

CITY OF LYNN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2006

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INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Lynn, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lynn, Massachusetts, as of and for the year ended June 30, 2006 (except for the Lynn Contributory Retirement System which is as of and for the year ended December 31, 2005), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lynn's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lynn, as of June 30, 2006 (except the Lynn Contributory Retirement System which is as of December 31, 2005), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Additional Offices:

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated December 12, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Melanson Heath & Company P.C.

Andover, Massachusetts
December 12, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Lynn, we offer readers this narrative overview and analysis of the financial activities of the City of Lynn for the fiscal year ended June 30, 2006.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities include the marina activities.

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

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

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

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

Proprietary funds. Proprietary funds are maintained as follows:

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

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

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

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 144,339,263 (i.e., net assets), a decrease of \$ 5,632,992 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 25,729,001, an increase of \$ 6,902,144 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 11,666,833, a decrease of \$ 1,861,015 in comparison with the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 100,667,109, an increase of \$ 8,157,249 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 67,198	\$ 69,227	\$ 279	\$ 232	\$ 67,477	\$ 69,459
Noncurrent assets	44,483	52,157	-	-	44,483	52,157
Capital assets	<u>165,960</u>	<u>162,547</u>	<u>1,924</u>	<u>1,999</u>	<u>167,884</u>	<u>164,546</u>
Total assets	277,641	283,931	2,203	2,231	279,844	286,162
Long-term liabilities outstanding	103,303	88,246	1,455	1,237	104,758	89,483
Other liabilities	<u>30,559</u>	<u>46,302</u>	<u>188</u>	<u>425</u>	<u>30,747</u>	<u>46,727</u>
Total liabilities	133,862	134,548	1,643	1,662	135,505	136,210
Net assets:						
Invested in capital assets, net	113,201	114,999	730	687	113,931	115,686
Restricted	14,559	16,018	-	-	14,559	16,018
Unrestricted	<u>16,019</u>	<u>18,366</u>	(170)	(98)	<u>15,849</u>	<u>18,268</u>
Total net assets	\$ <u>143,779</u>	\$ <u>149,383</u>	\$ <u>560</u>	\$ <u>589</u>	\$ <u>144,339</u>	\$ <u>149,972</u>

CHANGES IN NET ASSETS

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program revenues:						
Charges for services	\$ 7,670	\$ 6,350	\$ 713	\$ 759	\$ 8,383	\$ 7,109
Operating grants and Contributions	147,048	140,487	-	-	147,048	140,487
Capital grants and contributions	3,106	4,338	-	-	3,106	4,338
General revenues:						
Property taxes	75,394	72,432	-	-	75,394	72,432
Excises	4,439	4,545	-	-	4,439	4,545
Penalties and interest on taxes	997	1,311	-	-	997	1,311
Grants and contributions not restricted to specific programs	27,911	28,211	-	-	27,911	28,211
Investment income	997	831	1	1	998	832
Other	<u>103</u>	<u>913</u>	<u>-</u>	<u>-</u>	<u>103</u>	<u>913</u>
Total revenues	<u>267,665</u>	<u>259,418</u>	<u>714</u>	<u>760</u>	<u>268,379</u>	<u>260,178</u>
Expenses:						
General government	13,119	11,357	-	-	13,119	11,357
Public safety	34,611	33,258	-	-	34,611	33,258
Education	156,795	149,102	-	-	156,795	149,102
Public works	14,316	14,718	-	-	14,316	14,718
Human services	3,985	3,354	-	-	3,985	3,354
Culture and recreation	1,524	1,528	-	-	1,524	1,528
Employee benefits	45,332	38,224	-	-	45,332	38,224
Interest on long-term debt	1,528	2,650	-	-	1,528	2,650
Intergovernmental	1,943	2,040	-	-	1,943	2,040
Other	116	62	-	-	116	62
Marina	<u>-</u>	<u>-</u>	<u>743</u>	<u>747</u>	<u>743</u>	<u>747</u>
Total expenses	<u>273,269</u>	<u>256,293</u>	<u>743</u>	<u>747</u>	<u>274,012</u>	<u>257,040</u>
Change in net assets	(5,604)	3,125	(29)	13	(5,633)	3,138
Net assets - beginning of year (as restated)	<u>149,383</u>	<u>146,258</u>	<u>589</u>	<u>576</u>	<u>149,972</u>	<u>146,834</u>
Net assets - end of year	<u>\$ 143,779</u>	<u>\$ 149,383</u>	<u>\$ 560</u>	<u>\$ 589</u>	<u>\$ 144,339</u>	<u>\$ 149,972</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 144,339,263, a decrease of \$ 5,632,992 from the prior year.

The largest portion of net assets \$ 113,931,657 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 14,558,934 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 15,848,672 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a decrease in net assets of \$ 5,604,202. Key elements of this decrease are as follows (in thousands):

General fund expenditures in excess of revenues and transfers in	\$ (1,501)
Non-major funds revenue in excess of expenditures and transfers out	(1,459)
Internal service fund expenditures in excess of revenue	(1,036)
Capital assets obtained from current year revenues	2,817
Massachusetts School Building Authority principal payment received in prior years	(7,015)
Principal debt service in excess of depreciation expense	1,814
Decrease in worker's compensation liability	652
Other	<u>124</u>
Total	\$ <u>(5,604)</u>

Business-type activities. Business-type activities for the year resulted in a decrease in net assets of \$ 28,790. The decrease is primarily attributable to an approximately 6% decrease in revenues in fiscal year 2006.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 25,729,001, an increase of \$ 6,902,144 in comparison with the prior year. Key elements of this increase are as follows (in thousands):

General fund expenditures in excess of revenues and transfers in	\$ (1,501)
Special revenue fund expenditures and transfers out over revenues and transfers in	(1,126)
Trust fund expenditures over revenues	(128)

Police station fund debt proceeds greater than current year expenditures	11,981
Manning Field project expenditures	(2,119)
Other	(205)
Total	\$ <u>6,902</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 11,666,833, while total fund balance was \$ 15,073,237. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 4.8 percent of total general fund expenditures, while total fund balance represents 6.2 percent of that same amount.

