

CITY OF LYNN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2008

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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, 2008, (except for the Lynn Contributory Retirement System which is as of and for the year ended December 31, 2007) which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lynn's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lynn, as of June 30, 2008, (except the Lynn Contributory Retirement System which is as of December 31, 2007), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated March 5, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Melanson, Heath & Company, P.C.

Andover, Massachusetts
March 5, 2009

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, 2008.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

Proprietary funds. Proprietary funds are maintained as follows:

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

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

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

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 120,968,696 (i.e., net assets), a change of \$ (16,035,446) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 31,227,970, a change of \$ 1,646,897 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 6,800,177, a change of \$ 1,545,758 in comparison with the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 90,678,204, a change of \$ (8,664,115) 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>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 65,094	\$ 70,937	\$ 176	\$ 314	\$ 65,270	\$ 71,251
Noncurrent assets	31,900	37,573	-	-	31,900	37,573
Capital assets	<u>163,777</u>	<u>155,802</u>	<u>1,773</u>	<u>1,848</u>	<u>165,550</u>	<u>157,650</u>
Total assets	<u>260,771</u>	<u>264,312</u>	<u>1,949</u>	<u>2,162</u>	<u>262,720</u>	<u>266,474</u>
Long-term liabilities outstanding	111,432	102,818	1,325	1,392	112,757	104,210
Other liabilities	<u>28,814</u>	<u>25,075</u>	<u>180</u>	<u>185</u>	<u>28,994</u>	<u>25,260</u>
Total liabilities	<u>140,246</u>	<u>127,893</u>	<u>1,505</u>	<u>1,577</u>	<u>141,751</u>	<u>129,470</u>
Net assets:						
Invested in capital assets, net	100,898	94,329	693	710	101,591	95,039
Restricted	20,654	23,852	-	-	20,654	23,852
Unrestricted	<u>(1,027)</u>	<u>18,238</u>	<u>(249)</u>	<u>(125)</u>	<u>(1,276)</u>	<u>18,113</u>
Total net assets	<u>\$ 120,525</u>	<u>\$ 136,419</u>	<u>\$ 444</u>	<u>\$ 585</u>	<u>\$ 120,969</u>	<u>\$ 137,004</u>

(continued)

(continued)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 9,559	\$ 10,478	\$ 663	\$ 757	\$ 10,222	\$ 11,235
Operating grants and contributions	165,313	156,000	-	-	165,313	156,000
Capital grants and contributions	912	5,901	-	-	912	5,901
General revenues:						
Property taxes	85,327	80,055	-	-	85,327	80,055
Excises	5,569	5,728	-	-	5,569	5,728
Penalties and interest on taxes	1,031	917	-	-	1,031	917
Grants and contributions not restricted to specific programs	29,979	29,680	-	-	29,979	29,680
Investment income	1,301	1,348	1	1	1,302	1,349
Other	429	640	-	-	429	640
Total revenues	299,420	290,747	664	758	300,084	291,505
Expenses:						
General government	22,086	12,406	-	-	22,086	12,406
Public safety	37,674	38,132	-	-	37,674	38,132
Education	161,134	165,809	-	-	161,134	165,809
Public works	13,684	14,660	-	-	13,684	14,660
Human services	3,886	3,273	-	-	3,886	3,273
Culture and recreation	2,151	2,036	-	-	2,151	2,036
Employee benefits	70,757 (A)	51,095	-	-	70,757	51,095
Interest on long-term debt	1,743	1,405	-	-	1,743	1,405
Intergovernmental	2,099	2,008	-	-	2,099	2,008
Capital asset impairment	-	5,562	-	-	-	5,562
Other	-	217	-	-	-	217
Marina	-	-	805	733	805	733
Total expenses	315,214	296,603	805	733	316,019	297,336
Change in net assets before transfers	(15,794)	(5,856)	(141)	25	(15,935)	(5,831)
Transfers in (out)	(100)	-	-	-	(100)	-
Increase (decrease) in net assets	(15,894)	(5,856)	(141)	25	(16,035)	(5,831)
Net assets - beginning of year (as restated)	136,419	142,275	585	560	137,004	142,835
Net assets - end of year	\$ <u>120,525</u>	\$ <u>136,419</u>	\$ <u>444</u>	\$ <u>585</u>	\$ <u>120,969</u>	\$ <u>137,004</u>

(A) Includes OPEB liability increase

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 \$ 120,968,696, a change of \$ (16,035,446) from the prior year.

The largest portion of net assets \$ 101,590,306 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, \$ 20,654,251, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ (1,275,861), results in a deficit.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ (15,894,553). Key elements of this change are as follows (in thousands):

General fund expenditures in excess of revenues and transfers in	\$ (2,440)
Non-major funds revenue in excess of expenditures and transfers out, accrual basis	4,469
Internal service fund revenues in excess of expenditures	1,897
Massachusetts School Building Authority principal payment received in current year, however recognized in prior years	(6,120)
Principal debt service in excess of depreciation expense	3,334
Increase in OPEB liability	(17,060)
Other	<u>25</u>
Total	<u>\$ (15,895)</u>

Business-type activities. Business-type activities for the year resulted in a decrease in net assets of \$ 140,893. The decrease is primarily attributable to an approximately 14% decrease in revenues in fiscal year 2008.

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 \$ 31,227,970, an increase of \$ 1,646,897 in comparison with the prior year. Key elements of this increase are as follows (in thousands):

General fund expenditures and transfers out in excess of revenues and transfers in	\$ (2,440)
High school capital project expenditures in excess of revenues and other financing sources	(1,006)
City-wide capital project revenues and other financing sources in excess of expenditures and transfers out	6,759
Non-major capital project fund expenditures and transfers out over revenues and transfers in	(219)
Special revenue fund expenditures and transfers out over revenues and transfers in	(1,595)
Trust fund revenues over expenditures	<u>148</u>
Total	<u>\$ 1,647</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 \$ 6,800,177, while total fund balance was \$ 10,476,007. 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 2.52 percent of total general fund expenditures, while total fund balance represents 3.89 percent of that same amount.

