,644
School Achievement	84.010	316-028-4-0163-E	31,867
SPED 94-142 Project Mainstream	84.027	240-187-3-0163-C	3,263,427
SPED Professional Development	84.027	274-033-2-0163-D	129,814
Reading Excellence Program	84.027	634-008-2-0163-C	99
SPED Current Framework	84.027	274-167-3-0163-D	60,749
Mental Health Support	84.027	216-153-3-0163-D	5,200
SPED Middle School Reading	84.027	267-012-3-0163-D	19,488
Perkins Grant	84.048	400-076-2-0163-D	249,142
Title VI	84.151	302-048-2-0163-D	162,792
Emergency Immigration Act	84.162	313-012-2-0163-D	227,723
SPED Early Childhood Allocation	84.173	262-273-3-0163-D	23,780
Emergency Response	84.184	-	20,762
Drug Free Schools	84.186	333-008-2-0163-D	142,750
McKinney Homeless	84.196	310-006-2-0163-D	70,949
Even Start	84.213	304-018-2-0163-D	102,242
Chapter I Program Improvement	84.218	323-030-2-0163-D	4,103
School Supplemental	84.218	583-004-3-0163-D	344,671
21st Century Learning	84.287	-	588,851
Enhanced Education Through Technology	84.318	160-092-3-0163-D	207,913
Class Size Reduction Program	84.340	651-212-2-0163-C	23,748
Read First	84.357	728-047-4-0163-E	19,743
Teacher Quality	84.367	140-083-3-0163-D	1,946,845
Energy Proficiency	84.369	190-147-3-0163-D	26,605
Eisenhower Statewide	84.281	300-016-3-0163-D	12,388
Secondary Reading	84.027	267-004-4-0163-E	<u>12,840</u>
			<u>14,265,027</u>
Total Federal Awards			\$ <u><u>24,370,924</u></u>

CITY OF LYNN, MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

Note 1 - Scope of Audit

The City of Lynn, Massachusetts is a governmental agency established by the laws of the Commonwealth of Massachusetts. All operations related to the City's federal grant programs are included in the scope of the OMB Circular A-133 requirements for audits of state and local governments ("the single audit"). The United States Department of Education has been designated as the City's oversight agency for the single audit.

Compliance testing was performed, as described in the Compliance Supplement, in conjunction with consideration of the internal control over compliance with the requirements of laws, regulations, contracts and grants relative to the City's grant programs. Type A programs for recipients who receive greater than \$10 million but less than \$100 million dollars in awards are defined as federal programs with federal awards expended during the audit period exceeding the greater of a.) \$300,000 or b.) three percent of the total federal awards expended. For the fiscal year ended June 30, 2004, \$731,128 was used as the dollar threshold amount. Federal programs not labeled Type A are labeled Type B programs. Testing was performed for the Community Development Block Grant, CFDA 14.218, Title I Distribution, CFDA 84.010, and National School Lunch Program, CFDA 10.555, Type A programs. Expenditures for these programs in fiscal year 2004 amounted to \$14,333,689.

Aggregate federal financial assistance expenditures subject to testing for fiscal year 2004 amounted to \$24,370,924. The expenditures subject to specific testing, therefore, represent approximately 58.8% of total federal expenditures.

Note 2 - Summary of Significant Accounting Policies

Accounting policies and financial reporting practices permitted for municipalities in Massachusetts are prescribed by the Uniform Municipal Accounting System (UMAS) promulgated by the Commonwealth of Massachusetts Department of Revenue. The significant accounting policies followed by the City are as follows:

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant transactions of the City during the year ended June 30, 2004. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non - Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

Accounting Methods

The receipts and proceeds from federal grants are recorded on a modified accrual basis whereby revenue is recognized when it becomes available and measurable as net current assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liabilities are incurred.

Subgrantees

The City passes through certain CDBG funds to subgrantee organizations. These pass-through funds are included in the Schedule of Federal Awards as disbursements. Separate statements disclosing how subgrantees outside of the City's control utilized the funds are beyond the scope of a single audit. The City, however, maintains a system to monitor the use of these funds by the subgrantees to assure compliance with applicable regulations.

CITY OF LYNN, MASSACHUSETTS

Schedule of Findings and Responses

Year Ended June 30, 2004

1) Summary of Auditor's Results

- (i) The City of Lynn received an unqualified opinion on its general purpose financial statements for the year ended June 30, 2004.
- (ii) There were no findings of noncompliance considered to be reportable conditions disclosed in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (iii) The audit did not disclose any noncompliance which is material to the financial statements.
- (iv) The audit did not disclose any reportable conditions in internal controls over any of the major programs.
- (v) The City was issued an unqualified opinion on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- (vi) The audit did not disclose any findings that are required to be reported on the Schedule of Findings and Questioned Costs under Subpart E, Section .510(a) of OMB Circular A-133.
- (vii) The City had three major programs, the United States Department of Education – Title I Distribution, CFDA 84.010, National School Lunch Program, CFDA 10.555, and the United States Department of Housing and Urban Development - Community Development Block Grant (CDBG), CFDA 14.218.
- (viii) See the Notes to the Schedule of Expenditures of Federal Awards, Note 1 for the dollar threshold used to distinguish between Type A and Type B programs, as described in Subpart E, Section .520(b) of OMB Circular A-133.
- (ix) The auditee qualified as a low risk auditee under Subpart E, Section .530 of OMB Circular A-133.

2) Findings and Responses - Major Federal Award Programs Audit

3) Findings General Purpose- Financial Statement Audit

- (i) There were no findings related to the general purpose financial statement audit.

CITY OF LYNN, MASSACHUSETTS

Schedule of Findings and Responses

Year Ended June 30, 2004

1) Prior Year Findings and Responses - Major Federal Award Programs Audit

- (i) There were no findings of noncompliance identified in connection with the 2003 major program award audits.

2) Prior Year Findings and Responses - General Purpose Financial Statement Audit

- (i) There were no findings related to the 2003 general purpose financial statement audit.