The fund balance of the general fund decreased by \$ 1,500,604 during the current fiscal year. Key factors in this decrease are as follows (in thousands):

Use of free cash	\$ (8,360)
Raise prior year deficits	2,069
Revenues received in excess of budget	4,166
Expenditures less than budget	866
Other	(242)
Total	\$ <u>(1,501)</u>

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

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ (170,153), a decrease of \$ 71,961 in comparison with the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$ 1,842,167. Major reasons for these amendments include:

- \$ 400,000 in unexpected repair work
- \$ 430,758 in additional employee benefit expenditures
- \$ 560,000 in additional public works expenditures
- \$ 451,409 in various expenditures

Of this increase, \$ 960,000 was to be funded from free cash, \$ 792,684 from the tax levy and the balance from transfers from other funds.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 167,883,858 (net of accumulated depreciation), an increase of \$ 3,337,967 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

- Construction of the new police station.
- Construction of Manning Field.
- Infrastructure improvements
- Memorial auditorium repairs
- New public safety vehicles

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

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 100,667,109, all of which was backed by the full faith and credit of the government.

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

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

Overview

Program year 2006 was a period of transition in the area of economic development as the City is in the midst of implementing the findings and goals of the City's Economic Development Strategy. Additionally, the City allocated resources to develop a master harbor plan which will create an economic blue print for developing the area known as the North and South Harbor.

In the past six months there have been two public forums where both business and residents had an opportunity to give input into economic development initiatives. We believe that great progress has been made on several fronts.

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

The Central Square area of the City continued to see a renaissance and a resurgence as the number of retail/commercial businesses continued to grow in support of the growing residential sector in the downtown. With that number

growing to a little over 250 it marked the half way point in the City's goal to create 400 new units in the center city to reach the critical mass to sustain a vibrant downtown. Looking forward we are expecting that trend to continue. Another positive trend in the City's downtown was the growth of the health care industry of the community. Lynn Community Health Center and Greater Lynn Senior Services began initial discussions with City Officials regarding increasing their investment in new space for possible expansion and employment growth. This expansion has the potential to create in excess of 100 jobs and will cost approximately \$6 million dollars. Also there was a strong commitment by North Shore Medical Center the major community hospital and employer to maintain a full service hospital in the City into the foreseeable future.

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

The City, using CDBG funding, continued to make investments in the downtown through its antique street re-lighting along the downtown linear spine of Union, Exchange and Broad Streets. These efforts at beautification and revitalization have been well accepted by both the existing downtown community and investors alike. This trend will continue as 2007 will bring about an additional \$1,000,000 via CDBG and EDIC funds.

Although statistically one may challenge the changes in the demographics in the downtown, there is the emergence of a new breed of urban professional who is calling downtown Lynn, home. Many of these new homeowners attended the public hearings on the City's new economic initiatives.

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

2006 also saw the fourth year of play for Lynn's minor league baseball team the North Shore Spirit. Using a combination of both federal and private funding the newly-renovated Frasier Field saw additional improvements being made with attendance up 35% over last year; the Spirit caught both imagination and support of the region located north of Boston as a reasonable financial alternative for families to attend a first class baseball experience. The team's presence in the community created a regional attraction for those individuals unlikely to visit the City. Efforts are continuing by the owners of the Spirit to investigate the feasibility of constructing a new 6,000-seat arena and fine arts complex within the City.

2006 also saw the re-birth of Manning Field. For the past 60 years Manning Bowl has served as a lynchpin to many sporting events. The stadium was rebuilt and a new sports complex is now in place next to the refurbished Frasier Field.

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

Late in 2006 EDIC was informed that Lynn was one of four communities that were awarded funds to clean up Brownfield sites. Lynn received a commitment of nearly \$2,000,000 from the Commonwealth. A former leather factory has been identified and will be torn down, the ground will be cleaned and the grounds will be marketed to abutters.

Since 1997 the City has experienced very positive trends with regard to the value of real estate. From 1997-2007 commercial real estate experienced an explosion of nearly a 90% increase. However, there is the continued reliance on the residential sector bearing an increasing burden with regard to the overall tax levy.

Lynn Assessed Values (000)

<u>Year</u>	<u>Commercial</u>	<u>Total</u>
1998	\$ 192,395	\$ 2,274,964
1999	\$ 221,030	\$ 2,558,704
2000	\$ 224,464	\$ 2,807,440
2001	\$ 257,805	\$ 3,151,034
2002	\$ 293,909	\$ 3,854,700
2003	\$ 330,581	\$ 4,656,277
2004	\$ 352,109	\$ 5,508,583
2005	\$ 440,962	\$ 6,249,265
2006	\$ 460,329	\$ 6,774,770
2007	\$ 489,357	\$ 7,030,173
Percent Change (98-07)	254%	309%

Source: Mass. Dept. of Revenue

With regard to the commercial sector, the rate for industrial/commercial property has been slashed by over 49% over the last 9 years. This is extremely encouraging given the fact that the City prior to 1996 had placed a great deal of burden on the commercial sector. The number of new business establishments actually grew by six percent, employment stabilized and trends looked positive for growth in the retail sector especially within the Hispanic community.

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

Employment and Establishments

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

Source: Mass. Dept. of Revenue

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

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

Average Annual Employment by Industry

<u>Industry</u>	<u>2005</u>		<u>2004</u>		<u>2003</u>		<u>2002</u>	
	<u># of establishments</u>	<u># of employees</u>						
Construction	135	952	131	1,008	117	857	109	786
Manufacturing	59	5,134	59	5,130	64	5,430	68	5,781
Wholesale	61	685	57	634	50	640	49	650

Trade								
Retail Trade	191	2,013	187	2,105	189	2,100	183	2,088
Transportation and Warehousing	35	494	33	187	32	186	27	189
Information	14	238	17	259	17	291	18	336
Finance and Insurance	57	426	54	454	56	833	57	859
Real Estate and Rental and Leasing	56	344	56	329	55	312	54	309
Professional and Technical Services	113	726	111	730	105	575	99	530
Management of Companies and Enterprises	0	0	0	0	3	232	3	264
Administrative and Waste Services	74	873	69	882	65	786	60	756
Educational Services	14	1,981	10	69	8	68	8	73
Health Care and Social Assistance	168	5,526	173	5,751	170	5,313	168	5,016
Arts, Entertainment, and Recreation	15	224	15	180	15	158	16	160
Accommodation and Food Services	139	1139	134	1,114	132	1,137	134	1,208
Other Services, Ex. Public Admin	280	794	259	805	248	919	229	883
Total Average Employment- ALL Industries	23,826 - average through 3d quarter		24,655		24,491		24,976	
Total Wages	unavailable		\$ 1,095,581,136		\$ 1,078,601,545		\$ 1,049,929,143	
Total # of Establishments ALL Industries	1,411		1,365		1,326		1,282	

Source: Massachusetts Department of Employment & Training.