The fund balance of the general fund decreased by \$ 2,440,281 during the current fiscal year. Key factors in this decrease are as follows (in thousands):

Use of free cash and overlay surplus	\$ (4,179)
Prior year deficits raised in current year	338
Revenues received less than budget	(233)
Expenditures less than budget	2,065
Other	<u>(431)</u>
Total	<u>\$ (2,440)</u>

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

Unrestricted net assets of the enterprise funds at the end of the year amounted to a deficit balance of \$ (248,646), a decrease of \$ (123,874) in comparison with the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$ 72,118. Major reasons for these amendments include:

- \$ 17,300 in additional election officers expenditures
- \$ 50,600 in additional public works expenditures

This increase was funded 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 \$ 165,549,747 (net of accumulated depreciation), an increase of \$ 7,899,270 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Major capital asset events during the current fiscal year included the following (in thousands):

Repair of Lynn Classical High School	\$ 2,184
Construction of Manning field	6,135
Infrastructure improvements	1,213
School building repairs	1,676
New public safety vehicles	124
New public safety equipment	243
Cemetery expansion	949
New school equipment	614
Other	24
Depreciation	<u>(5,263)</u>
Total	<u>\$ 7,899</u>

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

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 90,678,204, all of which was backed by the full faith and credit of the government.

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

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

Overview

Program year 2008 continued our on going progress in the area of economic development as the City is in the midst of implementing the findings and goals of the City's Economic Development Strategy. While we have completed and adopted our Waterfront Master Plan; the City is still awaiting the completion of a master harbor plan, a process necessary to reach our overarching economic development goals. The completion and adoption of these two strategic plans will enable the City of Lynn to chart a positive economic result over the next twenty to thirty years.

In the past twelve months we have continued to work with both the private and public sector on the relocation of the National Grid Power Lines which are the major impediment for any future development of the City of Lynn's Waterfront. We are confident that in the next 12 months this effort will unleash substantial development on the waterfront and positive economic results for the City of Lynn.

With regard to employment, even in the midst of uncertain economic forecasts 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 Sq. area of the City continued to see a renaissance and a resurgence as the number of retail/commercial businesses continued to grow in support of the growing residential sector in the downtown. 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.

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.

Both locally and nationally the real estate crisis has increased uneasiness and is of concern for the upcoming fiscal year. In 2008, over 250 homes were in or completed foreclosure; the highest foreclosure rate in the history of the Commonwealth. The impact has transcended the state and morphed into a national problem. The City is exploring ways to help impact homeowners, but looks forward to additional Federal assistance in the coming year. On a more positive note, as affordable housing opportunities continued to decline in and around the Boston Metropolitan area, Lynn's role as an alternative investment choice continued to gain momentum.

The City, using CDBG funding, continued to make investments in the downtown through its antique street re-lighting along the downtown linear spine of Union, Exchange, and Broad Streets. Additional re-lighting projects located on Monroe Street and a revitalization project planned for leased MBTA space will be completed this year. These efforts at beatification and revitalization have been well accepted by both the existing downtown community and investors alike. This trend will continue as 2009 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.

While 2007 saw the last year of play for Lynn's minor league baseball team, the North Shore Spirit, a replacement for the Spirit has been found. The North Shore Navigators, a summer college league, will take advantage of historic Frasier Field. The City remains committed to providing a reasonable financial alternative for families to attend a first class baseball experience. The Navigators will pick up where the Spirit left off providing a positive presence in the community and creating a regional attraction for those individuals unlikely to visit the City.

2008 completed the re-birth of Manning Field. For the past 60 years Manning Bowl has served as a lynchpin to many sporting events. The stadium was rebuilt and a new sports complex is now in place next to the refurbished Frasier Field.

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, dialogue continues with the hopes that reuse will be beginning in the near future.

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. As additional funding opportunities present themselves the City will look to additional sites for continued Brownfield redevelopment.

Lynn Assessed Values

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

(Source: Mass.Dept. of Revenue)

Since 2000 the City has experienced very positive trends with regard to the value of real estate. From 2000-2005 commercial real estate experienced an explosion of nearly a 90% increase. The City of Lynn continues to place a reliance on the residential sector bearing an increasing burden with regard to the overall tax.

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 in new plant and equipment. The company also plans to increase employment from its current level of 35 to over 120 full-time positions.

<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
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

Another important indicator of economic growth – housing values – exhibited a dramatic increase between 1997 and 2005. While recent national housing trends have seen decreases, recent Case-Shiller index finds the Boston Housing Market down 3.4%. Average single-family home values in Lynn increased from \$98,418 in 1997 to \$286,000 in 2005 and has held firm into 2008. A more startling increase came in the median sales price, which showed a dramatic 297% increase between 1997 and 2005. While the market place sales have scaled back as noted above, average valuations seem to be holding.

FY	Ave Value	% Chng	Calendar Yr	Median Sale Price	% Chng
1997	\$ 98418	N/A	1997	\$ 96000	N/A
1998	98712	0.3%	1998	115700	20.5%
1999	111459	12.9%	1999	134500	16.2%
2000	124571	11.8%	2000	160000	19.0%
2001	139174	11.7%	2001	190000	18.8%
2002	168817	21.3%	2002	245000	28.9%
2003	198415	17.5%	2003	267673	9.3%
2004	229600	15.7%	2004	280000	4.6%
2005	256992	11.9%	2005	299000	6.8%
2006	276031	7.4%	2006	290000	-3.0%
2007	286007	3.6%	2007	260000	-10.3%
2008	286002	0.0%	2008	200000	-23.1%

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

Information is based on Single Family Homes

Infrastructure

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

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

Lynn's proactive stance toward infrastructure improvements and land use regulations enables it to react immediately to development opportunities as they arise. The redevelopment of the Blossom Street public access pier is injecting \$2.2 million into our local economy and will provide a site for water shuttle service from Lynn to Boston in the future. In addition, the City's stable population and wide range of community and economic development services create an ideal environment for business investment and development. Lynn possesses numerous assets and resources that have helped it to emerge once again as one of the North Shore's most attractive communities

Employment

Although Lynn's first quarter of 2008 unemployment rate of 6.7% was approximately 1.2% 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 1999 through 2008 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>
2008	41,617	38,835	6.7	5.5	5.6
2007	41,236	38,994	5.4	4.5	4.6
2006	41,544	39,043	6.0	4.8	4.6
2005	41,736	39,179	6.1	4.8	6.1
2004	42,273	39,537	6.5	5.1	5.5
2003	42,885	39,705	7.4	5.4	5.7
2002	42,798	40,121	6.3	5.3	5.8
2001	42,400	40,558	4.3	4.1	4.8
2000	41,876	40,525	3.2	2.6	4.9
1999	39,181	37,553	4.2	3.2	4.2

