

**CITY OF EVERETT, MASSACHUSETTS**

**REPORT ON EXAMINATION OF  
GENERAL PURPOSE FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION**

**FISCAL YEAR ENDED JUNE 30, 1999**



CITY OF EVERETT, MASSACHUSETTS

REPORT ON EXAMINATION OF GENERAL PURPOSE  
FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION

FISCAL YEAR ENDED JUNE 30, 1999

**CONTENTS**

	<b>PAGE</b>
<b>FINANCIAL SECTION</b>	
Independent Auditors' Report	2
<b>GENERAL PURPOSE FINANCIAL STATEMENTS</b>	
All fund types and account group – combined balance sheet	4
Governmental fund types and expendable trust funds – combined statement of revenues, expenditures and changes in fund balances	6
General fund – budgetary basis – statement of revenues and expenditures – budget and actual	7
Nonexpendable trust funds – statement of revenues, expenses and changes in fund equity	8
Nonexpendable trust funds – statement of cash flows	9
Pension trust fund – statement of changes in net assets available for pension benefits	10
Notes to general purpose financial statements	11
<b>ADDITIONAL INFORMATION</b>	
Year 2000 compliance – unaudited	24

# ***Financial Section***

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### Independent Auditors' Report

To the Honorable Mayor  
City of Everett, Massachusetts

We have audited the accompanying general purpose financial statements of the City of Everett, Massachusetts, as of and for the year ended June 30, 1999, (except for the Everett Contributory Retirement System which is as of and for the year ended December 31, 1998), as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Everett, Massachusetts' management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Inasmuch as the Commonwealth of Massachusetts does not require the capitalization of fixed assets, the City has not maintained complete historical cost records of its general fixed assets. Accordingly, a statement of general fixed assets, required by generally accepted accounting principles, is not included in the financial statements.

In our opinion, except for the effect on the general purpose financial statements of the matter described in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Everett, Massachusetts, as of June 30, 1999 (except for the Everett Contributory Retirement System which is as of December 31, 1998), and the results of its operations and cash flows of its Nonexpendable Trust Funds and changes in net assets available for pension benefits of its Pension Trust Fund for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 3, 1999, on our consideration of the City of Everett, Massachusetts' control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

We did not audit the data included in the additional information section of this report and, accordingly, we express no opinion on such data.



September 3, 1999, except for Note 11, as to which the date is December 10, 1999

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# ***General Purpose Financial Statements***

**ALL FUND TYPES AND ACCOUNT GROUP  
COMBINED BALANCE SHEET**

JUNE 30, 1999

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
<b>ASSETS AND OTHER DEBITS</b>			
CASH AND SHORT-TERM INVESTMENTS	\$ 15,303,669	\$ 2,207,478	\$ 19,499,045
INVESTMENTS			
RECEIVABLES:			
Real estate and personal property taxes	2,057,833		
Real estate tax liens	3,600,586		
Tax foreclosures	58,397		
Motor vehicle excise	887,081		
Water and sewer	1,351,713		
Other	5,468		
Dividends and interest			
Intergovernmental		204,405	
UDAG loan receivables		1,994,626	
DUE FROM OTHER FUNDS	85,733		
OTHER ASSETS	730,290		
AMOUNTS TO BE PROVIDED FOR RETIREMENT OF LONG-TERM OBLIGATIONS			
TOTAL ASSETS AND OTHER DEBITS	<u>\$ 24,080,770</u>	<u>\$ 4,406,509</u>	<u>\$ 19,499,045</u>
<b>LIABILITIES AND FUND EQUITY</b>			
LIABILITIES:			
Warrants payable	\$ 1,488,377	\$ 743,018	\$ 2,859,621
Reserve for abatements	5,749,331		
Accrued expenditures and other liabilities	1,354,918	42,737	903
Due depositors			
Due to other funds	2,615	82,174	1,760
Deferred revenues	3,006,577		
Accrued compensated absences			
Bonds and notes payable			34,000,000
TOTAL LIABILITIES	<u>11,601,818</u>	<u>867,929</u>	<u>36,862,284</u>
FUND EQUITY (DEFICIT):			
Reserved for:			
Encumbrances and continuing appropriations	1,614,883		
Nonexpendable trust			
Pension benefits			
UDAG loan receivables		1,994,626	
Self-insurance	3,076,023		
Unreserved	<u>7,788,046</u>	<u>1,543,954</u>	<u>(17,363,239)</u>
TOTAL FUND EQUITY (DEFICIT)	<u>12,478,952</u>	<u>3,538,580</u>	<u>(17,363,239)</u>
TOTAL LIABILITIES, FUND EQUITY (DEFICIT)	<u>\$ 24,080,770</u>	<u>\$ 4,406,509</u>	<u>\$ 19,499,045</u>

See notes to general purpose financial statements.