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

City of Lynn

FY	<u>Average Value (a)</u>	<u>Single Family Home (Median Sales Price) (b)</u>
1997	\$ 98,418	\$ 96,000
1998	\$ 98,712	\$ 115,700
1999	\$ 111,459	\$ 131,500
2000	\$ 124,571	\$ 149,900
2001	\$ 139,174	\$ 167,250
2003	\$ 198,415	\$ 244,750
2004	\$ 229,060	\$ 265,000
2005	\$ 256,992	\$ 286,000
2006	\$ 276,031	\$ 270,000
2007	\$ 286,007	(1)
Percent Change (97-07)	291%	281%

Information is based on Single Family Homes
 Source: a) Mass. Dept. of Revenue
 b) Town Stats, the Warren Group
 1) Information is not available

Infrastructure

In addition to the City's close proximity to both Boston and Logan Airport, coupled with an impressive three-mile ocean waterfront park, Lynn has a first class infrastructure conducive to economic development. Important infrastructure assets of the City include: a \$ 140 million secondary wastewater treatment facility and a \$ 47 million water treatment plant last owned and operated by the Lynn Water and Sewer Commission, a \$ 40 million Community College serving 2,500 full and part-time students.

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

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

Employment

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

Employment and Unemployment Rates

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

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

Organizational Structures

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

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

The LSBAC continues to provide links to many other organizational resources, including the EDIC/Lynn, the Lynn Area Chamber of Commerce (LACC) and the

Union Street Corridor Community Development Corporation (CDC). Service Corps of Retired Executives (SCORE), cosponsored by the LACC, holds business counseling sessions in the LSBAC offices twice a month, and the Small Business Development Center at Salem State College is often tapped for conducting workshops and seminars. All of these efforts are targeted to businesses within the City.

Conclusion

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

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

REQUESTS FOR INFORMATION

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

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

CITY OF LYNN, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 40,109,458	\$ 212,577	\$ 40,322,035
Investments	5,714,937	-	5,714,937
Receivables, net of allowance for uncollectibles:			
Property taxes	3,353,724	-	3,353,724
Excises	1,435,447	-	1,435,447
Departmental and other	5,092,818	38,577	5,131,395
Intergovernmental	8,350,359	-	8,350,359
Other assets	3,141,449	29,086	3,170,535
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	781,723	-	781,723
Intergovernmental	43,700,899	-	43,700,899
Land and construction in progress	9,101,401	-	9,101,401
Capital assets, net of accumulated depreciation	<u>156,858,848</u>	<u>1,923,609</u>	<u>158,782,457</u>
TOTAL ASSETS	277,641,063	2,203,849	279,844,912
LIABILITIES			
Current:			
Warrants payable	1,622,567	-	1,622,567
Accounts payable	2,037,174	-	2,037,174
Accrued liabilities	5,409,631	37,363	5,446,994
Tax refunds payable	92,584	-	92,584
Notes payable	11,685,000	-	11,685,000
Other current liabilities	9,712,382	151,000	9,863,382
Current portion of long-term liabilities:			
Bonds payable	7,947,000	62,790	8,009,790
Other liabilities	935,375	-	935,375
Noncurrent:			
Bonds payable, net of current portion	91,265,000	1,392,319	92,657,319
Other liabilities, net of current portion	<u>3,155,464</u>	<u>-</u>	<u>3,155,464</u>
TOTAL LIABILITIES	133,862,177	1,643,472	135,505,649
NET ASSETS			
Invested in capital assets, net of related debt	113,201,127	730,530	113,931,657
Restricted for:			
Grants and other statutory restrictions	8,651,717	-	8,651,717
Permanent funds:			
Expendable	214,346	-	214,346
Nonexpendable	5,692,871	-	5,692,871
Unrestricted	<u>16,018,825</u>	<u>(170,153)</u>	<u>15,848,672</u>
TOTAL NET ASSETS	\$ <u>143,778,886</u>	\$ <u>560,377</u>	\$ <u>144,339,263</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 13,119,099	\$ 2,208,387	\$ -	\$ -	\$ (10,910,712)	\$ -	\$ (10,910,712)
Public safety	34,610,864	1,219,355	1,632,704	-	(31,758,805)	-	(31,758,805)
Education	156,794,881	1,593,628	140,696,961	-	(14,504,292)	-	(14,504,292)
Public works	14,315,629	2,099,188	1,347,319	3,105,931	(7,763,191)	-	(7,763,191)
Health and human services	3,985,266	120,550	3,247,084	-	(617,632)	-	(617,632)
Culture and recreation	1,523,986	428,703	123,800	-	(971,483)	-	(971,483)
Employee benefits	45,332,457	-	-	-	(45,332,457)	-	(45,332,457)
Interest	1,528,599	-	-	-	(1,528,599)	-	(1,528,599)
Intergovernmental	1,942,880	-	-	-	(1,942,880)	-	(1,942,880)
Miscellaneous	116,212	-	-	-	(116,212)	-	(116,212)
Total Governmental Activities	273,269,873	7,669,811	147,047,868	3,105,931	(115,446,263)	-	(115,446,263)
Business-Type Activities:							
Marina Services	743,458	713,353	-	-	-	(30,105)	(30,105)
Total	\$ 274,013,331	\$ 8,383,164	\$ 147,047,868	\$ 3,105,931	(115,446,263)	(30,105)	(115,476,368)
General Revenues:							
Property taxes					75,394,681	-	75,394,681
Excises					4,439,368	-	4,439,368
Penalties, interest and other taxes					997,107	-	997,107
Grants and contributions not restricted to specific programs					27,911,457	-	27,911,457
Investment income					996,687	1,315	998,002
Miscellaneous					102,761	-	102,761
Total general revenues					109,842,061	1,315	109,843,376
Change in Net Assets					(5,604,202)	(28,790)	(5,632,992)
Net Assets:							
Beginning of year, as restated					149,383,088	589,167	149,972,255
End of year					\$ 143,778,886	\$ 560,377	\$ 144,339,263