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

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:

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

CITY OF LYNN, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2008

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 34,627,761	\$ 158,157	\$ 34,785,918
Investments	5,852,820	-	5,852,820
Receivables, net of allowance for uncollectibles:			
Property taxes	4,276,008	-	4,276,008
Excises	1,930,472	-	1,930,472
Departmental and other	6,005,327	-	6,005,327
Intergovernmental	9,345,142	-	9,345,142
Other assets	3,056,449	18,329	3,074,778
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental	31,273,849	-	31,273,849
Property taxes	626,547	-	626,547
Capital assets, non-depreciable	18,273,332	-	18,273,332
Capital assets, depreciable, net of accumulated depreciation	<u>145,503,546</u>	<u>1,772,869</u>	<u>147,276,415</u>
TOTAL ASSETS	260,771,253	1,949,355	262,720,608
LIABILITIES			
Current:			
Warrants payable	983,244	-	983,244
Accounts payable	2,733,325	-	2,733,325
Accrued liabilities	8,616,397	29,247	8,645,644
Tax refunds payable	61,747	-	61,747
Notes payable	11,000,000	-	11,000,000
Other current liabilities	5,419,739	151,000	5,570,739
Current portion of long-term liabilities:			
Bonds payable	8,802,000	71,728	8,873,728
Other liabilities	631,389	-	631,389
Noncurrent:			
Bonds payable, net of current portion	80,551,000	1,253,476	81,804,476
Other liabilities, net of current portion	4,387,679	-	4,387,679
OPEB liability	<u>17,059,941</u>	<u>-</u>	<u>17,059,941</u>
TOTAL LIABILITIES	140,246,461	1,505,451	141,751,912
NET ASSETS			
Invested in capital assets, net of related debt	100,897,756	692,550	101,590,306
Restricted for:			
Grants and other statutory restrictions	14,319,676	-	14,319,676
Permanent funds:			
Nonexpendable	6,121,643	-	6,121,643
Expendable	212,932	-	212,932
Unrestricted	<u>(1,027,215)</u>	<u>(248,646)</u>	<u>(1,275,861)</u>
TOTAL NET ASSETS	\$ <u>120,524,792</u>	\$ <u>443,904</u>	\$ <u>120,968,696</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets	
	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business- Type Activities
		Capital Grants and Contributions	Total	Total
Governmental Activities:				
General government	\$ 22,085,689	\$ 1,125,782	\$ (18,407,640)	\$ (18,407,640)
Public safety	37,674,431	1,683,952	(34,669,659)	(34,669,659)
Education	161,133,554	605,722	(3,596,369)	(3,596,369)
Public works	13,683,551	2,750,188	(6,592,685)	(6,592,685)
Health and human services	3,886,256	1,512,000	(341,141)	(341,141)
Culture and recreation	2,150,879	818,392	(1,222,579)	(1,222,579)
Employee benefits	70,757,180	-	(70,757,180)	(70,757,180)
Interest	1,743,423	-	(1,743,423)	(1,743,423)
Intergovernmental	2,099,247	-	(2,099,247)	(2,099,247)
Total Governmental Activities	315,214,210	165,313,166	(139,429,923)	(139,429,923)
Business-Type Activities:				
Marina services	805,199	-	-	(142,093)
Total Business-Type Activities	805,199	-	-	(142,093)
Total	\$ 316,019,409	\$ 165,313,166	(139,429,923)	(139,572,016)
General Revenues and Transfers:				
Property taxes			85,326,594	85,326,594
Excises			5,569,153	5,569,153
Penalties, interest and other taxes			1,030,761	1,030,761
Grants and contributions not restricted to specific programs			29,978,842	29,978,842
Investment income			1,301,398	1,302,598
Other			428,622	428,622
Transfers			(100,000)	(100,000)
Total general revenues and transfers			123,535,370	123,536,570
Change in Net Assets			(15,894,553)	(16,035,446)
Net Assets:				
Beginning of year, as restated			136,419,345	137,004,142
End of year			\$ 120,524,792	\$ 120,968,696

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008

ASSETS	General	High School Capital Project	City Wide Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments	\$ 14,061,764	\$ 7,935,448	\$ 528,250	\$ 8,792,886	\$ 31,318,348
Investments	-	-	-	5,852,820	5,852,820
Receivables:					
Property taxes	6,413,461	-	-	-	6,413,461
Excises	5,549,189	-	-	-	5,549,189
Departmental and other	714,918	-	-	5,290,409	6,005,327
Intergovernmental	183,240	-	-	3,540,376	3,723,616
Due from other funds	21,242	-	-	-	21,242
Advance to other funds	808,685	-	-	-	808,685
TOTAL ASSETS	\$ 27,752,499	\$ 7,935,448	\$ 528,250	\$ 23,476,491	\$ 59,692,688

LIABILITIES AND FUND BALANCES

Liabilities:					
Warrants payable	\$ 983,244	\$ -	\$ -	\$ -	\$ 983,244
Accounts Payable	769,181	298,860	-	1,665,284	2,733,325
Accrued liabilities	3,464,043	-	-	-	3,464,043
Deferred revenues	11,459,868	-	-	7,116,155	18,576,023
Tax refunds payable	61,747	-	-	-	61,747
Due to other funds	-	-	-	21,242	21,242
Notes payable	-	-	278,000	1,000,000	1,278,000
Advance from other funds	-	-	-	808,685	808,685
Other liabilities	538,409	-	-	-	538,409
TOTAL LIABILITIES	17,276,492	298,860	278,000	10,611,366	28,464,718
Fund Balances:					
Reserved for:					
Advances	808,685	-	-	-	808,685
Encumbrances and continuing appropriations	2,867,145	-	-	-	2,867,145
Perpetual (nonexpendable) permanent funds	-	-	-	6,121,643	6,121,643
Unreserved:					
Undesignated, reported in:					
General fund	6,800,177	-	-	-	6,800,177
Special revenue funds	-	-	-	7,371,216	7,371,216
Capital project funds	-	7,636,588	250,250	(840,666)	7,046,172
Permanent funds	-	-	-	212,932	212,932
TOTAL FUND BALANCES	10,476,007	7,636,588	250,250	12,865,125	31,227,970
TOTAL LIABILITIES AND FUND BALANCES	\$ 27,752,499	\$ 7,935,448	\$ 528,250	\$ 23,476,491	\$ 59,692,688