Fiduciary Fund Types		Account Group	Total
Trust and Agency	Retirement System December 31, 1998	General Long-Term Obligations Group	(Memorandum Only)
\$ 5,436,667	\$ 210,645	\$ -	\$ 42,657,504
468,010	55,297,715		55,765,725
			2,057,833
			3,600,586
			58,397
			887,081
			1,351,713
100,973			106,441
	381,303		381,303
	211,508		415,913
			1,994,626
816			86,549
			730,290
		7,450,598	7,450,598
<u>\$ 6,006,466</u>	<u>\$ 56,101,171</u>	<u>\$ 7,450,598</u>	<u>\$ 117,544,559</u>
\$ 12,437	\$ -	\$ -	\$ 5,103,453
7,756			5,749,331
23,892			1,406,314
			23,892
			86,549
100,973	2,388,632		5,496,182
		1,260,000	1,260,000
		6,190,598	40,190,598
<u>145,058</u>	<u>2,388,632</u>	<u>7,450,598</u>	<u>59,316,319</u>
			1,614,883
1,118,789			1,118,789
	53,712,539		53,712,539
			1,994,626
			3,076,023
4,742,619			(3,288,620)
<u>5,861,408</u>	<u>53,712,539</u>	<u>-</u>	<u>58,228,240</u>
<u>\$ 6,006,466</u>	<u>\$ 56,101,171</u>	<u>\$ 7,450,598</u>	<u>\$ 117,544,559</u>

**GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

FISCAL YEAR ENDED JUNE 30, 1999

	Governmental Fund Types			Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
<b>REVENUES:</b>					
Real estate and personal property taxes, net of reserve for abatements	\$ 46,636,164	\$ -	\$ -	\$ -	\$ 46,636,164
Motor vehicle excise	2,344,996				2,344,996
Water and sewer	7,082,012				7,082,012
Intergovernmental	21,122,759	5,546,542	150,693		26,819,994
Departmental and other	2,675,863	1,579,184			4,255,047
Contributions		88,216	132,500	5,606	226,322
Investment income	1,080,174	10,989		190,945	1,282,108
<b>TOTAL REVENUES</b>	<b>80,941,968</b>	<b>7,224,931</b>	<b>283,193</b>	<b>196,551</b>	<b>88,646,643</b>
<b>EXPENDITURES:</b>					
Current:					
General Government	3,275,442	988,379			4,263,821
Public Safety	13,151,451	309,093	27,312		13,487,856
Education	28,635,151	4,855,241	13,736,609	1,351	47,228,352
Public Works	4,653,818	595,940	360,052	18,693	5,628,503
Water and Sewer assessment	6,357,747				6,357,747
Human Services	773,112	189,420			962,532
Culture and Recreation	2,106,916	259,630		35,819	2,402,365
Pension	4,878,452				4,878,452
Employee fringe benefits	6,330,753				6,330,753
Insurance	652,476				652,476
State and County charges	3,355,204				3,355,204
Debt Service:					
Principal	1,383,493				1,383,493
Interest	1,280,869				1,280,869
<b>TOTAL EXPENDITURES</b>	<b>76,834,884</b>	<b>7,197,703</b>	<b>14,123,973</b>	<b>55,863</b>	<b>98,212,423</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>4,107,084</b>	<b>27,228</b>	<b>(13,840,780)</b>	<b>140,688</b>	<b>(9,565,780)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Bond proceeds			260,250		260,250
Proceeds from refunding bonds			1,485,000		1,485,000
Payments to refunded bond escrow agent			(1,449,911)		(1,449,911)
Payments of issuance costs on refunding			(35,089)		(35,089)
Tax abatement settlement (note 11)	4,500,000				4,500,000
Transfers in	163,000	29,982	519,125	2,827,718	3,539,825
Transfers out	(3,357,700)	(182,125)			(3,539,825)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,305,300</b>	<b>(152,143)</b>	<b>779,375</b>	<b>2,827,718</b>	<b>4,760,250</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES</b>	<b>5,412,384</b>	<b>(124,915)</b>	<b>(13,061,405)</b>	<b>2,968,406</b>	<b>(4,805,530)</b>
<b>FUND BALANCES (DEFICITS) AT BEGINNING OF YEAR</b>	<b>7,066,568</b>	<b>3,663,495</b>	<b>(4,301,834)</b>	<b>1,774,213</b>	<b>8,202,442</b>
<b>FUND BALANCES (DEFICITS) AT END OF YEAR</b>	<b>\$ 12,478,952</b>	<b>\$ 3,538,580</b>	<b>\$ (17,363,239)</b>	<b>\$ 4,742,619</b>	<b>\$ 3,396,912</b>

See notes to general purpose financial statements.