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2006

	<u>General</u>	<u>Police Station Capital Project</u>	<u>Manning Field Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and short-term investments	\$ 21,508,353	\$ 6,080,073	\$ 2,325,725	\$ 8,131,564	\$ 38,045,715
Investments	-	-	-	5,714,937	5,714,937
Receivables:					
Property taxes	5,011,124	-	-	-	5,011,124
Excises	4,437,054	-	-	-	4,437,054
Departmental and other	573,456	-	-	4,519,361	5,092,817
Intergovernmental	-	-	-	1,695,210	1,695,210
Due from other funds	<u>30,937</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,937</u>
TOTAL ASSETS	<u>\$ 31,560,924</u>	<u>\$ 6,080,073</u>	<u>\$ 2,325,725</u>	<u>\$ 20,061,072</u>	<u>\$ 60,027,794</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Warrants payable	\$ 1,591,446	\$ -	\$ -	\$ 31,121	\$ 1,622,567
Accounts payable	1,256,015	109,754	514,214	157,191	2,037,174
Accrued liabilities	4,015,216	-	-	375	4,015,591
Deferred revenues	9,296,912	-	-	5,282,514	14,579,426
Tax refunds payable	92,584	-	-	-	92,584
Due to other funds	-	-	-	30,937	30,937
Notes payable	-	7,500,000	4,185,000	-	11,685,000
Other liabilities	<u>235,514</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>235,514</u>
TOTAL LIABILITIES	16,487,687	7,609,754	4,699,214	5,502,138	34,298,793
Fund Balances:					
Reserved for:					
Encumbrances and continuing appropriations	3,406,404	-	-	-	3,406,404
Perpetual (nonexpendable) permanent funds	-	-	-	5,692,871	5,692,871
Unreserved:					
Undesignated, reported in:					
General fund (See Note 17)	11,666,833	-	-	-	11,666,833
Special revenue funds	-	-	-	8,645,272	8,645,272
Capital project funds	-	(1,529,681)	(2,373,489)	6,445	(3,896,725)
Permanent funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>214,346</u>	<u>214,346</u>
TOTAL FUND BALANCES	<u>15,073,237</u>	<u>(1,529,681)</u>	<u>(2,373,489)</u>	<u>14,558,934</u>	<u>25,729,001</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 31,560,924</u>	<u>\$ 6,080,073</u>	<u>\$ 2,325,725</u>	<u>\$ 20,061,072</u>	<u>\$ 60,027,794</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS

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

JUNE 30, 2006

Total governmental fund balances	\$ 25,729,001
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	165,960,249
<ul style="list-style-type: none">• Long-term receivable from the Massachusetts School Building Authority are not available in the current period and, therefore, are not reported in the governmental funds.	50,356,048
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	10,702,143
<ul style="list-style-type: none">• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.	(4,271,676)
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(1,394,040)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(103,302,839)</u>
Net assets of governmental activities	<u>\$ 143,778,886</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Police Station Capital Project</u>	<u>Manning Field Capital Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Fund</u>
Revenues:					
Property taxes	\$ 74,943,341	\$ -	\$ -	\$ -	\$ 74,943,341
Excises	5,214,550	-	-	-	5,214,550
Penalties, interest and other taxes	997,107	-	-	-	997,107
Charges for services	2,568,517	-	-	4,397,974	6,966,491
Intergovernmental	154,303,233	-	-	32,226,266	186,529,499
Licenses and permits	1,196,176	-	-	-	1,196,176
Fines and forfeitures	1,585,722	-	-	-	1,585,722
Investment income	965,959	-	-	30,728	996,687
Miscellaneous	98,772	-	-	8,464	107,236
Total Revenues	<u>241,873,377</u>	<u>-</u>	<u>-</u>	<u>36,663,432</u>	<u>278,536,809</u>
Expenditures:					
Current:					
General government	9,986,027	-	-	1,724,776	11,710,803
Public safety	35,324,340	3,019,200	-	805,082	39,148,622
Education	127,713,798	-	-	26,478,433	154,192,231
Public works	11,356,369	-	-	4,649,445	16,005,814
Health and human services	961,825	-	-	3,005,424	3,967,249
Culture and recreation	1,358,773	-	2,119,325	302,802	3,780,900
Employee benefits	44,948,406	-	-	-	44,948,406
Miscellaneous	-	-	-	112,383	112,383
Debt service	11,564,990	-	-	-	11,564,990
Intergovernmental	1,942,880	-	-	-	1,942,880
Total Expenditures	<u>245,157,408</u>	<u>3,019,200</u>	<u>2,119,325</u>	<u>37,078,345</u>	<u>287,374,278</u>
(Deficiency) of revenues over expenditures	(3,284,031)	(3,019,200)	(2,119,325)	(414,913)	(8,837,469)
Other Financing Sources (Uses):					
Issuance of bonds	-	15,000,000	-	-	15,000,000
Capital leases	739,613	-	-	-	739,613
Transfers in	1,043,814	-	-	535,299	1,579,113
Transfers out	-	-	-	(1,579,113)	(1,579,113)
Total Other Financing Sources (Uses)	<u>1,783,427</u>	<u>15,000,000</u>	<u>-</u>	<u>(1,043,814)</u>	<u>15,739,613</u>
Change in fund balance	(1,500,604)	11,980,800	(2,119,325)	(1,458,727)	6,902,144
Fund Equity, at Beginning of Year, as restated	<u>16,573,841</u>	<u>(13,510,481)</u>	<u>(254,164)</u>	<u>16,017,661</u>	<u>18,826,857</u>
Fund Equity, at End of Year	<u>\$ 15,073,237</u>	<u>\$ (1,529,681)</u>	<u>\$ (2,373,489)</u>	<u>\$ 14,558,934</u>	<u>\$ 25,729,001</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2006

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 6,902,144														
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">8,545,365</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(5,128,199)</td> </tr> <tr> <td>Net effect of disposal of assets</td> <td style="text-align: right;">(3,831)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. (460,541) • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table border="0" style="margin-left: 40px;"> <tr> <td>Issuance of debt</td> <td style="text-align: right;">(15,000,000)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">6,942,000</td> </tr> <tr> <td>Capital lease financing</td> <td style="text-align: right;">(739,613)</td> </tr> <tr> <td>Payments of capital leases</td> <td style="text-align: right;">645,635</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. (84,619) • Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. (1,036,075) • Some expenses reported in the Statement of Activities, such as compensated absences and worker's compensation benefits, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. 828,119 • Reimbursements from the Massachusetts School Building Authority for principal payments on long-term debt provide current financial resources to governmental funds but have no effect on net assets, therefore are excluded from net assets <u>(7,014,587)</u> 		Capital outlay purchases	8,545,365	Depreciation	(5,128,199)	Net effect of disposal of assets	(3,831)	Issuance of debt	(15,000,000)	Repayments of debt	6,942,000	Capital lease financing	(739,613)	Payments of capital leases	645,635
Capital outlay purchases	8,545,365														
Depreciation	(5,128,199)														
Net effect of disposal of assets	(3,831)														
Issuance of debt	(15,000,000)														
Repayments of debt	6,942,000														
Capital lease financing	(739,613)														
Payments of capital leases	645,635														
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>(5,604,202)</u>														