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, 2008

Total governmental fund balances	\$ 31,227,970
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	163,776,878
• 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.	36,895,375
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	13,446,400
• 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.	(2,403,251)
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(1,264,571)
• Future expenses related to providing other post employment benefits (OPEB's) are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(17,059,941)
• 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>(104,094,068)</u>
Net assets of governmental activities	<u>\$ 120,524,792</u>

CITY OF LYNN, MASSACHUSETTS
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2008

	General	High School Capital Project	City Wide Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 84,806,611	\$ -	\$ -	\$ -	\$ 84,806,611
Excises	5,218,873	-	-	-	5,218,873
Penalties, interest and other taxes	1,030,761	-	-	-	1,030,761
Charges for services	2,117,828	-	-	4,345,444	6,463,272
Intergovernmental	172,510,052	-	-	36,417,843	208,927,895
Contributions and donations	-	-	-	494,359	494,359
Licenses and permits	1,356,617	-	-	-	1,356,617
Fines and forfeitures	1,591,377	-	-	-	1,591,377
Investment income	739,325	381,607	-	180,466	1,301,398
Miscellaneous	148,469	-	-	185,151	333,620
Total Revenues	269,519,913	381,607	-	41,623,263	311,524,783
Expenditures:					
Current:					
General government	19,858,445	-	125,087	1,516,748	21,500,280
Public safety	36,447,249	-	79,870	698,645	37,225,764
Education	131,138,665	2,483,020	981,830	27,510,457	162,113,972
Public works	10,631,617	-	6,703	5,027,462	15,665,782
Health and human services	956,907	-	-	2,936,056	3,892,963
Culture and recreation	1,529,026	-	-	6,644,408	8,173,434
Employee benefits	53,531,413	-	-	-	53,531,413
Debt service	13,242,031	-	-	-	13,242,031
Intergovernmental	2,099,247	-	-	-	2,099,247
Total Expenditures	269,434,600	2,483,020	1,193,490	44,333,776	317,444,886
Excess (deficiency) of revenues over expenditures	85,313	(2,101,413)	(1,193,490)	(2,710,513)	(5,920,103)
Other Financing Sources (Uses):					
Court judgment	-	95,000	-	-	95,000
Proceeds of notes	-	-	9,722,000	-	9,722,000
Transfers in	101,496	1,000,000	90,659	2,142,874	3,335,029
Transfers out	(2,627,090)	-	(1,860,000)	(1,097,939)	(5,585,029)
Total Other Financing Sources (Uses)	(2,525,594)	1,095,000	7,952,659	1,044,935	7,567,000
Change in Fund Balance	(2,440,281)	(1,006,413)	6,759,169	(1,665,578)	1,646,897
Fund Balance, at Beginning of Year, as restated	12,916,288	8,643,001	(6,508,919)	14,530,703	29,581,073
Fund Balance, at End of Year	\$ 10,476,007	\$ 7,636,588	\$ 250,250	\$ 12,865,125	\$ 31,227,970

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, 2008

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	1,646,897																																				
<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 style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;">Capital outlay purchases</td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: right;">13,237,388</td> </tr> <tr> <td>Depreciation</td> <td></td> <td style="text-align: right;">(5,262,748)</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. <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;"></td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: right;">(3,069,882)</td> </tr> </table> • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;">Repayments of debt</td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: right;">8,597,000</td> </tr> <tr> <td>Proceeds of notes</td> <td></td> <td style="text-align: right;">(9,722,000)</td> </tr> <tr> <td>Payments of capital leases, net</td> <td></td> <td style="text-align: right;">180,115</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. <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;"></td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: right;">113,797</td> </tr> </table> • Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;"></td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: right;">1,896,628</td> </tr> </table> • Some expenses reported in the Statement of Activities, such as certain employee benefits, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;">Increase in compensated absences liability</td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: right;">(418,918)</td> </tr> <tr> <td>Increase in OPEB liability</td> <td></td> <td style="text-align: right;">(17,059,941)</td> </tr> <tr> <td>Decrease in workers compensation liability</td> <td></td> <td style="text-align: right;">87,546</td> </tr> </table> • 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 <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;"></td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: right;">(6,120,435)</td> </tr> </table> 			Capital outlay purchases		13,237,388	Depreciation		(5,262,748)			(3,069,882)	Repayments of debt		8,597,000	Proceeds of notes		(9,722,000)	Payments of capital leases, net		180,115			113,797			1,896,628	Increase in compensated absences liability		(418,918)	Increase in OPEB liability		(17,059,941)	Decrease in workers compensation liability		87,546			(6,120,435)
Capital outlay purchases		13,237,388																																				
Depreciation		(5,262,748)																																				
		(3,069,882)																																				
Repayments of debt		8,597,000																																				
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Decrease in workers compensation liability		87,546																																				
		(6,120,435)																																				
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>(15,894,553)</u>																																				

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS
GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
	Budget	Budget		Positive
				(Negative)
Revenues and Other Sources:				
Taxes	\$ 85,325,000	\$ 85,325,000	\$ 85,325,000	\$ -
Excise	5,580,500	5,580,500	5,218,873	(361,627)
Penalties, interest and other taxes	912,000	912,000	1,030,761	118,761
Charges for services	2,217,800	2,216,750	2,117,828	(98,922)
Intergovernmental	153,929,617	153,929,617	154,132,623	203,006
Licenses and permits	1,449,000	1,449,000	1,356,617	(92,383)
Fines and forfeits	1,504,000	1,504,000	1,591,377	87,377
Investment income	977,000	977,000	739,325	(237,675)
Miscellaneous	-	-	148,469	148,469
Transfers in	28,000	101,168	101,496	328
Other sources: (free cash)	4,179,342	4,179,342	4,179,342	-
Total Revenues and Other Sources	256,102,259	256,174,377	255,941,711	(232,666)
Expenditures and Other Uses:				
General government	21,103,199	21,125,767	20,301,731	824,036
Public safety	37,659,565	37,659,565	36,786,069	873,496
Education	111,869,877	111,868,877	111,679,507	189,370
Public works	10,534,003	10,584,603	11,079,898	(495,295)
Health and human services	1,061,153	1,061,103	961,585	99,518
Culture and recreation	1,611,176	1,611,176	1,529,605	81,571
Debt service	13,228,766	13,228,766	13,149,980	78,786
Intergovernmental	2,062,234	2,062,234	2,099,247	(37,013)
Employee benefits	54,006,989	54,006,989	53,556,840	450,149
Transfers out	2,627,090	2,627,090	2,627,090	-
Other uses	338,207	338,207	338,207	-
Total Expenditures and Other Uses	256,102,259	256,174,377	254,109,759	2,064,618
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,831,952	\$ 1,831,952