**GENERAL FUND - BUDGETARY BASIS**  
**STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL**

FISCAL YEAR ENDED JUNE 30, 1999

	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>			
Real estate and personal property taxes, net of reserve for abatements	\$ 46,210,382	\$ 46,267,907	\$ 57,525
Motor vehicle excise	2,297,394	2,344,996	47,602
Water and sewer	7,268,709	7,082,012	(186,697)
Intergovernmental	20,664,947	21,122,759	457,812
Departmental and other	2,019,161	2,675,863	656,702
Investment income	669,762	970,132	300,370
 TOTAL REVENUES	79,130,355	80,463,669	1,333,314
 <b>EXPENDITURES:</b>			
Current:			
General Government	3,499,381	3,270,997	228,384
Public Safety	13,103,112	12,786,583	316,529
Education	29,171,617	29,147,128	24,489
Public Works	4,875,537	4,724,909	150,628
Water and Sewer assessment	6,513,458	6,357,747	155,711
Human Services	1,015,756	772,846	242,910
Culture and Recreation	2,269,778	2,202,645	67,133
Pension	4,939,142	4,878,452	60,690
Employee fringe benefits	6,780,411	6,711,347	69,064
Insurance	629,186	644,474	(15,288)
State and County charges	2,968,865	3,355,204	(386,339)
Debt Service:			
Debt Service - principal	1,383,493	1,383,493	-
Debt Service - interest	1,231,999	1,210,847	21,152
 TOTAL EXPENDITURES	78,381,735	77,446,672	935,063
 EXCESS OF REVENUES OVER EXPENDITURES	748,620	3,016,997	2,268,377
 <b>OTHER FINANCING SOURCES (USES):</b>			
Encumbrance reversions		98,843	98,843
Transfers in	163,000	163,000	-
Transfers out	(3,357,700)	(3,357,700)	-
Transfers from unreserved fund balance	2,446,080	2,446,080	-
 TOTAL OTHER FINANCING SOURCES (USES)	(748,620)	(649,777)	98,843
 EXCESS OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	\$ -	\$ 2,367,220	\$ 2,367,220

See notes to general purpose financial statements.

**NONEXPENDABLE TRUST FUNDS**  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY

FISCAL YEAR ENDED JUNE 30, 1999

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CONTRIBUTIONS	\$ 1,000
FUND EQUITY, Beginning of year	<u>1,117,789</u>
FUND EQUITY, End of year	<u>\$ 1,118,789</u>

See notes to general purpose financial statements.

**NONEXPENDABLE TRUST FUNDS**  
**STATEMENT OF CASH FLOWS**

FISCAL YEAR ENDED JUNE 30, 1999

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CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	\$ 1,000
CASH FLOWS FROM INVESTMENT ACTIVITIES:	
Net purchase of investments	<u>(1,000)</u>
NET CHANGE IN CASH	-
CASH AT BEGINNING OF YEAR	<u>-</u>
CASH AT END OF YEAR	<u>\$ -</u>
RECONCILIATION:	
Cash at end of year	\$ -
Cash at end of year, expendable trusts and agency funds	<u>5,436,667</u>
CASH PER THE COMBINED BALANCE SHEET	<u>\$ 5,436,667</u>

See notes to general purpose financial statements.

**PENSION TRUST FUND**  
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR PENSION BENEFITS

YEAR ENDED DECEMBER 31, 1998

ADDITIONS:

Contributions:

Employer contributions	\$	4,731,676
Employer contributions		<u>1,534,434</u>
Total contributions		<u>6,266,110</u>

Net investment income:

Net appreciation in fair value of investments	2,975,701
Interest	1,299,043
Dividends	<u>251,358</u>
Total investment income	4,526,102

Less: investment expense	<u>(223,491)</u>
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Net investment income	<u>4,302,611</u>
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Other:

Intergovernmental	796,764
Transfers from other systems	<u>263,114</u>
Total other additions	<u>1,059,878</u>

Total additions	<u>11,628,599</u>
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DEDUCTIONS:

Administration	122,616
Retirement benefits and refunds	8,819,411
Transfers to other systems	<u>454,489</u>
Total deductions	<u>9,396,516</u>

Net increase	2,232,083
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Net assets available for pension benefits at beginning of year (fund balance reserved for pension benefits)	<u>51,480,456</u>
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Net assets available for pension benefits at end of year (fund balance reserved for pension benefits)	<u>\$ 53,712,539</u>
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See notes to general purpose financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the City of Everett, Massachusetts (the City) have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the City are described herein.

**A. Reporting Entity**

The City is a municipal corporation that is governed by an elected Mayor and an elected City Council.

For financial reporting purposes, the City has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The City has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the City (the primary government) and its component units. The City has included one entity as a component unit in the reporting entity, because of the significance of its operational and/or financial relationships with the City.