CITY OF LYNN, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original Budget</u>	<u>Final Budget</u>		Positive (Negative)
Revenues and Other Sources:				
Taxes	\$ 74,952,675	\$ 75,745,359	\$ 75,745,359	\$ -
Excise	5,118,859	5,118,859	5,214,550	95,691
Penalties, interest and other taxes	1,118,289	1,118,289	997,107	(121,182)
Charges for services	2,097,986	2,097,986	2,568,517	470,531
Intergovernmental	138,348,674	138,348,674	140,377,015	2,028,341
Licenses and permits	1,312,978	1,312,978	1,196,176	(116,802)
Fines and forfeits	1,189,804	1,189,804	1,585,722	395,918
Investment income	416,401	416,401	965,959	549,558
Miscellaneous	63,865	63,865	98,772	34,907
Transfers in	125,000	214,483	1,043,814	829,331
Other sources: (free cash)	7,400,000	8,360,000	8,360,000	-
Total Revenues and Other Sources	232,144,531	233,986,698	238,152,991	4,166,293
Expenditures and Other Uses:				
General government	10,852,597	10,585,853	10,236,639	349,214
Public safety	35,388,617	35,787,362	34,910,468	876,894
Education	113,787,685	113,787,685	113,622,570	165,115
Public works	9,854,041	10,593,271	11,362,044	(768,773)
Health and human services	875,943	984,087	954,182	29,905
Culture and recreation	1,422,886	1,458,049	1,354,407	103,642
Debt service	11,732,657	11,847,822	11,764,281	83,541
Intergovernmental	1,930,428	1,930,428	1,942,880	(12,452)
Employee benefits	44,230,072	44,942,536	44,903,808	38,728
Other uses	2,069,605	2,069,605	2,069,605	-
Total Expenditures and Other Uses	232,144,531	233,986,698	233,120,884	865,814
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 5,032,107	\$ 5,032,107

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Business-Type Activities <u>Enterprise Fund</u>	Governmental <u>Activities</u> Internal Service <u>Fund</u>
	Marina <u>Fund</u>	
<u>ASSETS</u>		
Current:		
Cash and short-term investments	\$ 212,577	\$ 2,063,743
User fees, net of allowance for uncollectibles	38,577	-
Inventory	29,086	-
Other assets	-	3,141,449
	<hr/>	<hr/>
Total current assets	280,240	5,205,192
Noncurrent:		
Capital assets, net of accumulated depreciation	1,923,609	-
	<hr/>	<hr/>
Total noncurrent assets	1,923,609	-
	<hr/>	<hr/>
TOTAL ASSETS	2,203,849	5,205,192
<u>LIABILITIES</u>		
Current:		
Accrued liabilities	37,363	4,133,227
Other current liabilities	151,000	5,343,641
Current portion of long-term liabilities:		
Bonds payable	62,790	-
	<hr/>	<hr/>
Total current liabilities	251,153	9,476,868
Noncurrent:		
Bonds payable, net of current portion	1,392,319	-
	<hr/>	<hr/>
Total noncurrent liabilities	1,392,319	-
	<hr/>	<hr/>
TOTAL LIABILITIES	1,643,472	9,476,868
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	730,530	-
Unrestricted	(170,153)	(4,271,676)
	<hr/>	<hr/>
TOTAL NET ASSETS	\$ <u>560,377</u>	\$ <u>(4,271,676)</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u> Internal Service <u>Fund</u>
	Marina <u>Fund</u>	
Operating Revenues:		
Charges for services	\$ 713,353	\$ -
Employee and employer contributions	<u>-</u>	<u>32,025,622</u>
Total Operating Revenues	713,353	32,025,622
Operating Expenses:		
Operating expenses	586,718	-
Depreciation	75,370	-
Employee benefits	<u>-</u>	<u>33,061,697</u>
Total Operating Expenses	<u>662,088</u>	<u>33,061,697</u>
Operating Income (loss)	51,265	(1,036,075)
Nonoperating Revenues (Expenses):		
Investment income	1,315	-
Interest expense	<u>(81,370)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(80,055)</u>	<u>-</u>
Change in net assets	(28,790)	(1,036,075)
Net Assets at Beginning of Year, as restated	<u>589,167</u>	<u>(3,235,601)</u>
Net Assets at End of Year	<u>\$ 560,377</u>	<u>\$ (4,271,676)</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2006

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	Marina <u>Fund</u>	Internal Service <u>Fund</u>
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers and users	\$ 732,512	\$ -
Payments to vendors and employees	(688,852)	-
Receipts from employees and employer	-	32,025,622
Payments of employee benefits and expenses	<u>-</u>	<u>(31,995,705)</u>
Net Cash Provided By (Used For) Operating Activities	43,660	29,917
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Proceeds of bonds	267,410	-
Principal payments on bonds	(168,161)	-
Interest expense	<u>(81,370)</u>	<u>-</u>
Net Cash Provided by Capital and Related Financing Activities	17,879	-
<u>Cash Flows From Investing Activities:</u>		
Investment income	<u>1,315</u>	<u>-</u>
Net Cash Provided by Investing Activities	<u>1,315</u>	<u>-</u>
Net Change in Cash and Short-Term Investments	62,854	29,917
Cash and Short-Term Investments, Beginning of Year	<u>149,723</u>	<u>2,033,826</u>
Cash and Short-Term Investments, End of Year	<u>\$ 212,577</u>	<u>\$ 2,063,743</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>		
Operating income (loss)	\$ 51,265	\$ (1,036,075)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	75,370	-
Changes in assets and liabilities:		
User fees	19,159	125,600
Inventory	(3,901)	-
Accrued liabilities	-	444,652
Other liabilities	<u>(98,233)</u>	<u>495,740</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 43,660</u>	<u>\$ 29,917</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2006