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2008

	Business-Type Activities <u>Enterprise Fund</u>	Governmental <u>Activities</u>
	Marina <u>Fund</u>	Internal Service <u>Fund</u>
<u>ASSETS</u>		
Current:		
Cash and short-term investments	\$ 158,157	\$ 3,309,413
User fees, net of allowance for uncollectibles	-	-
Inventory	18,329	-
Other assets	-	3,056,449
	<hr/>	<hr/>
Total current assets	176,486	6,365,862
Noncurrent:		
Capital assets, net of accumulated depreciation	1,772,869	-
	<hr/>	<hr/>
Total noncurrent assets	1,772,869	-
	<hr/>	<hr/>
TOTAL ASSETS	1,949,355	6,365,862
<u>LIABILITIES</u>		
Current:		
Accrued liabilities	29,247	3,887,783
Other current liabilities	151,000	4,881,330
Current portion of long-term liabilities:		
Bonds payable	71,728	-
	<hr/>	<hr/>
Total current liabilities	251,975	8,769,113
Noncurrent:		
Bonds payable, net of current portion	1,253,476	-
	<hr/>	<hr/>
Total noncurrent liabilities	1,253,476	-
	<hr/>	<hr/>
TOTAL LIABILITIES	1,505,451	8,769,113
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	692,550	-
Unrestricted	(248,646)	(2,403,251)
	<hr/>	<hr/>
TOTAL NET ASSETS	\$ 443,904	\$ (2,403,251)
	<hr/>	<hr/>

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, 2008

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	Marina <u>Fund</u>	Internal Service <u>Fund</u>
Operating Revenues:		
Charges for services	\$ 663,106	\$ -
Employee and employer contributions	<u>-</u>	<u>42,763,386</u>
Total Operating Revenues	663,106	42,763,386
Operating Expenses:		
Personnel expenses	162,252	-
Non personnel expenses	482,096	-
Depreciation	75,370	-
Employee benefits	<u>-</u>	<u>43,016,758</u>
Total Operating Expenses	<u>719,718</u>	<u>43,016,758</u>
Operating loss	(56,612)	(253,372)
Nonoperating Revenues (Expenses):		
Investment income	1,200	-
Interest expense	(85,481)	-
Transfers In	<u>-</u>	<u>2,150,000</u>
Total Nonoperating Revenues (Expenses), Net	<u>(84,281)</u>	<u>2,150,000</u>
Change in net assets	(140,893)	1,896,628
Net Assets at Beginning of Year	<u>584,797</u>	<u>(4,299,879)</u>
Net Assets at End of Year	\$ <u><u>443,904</u></u>	\$ <u><u>(2,403,251)</u></u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2008

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u> Internal Service <u>Fund</u>
	Marina <u>Fund</u>	
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers and users	\$ 715,502	\$ -
Payments to vendors and employees	(640,578)	-
Receipts from employees and employer	-	42,763,386
Payments of employee benefits and expenses	-	<u>(41,927,450)</u>
Net Cash Provided By Operating Activities	74,924	835,936
<u>Cash Flows From Noncapital Financing Activities:</u>		
Transfers in	-	<u>2,150,000</u>
Net Cash Provided by Noncapital Financing Activities	-	2,150,000
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Principal payments on bonds	(67,115)	-
Interest expense	<u>(85,481)</u>	-
Net Cash Used For Capital and Related Financing Activities	(152,596)	-
<u>Cash Flows From Investing Activities:</u>		
Investment income	<u>1,200</u>	-
Net Cash Provided by Investing Activities	<u>1,200</u>	-
Net Change in Cash and Short-Term Investments	(76,472)	2,985,936
Cash and Short-Term Investments, Beginning of Year	<u>234,629</u>	<u>323,477</u>
Cash and Short-Term Investments, End of Year	<u>\$ 158,157</u>	<u>\$ 3,309,413</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>		
Operating (loss)	\$ (56,612)	\$ (253,372)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	75,370	-
Changes in assets and liabilities:		
User fees	52,396	-
Inventory	8,210	-
Other assets	-	385,000
Accrued liabilities	(4,440)	209,760
Other liabilities	-	<u>494,548</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 74,924</u>	<u>\$ 835,936</u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2008

	Pension Trust Fund (As of <u>December 31, 2007</u>)	Agency Funds
<u>ASSETS</u>		
Cash and short term investments	\$ 312,262	\$ 223,395
Investments	213,351,209	-
Accounts receivable	<u>10,232,103</u>	<u>-</u>
Total Assets	223,895,574	223,395
 <u>LIABILITIES AND NET ASSETS</u>		
Other liabilities	<u>125,236</u>	<u>223,395</u>
Total Liabilities	<u>125,236</u>	<u>223,395</u>
 <u>NET ASSETS</u>		
Total net assets held in trust for pension benefits	\$ <u><u>223,770,338</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

CITY OF LYNN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Pension Trust Fund</u>
Additions:	
Contributions:	
Employers	\$ 19,506,650
Plan members	6,217,434
Other	<u>1,013,655</u>
Total contributions	26,737,739
Investment Income (Loss):	
Increase in fair value of investments	20,229,235
Less: management fees	<u>(1,306,117)</u>
Net investment income	18,923,118
Total additions	45,660,857
Deductions:	
Benefit payments to plan members and beneficiaries	27,860,295
Refunds to plan members	298,933
Administrative expenses	<u>897,554</u>
Total deductions	<u>29,056,782</u>
Net increase	16,604,075
Net assets:	
Beginning of year	<u>207,166,263</u>
End of year	<u>\$ 223,770,338</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 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 is the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Fund Financial Statements

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

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

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *high school capital project fund* is used to account for the financing and repairs at Lynn Classical High School
- The *city-wide capital project fund* is used to account for the financing and construction of various city-wide capital projects.

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 nonoperating revenues and expenses.

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

The government reports the following major proprietary funds:

- Seaport Marina Operations

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

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

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

D. Cash and Short-Term Investments

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

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

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

E. Investments

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

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

F. Property Tax Limitations

Legislation known as "Proposition 2 ½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2008 tax levy reflected an excess capacity of \$ 49,551.

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 City Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the City Council is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes

expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 269,519,913	\$ 269,434,600
Other financing sources/uses (GAAP basis)	<u>101,496</u>	<u>2,627,090</u>
Subtotal (GAAP Basis)	269,621,409	272,061,690
Adjust tax revenue to accrual basis	518,389	-
Reverse beginning of year appro- priation carryforwards from expenditures	-	(2,687,803)
Add end of year appropriation carryforwards to expenditures	-	2,867,145
To reverse the effect of non- budgeted State contributions for teachers retirement	(18,377,429)	(18,377,429)
To reverse the effect of short term interest accrual	-	(92,051)
Recognize use of fund balance and raising of prior year deficits	<u>4,179,342</u>	<u>338,207</u>
Budgetary basis	<u>\$ 255,941,711</u>	<u>\$ 254,109,759</u>

D. Excess of Expenditures Over Appropriations

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

Snow and ice	\$ 1,049,170
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The appropriation deficit was funded on the fiscal year 2009 recap.

E. Deficit Fund Equity

The following funds had deficits as of June 30, 2008:

Internal Service Fund	\$ (2,403,251)
Non-major Governmental Funds:	
Chapter 90	(1,810,798)
Byrne Grant	(18,247)
After School Meals	(11,640)
Mass Family Network	(2,748)
School Sale	(6,900)
Fire Detail	(19,120)
Electrical Detail	(10,094)
Police Detail	(3,862)
Comprehensive School Reform	(2,024)
Commonwealth Corp	(42,031)
School lunch	(808,685)

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds. The Internal Service Fund deficit was raised on the FY09 tax recap.

F. Transfers

In fiscal year 2008, the City transferred \$100,000 to the police details agency fund. Since an agency has no measurement focus, the \$100,000 transfer is recognized only on the fund's balance sheet.

3. Cash and Short-Term Investments

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

As of June 30, 2008 and December 31, 2007, \$ 10,897,488 and \$ 288,268 of the City's and System's bank balances of \$ 46,314,929 and \$ 672,938 respectively, were exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the City's and System's name.

4. Investments

A. Credit Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Treasury notes	\$ 745
Corporate Bbonds	1,612
Corporate equities	1,473
Mutual funds	567
Federal agency securities	<u>1,456</u>
Total investments	\$ <u>5,853</u>

Presented below are the investments of the Lynn Contributory Retirement System as of December 31, 2007 (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Treasury notes	\$ 7,752
Money Market	2,140
Corporate bonds	13,046
Corporate equities	125,271
Federal agency securities	8,176
Pooled funds	<u>56,966</u>
Total investments	\$ <u>213,351</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 does not have policies for custodial credit risk. The Contributory Retirement System has all its investments with State Street Bank whose policy states that title to the securities remains with the System. Therefore if State Street were to fail, the System's securities would not be compromised.

All of the City's investment in Corporate bonds of \$ 1,612,116 are held in the government's name and therefore are not exposed to 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>Fair Value</u>	<u>Investment Maturities (in Years)</u>				<u>Average Rating</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater Than 10</u>	
Debt Related Securities:						
U.S. Treasury notes	\$ 745	\$ -	\$ 640	\$ 105	\$ -	Aaa
Corporate bonds	1,612	603	1,009	-	-	A1
Federal agency securities	<u>1,456</u>	<u>269</u>	<u>202</u>	<u>161</u>	<u>824</u>	Aaa
Total	<u>\$ 3,813</u>	<u>\$ 872</u>	<u>\$ 1,851</u>	<u>\$ 266</u>	<u>\$ 824</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):

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	Greater Than 10
Debt Related Securities:					
U.S. Treasury notes	\$ 7,752	\$ -	\$ 1,666	\$ 5,241	\$ 845
Corporate bonds	13,046	-	5,209	3,271	4,566
Federal agency securities	8,176	-	1,973	1,466	4,737
Total	\$ 28,974	\$ -	\$ 8,848	\$ 9,978	\$ 10,148

Investment Type	Fair Value	Credit Quality				
		AAA	AA	A	Other	Unrated
Debt Related Securities:						
U.S. Treasury notes	\$ 7,752	\$ 7,752	\$ -	\$ -	\$ -	\$ -
Corporate bonds	13,046	737	965	1,465	9,701	178
Federal agency securities	8,176	1,854	-	-	581	5,741
Total	\$ 28,974	\$ 10,343	\$ 965	\$ 1,465	\$ 10,282	\$ 5,919

E. Foreign Currency Risk

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

5. Taxes Receivable

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

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

Taxes receivable at June 30, 2008 consist of the following (in thousands):

Real Estate		
2008	\$	3,164
2007		16
2006		7
2005		6
2004		1
2003		3
Prior		<u>9</u>
		3,206
Personal Property		
2008	\$	55
2007		22
2006		26
2005		27
2004		173
2003		167
Prior		<u>686</u>
		1,156
Tax Liens		1,549
Deferred Taxes		<u>503</u>
Total		<u>\$ 6,414</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):

Property taxes	\$	1,511
Excises		3,618

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2008. Of the \$ 40,618,991 of intergovernmental receivables, \$ 36,895,375 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 amount payable to the general fund from the school lunch fund relates to cash flow hardship, and is not scheduled to be collected in the subsequent year. The following is an analysis of the June 30, 2008 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>	<u>Advance to Other Funds</u>	<u>Advance from Other Funds</u>
General Fund	\$ 21,242	\$ -	\$ 808,685	\$ -
Nonmajor Governmental Funds:				
Trust and Agency Funds:				
Library Trust Fund	-	21,242	-	-
School Lunch Fund	-	-	-	808,685
Total	<u>\$ 21,242</u>	<u>\$ 21,242</u>	<u>\$ 808,685</u>	<u>\$ 808,685</u>