	Pension Trust Fund (As of <u>December 31, 2005</u>)	Agency <u>Funds</u>
<u>ASSETS</u>		
Cash and short-term investments	\$ 794,398	\$ 467,610
Investments	180,562,610	-
Accounts receivable	<u>10,158,733</u>	<u>-</u>
Total Assets	191,515,741	467,610
 <u>LIABILITIES AND NET ASSETS</u>		
Other liabilities	<u>893,601</u>	<u>467,610</u>
Total Liabilities	<u>893,601</u>	<u>467,610</u>
 <u>NET ASSETS</u>		
Total net assets held in trust for pension benefits and other purposes	<u>\$ 190,622,140</u>	<u>\$ -</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Pension Trust Fund</u>
Additions:	
Contributions:	
Employers	\$ 17,501,805
Plan members	6,158,562
Other	2,918,151
Total contributions	<u>26,578,518</u>
Investment Income (Loss):	
Increase (decrease) in fair value of investments	15,529,083
Less: management fees	<u>(915,331)</u>
Net investment income (loss)	<u>14,613,752</u>
Total additions	41,192,270
Deductions:	
Benefit payments to plan members and beneficiaries	26,388,283
Refunds to plan members	375,595
Administrative expenses	734,928
Total deductions	<u>27,498,806</u>
Net increase	13,693,464
Net assets:	
Beginning of year	<u>176,928,676</u>
End of year	<u>\$ 190,622,140</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received

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

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *police station capital project fund* is used to account for the financing and construction of a police station.
- The *manning field capital project fund* is used to account for the financing and construction at manning field.

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

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

The government reports the following major proprietary funds:

- Seaport Marina Operations

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

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

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

D. Cash and Short-Term Investments

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

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

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

E. Investments

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

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

F. Property Tax Limitations

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth); unless an override or debt exemption is voted. The actual fiscal year 2006 tax levy reflected an excess capacity of \$ 3,756,278.

G. Interfund Receivables and Payables

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

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

H. Inventories

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

I. Capital Assets

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

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

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

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

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

J. Compensated Absences

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

K. Long-Term Obligations

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

L. Fund Equity

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

M. Use of Estimates

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

2. Stewardship, Compliance and Accountability

A. Budgetary Information

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the City Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at City Council meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the City Council is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 241,873,377	\$ 245,157,408
Other financing sources/uses (GAAP basis)	<u>1,783,427</u>	<u>-</u>
Subtotal (GAAP Basis)	243,656,804	245,157,408

(continued)

(continued)

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Adjust tax revenue to accrual basis	802,018	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(3,045,992)
Add end of year appropriation carryforwards to expenditures	-	3,406,404
To reverse the effect of non-budgeted State contributions for teachers retirement	(13,926,218)	(13,926,218)
To reverse gross up of capital leases	(739,613)	(739,613)
To reverse the effect of short term interest accrual	-	199,290
Recognize use of fund balance and raising of prior year deficits	<u>8,360,000</u>	<u>2,069,605</u>
Budgetary basis	<u>\$ 238,152,991</u>	<u>\$ 233,120,884</u>

D. Excess of Expenditures Over Appropriations

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

Snow and ice \$ 1,102,710

The appropriation deficit was funded on the fiscal year 2007 recap.

E. Deficit Fund Equity

The following funds had deficits as of June 30, 2006:

Internal Service Fund	\$ (4,271,676)
Police Station Major Fund	(1,529,681)
Manning Field Major Fund	(2,373,489)
Non-major Governmental Funds:	
Chapter 90	(353,351)
Byrne Grant	(66,173)
After School Meals	(11,640)

Daycare	(49,480)
School Sale	(6,900)
Fire Detail	(6,279)
Electrical Detail	(4,366)
Police Detail	(243,518)

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

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

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

As of June 30, 2006 and December 31, 2005, \$ 45,308,427 and \$ 445,897 of the City's and System's bank balance of \$ 45,968,486 and \$ 1,307,625, respectively, was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the City's and System's name.

4. **Investments**

A. Credit Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Treasury notes	\$ 967
Corporate bonds	1,433
Corporate equities	1,277
Mutual funds	336
Federal agency securities	<u>1,702</u>
Total investments	\$ <u>5,715</u>

Presented below are the investments of the Lynn Contributory Retirement System as of December 31, 2005 (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Treasury notes	\$ 9,550
Money Market	2,847
Corporate bonds	9,864
Corporate equities	134,678
Federal agency securities	7,960
Pooled funds	<u>15,664</u>
Total investments	\$ <u>180,563</u>

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

B. Custodial Credit Risk

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

C. Concentration of Credit Risk

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

D. Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>					<u>Average Rating</u>
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater Than 10</u>	
Debt Related Securities:						
U.S. Treasury notes	\$ 967	\$ 149	\$ 217	\$ 601	\$ -	Aaa
Corporate bonds	1,433	375	1,058	-	-	A1
Federal agency securities	<u>1,702</u>	<u>373</u>	<u>564</u>	<u>188</u>	<u>577</u>	Aaa
Total	<u>\$ 4,102</u>	<u>\$ 897</u>	<u>\$ 1,839</u>	<u>\$ 789</u>	<u>\$ 577</u>	

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

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater Than 10</u>
Debt Related Securities:					
U.S. Treasury notes	\$ 9,550	\$ -	\$ -	\$ 8,544	\$ 1,006
Corporate bonds	9,864	-	2,833	3,338	3,693
Federal agency securities	<u>7,960</u>	<u>995</u>	<u>4,942</u>	<u>942</u>	<u>1,081</u>
Total	<u>\$ 27,374</u>	<u>\$ 995</u>	<u>\$ 7,775</u>	<u>\$ 12,824</u>	<u>\$ 5,780</u>

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>				
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Other</u>	<u>Unrated</u>
Credit Risk:						
U.S. Treasury notes	\$ 9,550	\$ 9,550	\$ -	\$ -	\$ -	\$ -
Corporate bonds	9,864	300	197	427	8,940	-
Federal agency securities	<u>7,960</u>	<u>4,493</u>	<u>-</u>	<u>-</u>	<u>437</u>	<u>3,030</u>
Total	<u>\$ 27,374</u>	<u>\$ 14,343</u>	<u>\$ 197</u>	<u>\$ 427</u>	<u>\$ 9,377</u>	<u>\$ 3,030</u>

E. Foreign Currency Risk

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

5. Taxes Receivable

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

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after

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

Taxes receivable at June 30, 2006 consist of the following (in thousands):

Real Estate		
2006	\$ 2,306	
2005	13	
2004	8	
2003	7	
Prior	<u>11</u>	
		2,345
Personal Property		
2006	106	
2005	127	
2004	176	
2003	168	
Prior	<u>633</u>	
		1,210
Tax liens		1,052
Deferred Taxes		<u>404</u>
Total		\$ <u>5,011</u>

6. Allowance for Doubtful Accounts

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

	<u>Governmental</u>
Property taxes	\$ 876
Excises	3,002

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2006. Of the \$ 52,051,258 of intergovernmental receivables, \$ 50,356,049 is due from the Massachusetts School Building Authority for reimbursement of school construction projects.

8. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund

receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2006 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 30,937	\$ -
Trust and Agency Funds:		
Library Trust Fund	<u>-</u>	<u>30,937</u>
Total	<u>\$ 30,937</u>	<u>\$ 30,937</u>

9. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 200,742	\$ 17,571	\$ (77)	\$ 218,236
Machinery, equipment, and furnishings	16,877	456	(1,270)	16,063
Land improvements	2,375	185	-	2,560
Infrastructure	<u>10,056</u>	<u>1,677</u>	<u>-</u>	<u>11,733</u>
Total capital assets, being depreciated	230,050	19,889	(1,347)	248,592
Buildings and improvements				
	(65,122)	(3,984)	73	(69,033)
Machinery, equipment, and furnishings				
	(14,003)	(831)	1,270	(13,564)
Land improvements				
	(1,194)	(90)	-	(1,284)
Infrastructure				
	<u>(7,630)</u>	<u>(223)</u>	<u>-</u>	<u>(7,853)</u>
Total accumulated depreciation	<u>(87,949)</u>	<u>(5,128)</u>	<u>1,343</u>	<u>(91,734)</u>
Total capital assets, being depreciated, net	142,101	14,761	(4)	156,858
Capital assets, not being depreciated:				
Land	5,721	1,461	-	7,182
Construction in progress	<u>14,725</u>	<u>1,665</u>	<u>(14,470)</u>	<u>1,920</u>
Total capital assets, not being depreciated	<u>20,446</u>	<u>3,126</u>	<u>(14,470)</u>	<u>9,102</u>
Governmental activities capital assets, net	<u>\$ 162,547</u>	<u>\$ 17,887</u>	<u>\$ (14,474)</u>	<u>\$ 165,960</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 2,043	\$ -	\$ -	\$ 2,043
Machinery, equipment, and furnishings	489	-	-	489
Land improvements	38	-	-	38
Infrastructure	<u>263</u>	<u>-</u>	<u>-</u>	<u>263</u>
Total capital assets, being depreciated	2,833	-	-	2,833

(continued)

(continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Less accumulated depreciation for:				
Buildings and improvements	(418)	(41)	-	(459)
Machinery, equipment, and furnishings	(378)	(8)	-	(386)
Land improvements	(38)	-	-	(38)
Infrastructure	<u>-</u>	<u>(26)</u>	<u>-</u>	<u>(26)</u>
Total accumulated depreciation	<u>(834)</u>	<u>(75)</u>	<u>-</u>	<u>(909)</u>
Total capital assets, being depreciated, net	<u>1,999</u>	<u>(75)</u>	<u>-</u>	<u>1,924</u>
Business-type activities capital assets, net	\$ <u>1,999</u>	\$ <u>(75)</u>	\$ <u>-</u>	\$ <u>1,924</u>

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

Governmental Activities:	
General government	\$ 933
Public safety	956
Education	2,757
Public works	386
Culture and recreation	<u>96</u>
Total depreciation expense - governmental activities	\$ <u>5,128</u>
Business-Type Activities:	
Marina	\$ <u>75</u>
Total depreciation expense - business-type activities	\$ <u>75</u>

10. Warrants and Accounts Payable

Warrants payable represent 2006 expenditures paid by July 15, 2006 as permitted by law. Accounts payable represent additional 2006 expenditures paid after July 15, 2006.

11. Deferred Revenue

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

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2006 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

12. Anticipation Notes Payable

The City had the following bond anticipation notes outstanding at June 30, 2006:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2006</u>
Police Station	4.00%	09/15/05	09/15/06	\$ 2,500,000
Manning Field	4.25%	05/04/06	09/15/06	4,185,000
Police Station	3.95%	05/04/06	05/04/07	<u>5,000,000</u>
Total				<u>\$ 11,685,000</u>

The following summarizes activity in notes payable during fiscal year 2006 (in thousands):

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ 19,185	\$ 11,685	\$ 19,185	\$ 11,685
Revenue anticipation	<u>-</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Total	<u>\$ 19,185</u>	<u>\$ 16,685</u>	<u>\$ 24,185</u>	<u>\$ 11,685</u>

13. Capital Lease Obligations

The City is the lessee of certain equipment under capital leases expiring in various years through 2011. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2006:

2007	\$ 653,642
2008	208,629
2009	118,923
2010	118,923
2011	<u>69,372</u>
Total minimum lease payments	1,169,489
Less amount representing interest	<u>33,148</u>
Present Value of Minimum Lease Payments	<u>\$ 1,136,341</u>

14. Long-Term Debt

A. General Obligation Bonds

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

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2006</u>
Police, Library	02/01/2010	5.40	\$ 620,000
School Land acquisition	11/01/2010	5.0 - 5.2	725,000
General Obligation bonds	01/15/2011	3.5 - 5.0	5,590,000
Rooks Building	07/25/2011	3.7 - 5.8	132,000
RESCO General Obligation	06/01/2012	4.9 - 5.1	2,885,000
HUD 108 Note	08/01/2012	1.2 - 4.6	425,000
HUD 108 2004 A	08/01/2012	2.3 - 5.0	790,000
Lynn Arts CCMC	07/25/2016	4.9 - 6.6	450,000
School Project Loan	02/15/2017	2.3 - 2.5	31,370,000
School Project Loan	08/15/2017	2.3 - 4.2	20,980,000
School Project Loan	06/01/2018	2.3 - 3.7	18,165,000
New Police Station	01/15/2021	3.4 - 4.5	2,080,000
New Police Station	10/01/2024	3.0 - 6.0	<u>15,000,000</u>
Total Governmental Activities:			<u>\$ 99,212,000</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2006</u>
Marina	02/01/2014	7.00	\$ 1,193,080
Marina	04/14/2026	4.50	<u>262,029</u>
Total Business-Type Activities:			<u>\$ 1,455,109</u>