9. Capital Assets

Capital asset activity for the year ended June 30, 2008 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	\$ 208,015	\$ 4,031	\$ (29)	\$ 212,017
Machinery, equipment, and furnishings	16,428	909	-	17,337
Land improvements	2,842	104	-	2,946
Infrastructure	12,207	2,059	-	14,266
Total capital assets, being depreciated	239,492	7,103	(29)	246,566
Buildings and improvements	(72,546)	(4,222)	29	(76,739)
Machinery, equipment, and furnishings	(13,792)	(689)	-	(14,481)
Land improvements	(1,390)	(105)	-	(1,495)
Infrastructure	(8,100)	(247)	-	(8,347)
Total accumulated depreciation	<u>(95,828)</u>	<u>(5,263)</u>	<u>29</u>	<u>(101,062)</u>
Total capital assets, being depreciated, net	143,664	1,840	-	145,504
Capital assets, not being depreciated:				
Land	7,182	-	-	7,182
Construction in progress	4,956	6,135	-	11,091
Total capital assets, not being depreciated	<u>12,138</u>	<u>6,135</u>	<u>-</u>	<u>18,273</u>
Governmental activities capital assets, net	<u>\$ 155,802</u>	<u>\$ 7,975</u>	<u>\$ -</u>	<u>\$ 163,777</u>

* As restated

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 2,043	\$ -	\$ -	\$ 2,043
Machinery, equipment, and furnishings	489	-	-	489
Land improvements	38	-	-	38
Infrastructure	<u>263</u>	<u>-</u>	<u>-</u>	<u>263</u>
Total capital assets, being depreciated	2,833	-	-	2,833
Less accumulated depreciation for:				
Buildings and improvements	(500)	(41)	-	(541)
Machinery, equipment, and furnishings	(394)	(8)	-	(402)
Land improvements	(38)	-	-	(38)
Infrastructure	<u>(53)</u>	<u>(26)</u>	<u>-</u>	<u>(79)</u>
Total accumulated depreciation	<u>(985)</u>	<u>(75)</u>	<u>-</u>	<u>(1,060)</u>
Total capital assets, being depreciated, net	<u>1,848</u>	<u>(75)</u>	<u>-</u>	<u>1,773</u>
Business-type activities capital assets, net	<u>\$ 1,848</u>	<u>\$ (75)</u>	<u>\$ -</u>	<u>\$ 1,773</u>

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

Governmental Activities:	
General government	\$ 948
Public safety	871
Education	2,904
Public works	434
Culture and recreation	<u>106</u>
Total depreciation expense - governmental activities	<u>\$ 5,263</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 2008 expenditures paid by July 15, 2008. Accounts payable represent additional 2008 expenditures paid after July 15, 2008.

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, 2008 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

12. Tax Refunds Payable

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

13. Anticipation Notes Payable

The City had the following notes outstanding at June 30, 2008:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2008</u>
City-wide projects	4.25%	08/02/07	08/01/08	\$ 2,500,000
City-wide projects	3.25%	05/02/08	08/01/08	5,000,000
City-wide projects	4.00%	09/14/07	09/12/08	2,500,000
Cemetery	3.00%	04/23/08	04/23/09	<u>1,000,000</u>
Total				<u>\$ 11,000,000</u>

The following summarizes activity in notes payable during fiscal year 2008:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ <u>7,500</u>	\$ <u>11,000</u>	<u>7,500</u>	\$ <u>11,000</u>
Total	\$ <u>7,500</u>	\$ <u>11,000</u>	\$ <u>7,500</u>	\$ <u>11,000</u>

14. 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, 2008:

2009	\$ 136,409
2010	127,942
2011	<u>69,371</u>
Total minimum lease payments	333,722
Less amount representing interest	<u>(2,248)</u>
Present Value of Minimum Lease Payments	\$ <u><u>331,474</u></u>

15. Long-Term Debt

A. General Obligation Bonds

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

Governmental Activities:	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2008
Police, Library	02/01/10	5.4	\$ 300,000
School Land acquisition	11/01/10	5.0 - 5.2	435,000
General Obligation bonds	01/15/11	3.5 - 5.0	3,225,000
Rooks Building ⁽¹⁾	07/25/11	3.7 - 5.8	88,000
RESCO General Obligation ⁽¹⁾	06/01/12	4.9 - 5.1	1,920,000
HUD 108 Note ⁽¹⁾	08/01/12	1.2 - 4.6	325,000
HUD 108 2004 A ⁽¹⁾	08/01/12	2.3 - 5.0	570,000
Lynn Arts CCMC ⁽¹⁾	07/25/16	4.9 - 6.6	370,000
School Project Loan	02/15/17	2.3 - 2.5	26,950,000
School Project Loan	08/15/17	2.3 - 4.2	18,060,000
School Project Loan	06/01/18	2.3 - 3.7	15,735,000
New Police Station	01/15/21	3.4 - 4.5	1,800,000
New Police Station	10/01/24	3.0 - 6.0	13,350,000
Police Station, Manning Field	03/01/26	4.0 - 6.0	<u>6,225,000</u>
Total Governmental Activities:			\$ <u><u>89,353,000</u></u>

(1) Repaid through CDBG program

Business-Type Activities:	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2008
Marina	02/01/14	7.0	\$ 1,080,320
Marina	04/14/26	4.5	<u>244,884</u>
Total Business-Type Activities:			\$ <u>1,325,204</u>

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2008 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 8,802,000	\$ 4,121,089	\$ 12,923,089
2010	9,037,000	3,710,658	12,747,658
2011	9,137,000	3,312,753	12,449,753
2012	8,252,000	2,909,195	11,161,195
2013	8,085,000	2,525,769	10,610,769
2014-2018	38,865,000	6,455,579	45,320,579
2019-2023	5,735,000	853,406	6,588,406
2024-2026	<u>1,440,000</u>	<u>56,806</u>	<u>1,496,806</u>
Total	\$ <u>89,353,000</u>	\$ <u>23,945,255</u>	\$ <u>113,298,255</u>
 <u>Business-Type</u>			
2009	\$ 71,728	\$ 86,454	\$ 158,182
2010	185,759	81,654	267,413
2011	198,939	68,882	267,821
2012	213,050	55,198	268,248
2013	228,182	40,536	268,718
2014-2018	295,810	53,403	349,213
2019-2023	78,739	21,261	100,000
2024-2026	<u>52,997</u>	<u>3,542</u>	<u>56,539</u>
Total	\$ <u>1,325,204</u>	\$ <u>410,930</u>	\$ <u>1,736,134</u>

The general fund has been designated as the source, except as noted on the previous page, to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2008.

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2008, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/2007</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/08</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/08</u>
Governmental Activities						
Bonds payable	\$ 97,950	\$ -	\$ (8,597)	\$ 89,353	\$ (8,802)	\$ 80,551
Other:						
Capital leases	511	49	(229)	331	(135)	196
Accrued employee benefits	3,711	419	-	4,130	(413)	3,717
Workers compensation	645	-	(87)	558	(84)	474
OPEB	-	17,060	-	17,060	-	17,060
Totals	\$ <u>102,817</u>	\$ <u>17,528</u>	\$ <u>(8,913)</u>	\$ <u>111,432</u>	\$ <u>(9,434)</u>	\$ <u>101,998</u>
Business-Type Activities						
Bonds payable	\$ 1,392	\$ -	\$ (67)	\$ 1,325	\$ (72)	\$ 1,253
Totals	\$ <u>1,392</u>	\$ <u>-</u>	\$ <u>(67)</u>	\$ <u>1,325</u>	\$ <u>(72)</u>	\$ <u>1,253</u>

16. 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.

17. 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, 2008:

Reserved for Advances – An account used to segregate a portion of fund balance to indicate that advances to other funds, although a component of assets, do not represent available spendable resources.

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

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

18. General Fund Undesignated Fund Balance

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

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

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

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

GAAP basis balance	\$ 6,800,177
Snow and ice deficit	1,049,170
Tax refund estimate	<u>61,747</u>
Statutory (UMAS) Balance	<u>\$ 7,911,094</u>

19. Subsequent Events

A. Investments

Since September 2008, the stock market suffered significant losses. As a result, there may be a substantial depreciation in the value of the organization’s investments.

B. Debt

Subsequent to June 30, 2008, 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 \$	9,722,000	4.0 - 6.0%	07/30/08	07/15/27

C. Retroactive Salary Increases

Subsequent to June 30, 2008, the City approved a retroactive pay increase totaling \$ 961,525 related to FY08 work performed.

20. Commitments and Contingencies

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

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

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

Costs needed for remediation are estimated at \$ 14 million including repairs, engineering, air quality monitoring, and costs of recovery from various parties participating in the design and construction.

The City has initiated claims for damages, and as of June 30, 2007 had received \$ 8.4 million in settlement claims.

21. Post-Employment Health Care and Life Insurance Benefits

During the year, the City implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

A. Plan Description

In addition to providing the pension benefits described, the City provides post-employment health care and life insurance benefits for retired employees through the City's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2008 the actuarial valuation date, approximately 2,020 retirees and 2,225 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

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

D. Annual OPEB Costs and Net OPEB Obligation

The City's fiscal 2008 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years.

The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2008, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of June 30, 2008.

Annual Required Contribution (ARC)	\$ 27,498
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	27,498
Contributions made	(10,438)
Increase in net OPEB obligation	17,060
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ 17,060

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

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2008	\$ 17,060	0%	\$ 17,060

The City's net OPEB obligation as of June 30, 2008 is recorded as a component of the "other long-term liabilities" line item.

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2008 the date of the most recent actuarial valuation was as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 450,682
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	450,682
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 149,762
UAAL as a percentage of covered payroll	300.9%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

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

In the June 30, 2008 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advanced funded its obligation. The actuarial assumptions included an 8% investment rate of return and an initial annual healthcare cost trend rate of 8% which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.5%.

22. 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, 2007, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	1,249
Inactive members	227
Active plan members	<u>1,450</u>
Total	<u><u>2,926</u></u>
Number of participating employers	

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

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

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC). The City's Schedule of Employer Contributions is as follows:

Schedule of Employer Contributions:

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

B. Summary of Significant Accounting Policies

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

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

C. Funded Status and Funding Progress

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

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]
1/1/2007	\$ 198,161,361	\$ 412,239,249	\$ 214,077,888	48.1%	\$ 67,205,922	318.5%

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

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$ 412 million was calculated. The actuarial assumptions included (a) 8.25% investment rate of return and (b) a projected salary increase of 4.75%, 5.00%, and 5.25% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3.0%, on the first \$ 12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.25%) and accounting for deposits and disbursements with interest at the assumed rate of return.

An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. The unfunded actuarially accrued liability is being amortized over 20 years using an open group method which assumes a 4.5% per year increase in payroll.

E. Teachers

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

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

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

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

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

The City's current year covered payroll for teachers and administrators was \$79,374,168.

In fiscal year 2008, the Commonwealth of Massachusetts contributed \$ 18,377,429 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

23. 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, 2008 are as follows:

	<u>Heath Coverage</u>
Claims liability, July 1, 2007	\$ 3,678,023
Claims incurred/recognized in fiscal year 2008	43,016,758
Claims paid in fiscal year 2008	<u>(42,806,998)</u>
Claims liability, June 30, 2008	<u>\$ 3,887,783</u>

24. 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.

25. Beginning Fund Balance Net Assets Restatement/Reclassification

The beginning (July 1, 2007) fund balances of the City have been restated as follows (in thousands):

Government-Wide Financial Statements:

	<u>Governmental Activities</u>
As previously reported	\$ 135,248
Correct prior year fixed assets	1,228
Correct prior year LHAND	<u>(57)</u>
As restated	<u>\$ 136,419</u>

Fund Basis Financial Statements:

	<u>Governmental Funds</u>		
	<u>Manning Field Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
As previously reported	\$ (621)	\$ 15,209	\$ 14,588
Reclass major funds	621	(621)	-
Correct prior year LHAND	<u>-</u>	<u>(57)</u>	<u>(57)</u>
As restated	<u>\$ -</u>	<u>\$ 14,531</u>	<u>\$ 14,531</u>

CITY OF LYNN, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Contributory Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1/1/07	\$ 198,161,361	\$ 412,239,249	\$ 214,077,888	48.10%	\$ 67,205,922	318.5%
1/1/06	\$ 186,958,827	\$ 400,012,538	\$ 213,053,711	46.70%	\$ 65,444,873	325.5%
1/1/04	\$ 178,523,359	\$ 351,319,226	\$ 172,795,867	50.80%	\$ 63,050,947	274.1%
1/1/02	\$ 166,986,318	\$ 317,252,740	\$ 150,226,422	52.60%	\$ 66,007,910	227.6%
1/1/00	\$ 168,279,923	\$ 278,031,058	\$ 109,751,135	60.50%	\$ 58,953,757	186.2%
1/1/98	\$ 109,785,999	\$ 200,056,186	\$ 90,270,187	54.90%	\$ 47,985,127	188.1%

Other Post-Employment Benefits
(Amounts Expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
06/30/08	\$ -	\$ 450,682	\$ 450,682	0.0%	\$ 149,762	300.9%

See Independent Auditors' Report.