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2006 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 7,947,000	\$ 4,582,305	\$ 12,529,305
2008	8,137,000	4,254,556	12,391,556
2009	8,342,000	3,874,539	12,216,539
2010	8,577,000	3,482,508	12,059,508
2011	8,677,000	3,103,003	11,780,003
2012 - 2016	39,722,000	9,809,095	49,531,095
2017 - 2021	15,160,000	1,664,004	16,824,004
2022 - 2025	<u>2,650,000</u>	<u>191,281</u>	<u>2,841,281</u>
Total	<u>\$ 99,212,000</u>	<u>\$ 30,961,291</u>	<u>\$ 130,173,291</u>

The general fund has been designated as the source to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2006.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 62,790	\$ 95,135	\$ 157,925
2008	67,115	90,942	158,057
2009	71,728	86,454	158,182
2010	185,759	81,654	267,413
2011	198,939	68,882	267,821
2012 - 2016	710,176	136,003	846,179
2017 - 2021	71,974	28,026	100,000
2022 - 2026	<u>86,628</u>	<u>9,911</u>	<u>96,539</u>
Total	\$ <u>1,455,109</u>	\$ <u>597,007</u>	\$ <u>2,052,116</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2006, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/05*</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/06</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/06</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 91,154	\$ 15,000	\$ (6,942)	\$ 99,212	\$ (7,947)	\$ 91,265
Other:						
Capital leases	1,042	740	(646)	1,136	(625)	511
Accrued employee benefits	2,827	-	(176)	2,651	(265)	2,386
Workers compensation	<u>956</u>	<u>-</u>	<u>(652)</u>	<u>304</u>	<u>(46)</u>	<u>258</u>
Totals	\$ <u>95,979</u>	\$ <u>15,740</u>	\$ <u>(8,416)</u>	\$ <u>103,303</u>	\$ <u>(8,883)</u>	\$ <u>94,420</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ <u>1,356</u>	\$ <u>267</u>	\$ <u>(168)</u>	\$ <u>1,455</u>	\$ <u>(63)</u>	\$ <u>1,392</u>
Totals	\$ <u>1,356</u>	\$ <u>267</u>	\$ <u>(168)</u>	\$ <u>1,455</u>	\$ <u>(63)</u>	\$ <u>1,392</u>

* As restated

15. Restricted Net Assets

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

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

16. Reserves of Fund Equity

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

The following types of reserves are reported at June 30, 2006:

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

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

17. General Fund Undesignated Fund Balance

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

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

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

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

GAAP basis balance	\$ 11,666,833
Snow and ice deficit	1,102,710
Tax refund estimate	<u>92,584</u>
Statutory (UMAS) Balance	\$ <u>12,862,127</u>

18. Subsequent Events

Subsequent Year Appropriations

Subsequent to June 30, 2006, the City appropriated \$ 5,300,000 of undesignated fund balance to be used in fiscal year 2007.

Debt

Subsequent to June 30, 2006, the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General Obligation Bond	\$ <u>6,685,000</u>	4.0 - 5.0%	09/01/06	09/01/25

19. Commitments and Contingencies

Outstanding Lawsuits - There are several pending lawsuits in which the City is involved. The City's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

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

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

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

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

20. Post-Employment Health Care and Life Insurance Benefits

The City has accepted Chapter 32B of Massachusetts General Laws to provide for health care and life insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the City's group plans. The cost of these benefits are included in the total cost of benefits for both active and retired employees. The number of participants currently eligible to receive benefits, and cost of benefits for retirees, their dependents, or their survivors for the year ended June 30, 2006 was not available.

21. Contributory Retirement System

A. Plan Description and Contribution Information

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

Membership of each plan consisted of the following at December 31, 2005, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	1,285
Inactive members	27
Active plan members	<u>1,460</u>
Total	<u>2,772</u>
Number of participating employers	3

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

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

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

B. Summary of Significant Accounting Policies

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

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

C. Teachers

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

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

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

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

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

The City's current year covered payroll for teachers and administrators was \$ 76,911,646.

In fiscal year 2006, the Commonwealth of Massachusetts contributed \$ 13,926,218 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

22. Self Insurance

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

Health Insurance

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

Changes in the aggregate liability for claims for the year ended June 30, 2006 are as follows:

	<u>Health Coverage</u>
Claims liability, July 1, 2005	\$ 3,389,075
Claims incurred/recognized in fiscal year 2006	33,061,697
Claims paid in fiscal year 2006	<u>(32,767,164)</u>
Claims liability, June 30, 2006	\$ <u>3,683,608</u>

23. Risk Management

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

24. Beginning Fund Balance Net Assets Restatement/Reclassification

The beginning (July 1, 2005) fund balances of the City have been restated as follows (in thousands):

Government-Wide Financial Statements:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
As previously reported	\$ 151,663	\$ 633
Correct prior year bonds payable	-	(44)
Correct prior year vacation accrual	(1,800)	-
Record prior year school liability	(480)	-
As restated	<u>\$ 149,383</u>	<u>\$ 589</u>

Fund Basis Financial Statements:

	<u>Governmental Funds</u>		
	<u>General Fund</u>	<u>Manning Field Fund</u>	<u>Nonmajor Governmental Funds</u>
As previously reported	\$ 17,054	\$ -	\$ 15,763
Record prior year liability	(480)	-	-
Reclass Manning Field major fund	-	(254)	254
As restated	<u>\$ 16,574</u>	<u>\$ (254)</u>	<u>\$ 16,017</u>

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

Schedules of Funding Progress and Employer Contributions

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

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a)/c]
1/1/06	\$ 186,958,827	\$ 400,012,538	\$ 213,053,711	46.7%	\$ 65,444,873	325.5%
1/1/04	\$ 178,523,359	\$ 351,319,226	\$ 172,795,867	50.8%	\$ 63,050,947	274.1%
1/1/02	\$ 166,986,318	\$ 317,252,740	\$ 150,226,422	52.6%	\$ 66,007,910	227.6%
1/1/00	\$ 168,279,923	\$ 278,031,058	\$ 109,751,135	60.5%	\$ 58,953,757	186.2%
1/1/98	\$ 109,785,999	\$ 200,056,186	\$ 90,270,187	54.9%	\$ 47,985,127	188.1%

Schedule of Employer Contributions:

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2003	\$ 14,054,394	100%
2004	14,693,491	100%
2005	16,354,707	100%
2006	17,501,805	100%

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

Valuation date	1/1/06
Actuarial cost method	Individual entry age normal
Amortization method	4.5% increasing
Remaining amortization period	22 years
Asset valuation method	Actuarial value, 5 year smoothing
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increase	Service based table with ultimate rates of 4.75%, 5.00%, and 5.25% for groups 1, 2, and 4 respectively

See Independent Auditors' Report.