The City of Everett Contributory Retirement System (the System) is governed by a five member board comprised of the City Auditor (ex-officio), two elected members, a member appointed by the Mayor and a member appointed by the other four members. The System is a legally separate entity but the nature and significance of its relationship with the City warrants inclusion in the combined financial statements. The System is presented using the accrual basis of accounting and is reported as a Pension Trust Fund.

**B. Measurement Focus, Basis of Accounting and Basis of Presentation**

The accounts of the City are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related, legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of governmental funds not recorded directly in those funds.

The City has the following fund types and account group:

**Governmental Funds** are used to account for the City's general governmental activity. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

The City considers property tax revenues available if they are collected within 60 days after year end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received by the City, and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

Governmental funds include the following fund types:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

The *Special Revenue Fund* is used to account for the proceeds of specific revenue sources (other than expendable trusts or capital projects) that are restricted by law or administrative action to expenditures for specified purposes.

The *Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Trust Funds).

**Fiduciary Funds** account for assets held by the City in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the City under the terms of a trust agreement.

The *Expendable Trust Fund* is accounted for in essentially the same manner as governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds are used to account for trusts where both principal and earnings may be spent.

The *Nonexpendable Trust Fund* and *Pension Trust Fund* are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. The nonexpendable trust fund is used to account for trusts that stipulate that only earnings, and not principal, may be spent.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the City holds for others in an agency capacity.

The **General Long-Term Obligations Account Group** is used to account for general long-term bonds and notes issued by the City, compensated absences, and claims and judgments that will be financed in future years from Governmental Funds.

#### C. Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturity's of three months or less from the date of acquisition.

Investments are carried at fair value.

#### D. Property Taxes

Property taxes are levied and based on values assessed on January 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on December 29<sup>th</sup>, and May 1<sup>st</sup> and are subject to penalties and interest if they are not paid by the respective due date. Tax liens are processed by the fourth quarter of every fiscal year on delinquent properties. Property taxes levied are recorded as receivables in the fiscal year of the levy and are recorded under the modified accrual basis of accounting.

#### E. Inventories

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the financial statements and therefore are not recorded.



#### F. Fixed Assets

The Commonwealth of Massachusetts does not require the City to capitalize expenditures for General Fixed Assets. Accordingly, such disbursements in the Governmental Funds are considered expenditures in the year payments are made. As a result of this practice, the accompanying financial statements do not include a statement of the General Fixed Assets Account Group, which is a departure from GAAP.

#### G. Fund Equity

The City reports fund balances and retained earnings as reserved and designated where legally restricted for a specific future use. Otherwise, these balances are considered unreserved.

Fund balances and retained earnings have been "reserved for" the following:

"Encumbrances" which represent amounts obligated under purchase orders, contracts and other commitments for expenditure.

"Continuing appropriations" which represent unencumbered appropriations that are carried over to the ensuing fiscal year. These amounts were appropriated for specific purposes that were not completed during the year.

"Nonexpendable trust" which represents amounts held by the City for which only investment earnings may be expended.

"Pension benefits" which represents the net assets available to the System's participants that cannot be used for any other purpose.

"Self-insurance" which represents amounts held by the City for the payment of health claims.

"UDAG loan receivables" which represents the City's outstanding loan receivable balance for the Urban Development Action Grant (UDAG) loan program.

#### H. Interfund/Intrafund Transactions

During the course of its operations, the City records transactions between funds and/or between departments. Transactions of a buyer/seller nature between departments within a fund are not eliminated from the individual fund statements. Receivables and payables resulting from transactions between funds are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

#### I. Long-Term Debt

Long-term financing is recorded in the General Long-Term Obligations Account Group. Principal and interest expenditures on long-term debt are recorded in the General Fund.

#### J. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies. For Governmental funds, vested or accumulated vacation and sick leave that are expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities. Amounts that are not expected to be so liquidated are reported in the General Long-Term Obligations Account Group.

### K. Post Retirement Benefits

In addition to providing pension benefits, the City provides health insurance coverage for retired employees and their survivors. The City recognizes the cost of providing health insurance by recording its share of insurance premiums in the General Fund in the year paid. For the year ended June 30, 1999, this expenditure was approximately \$2,046,000.

### L. Total (Memorandum Only) Column

The total column used on the Combined Financial Statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

## **NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### A. Budgetary Information

Municipal Law requires the City to adopt a balanced budget that is approved by the Mayor and the City Council (the Council). The Mayor presents an annual budget to the Council, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Expenditures are budgeted by categories that are broken down by personal services, expenditures, debt service and capital outlay and are mandated by Municipal Law. The Council, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between departments subsequent to the approval of the annual budget requires majority Council approval via a supplemental appropriation or Council order.

The majority of the City's appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the City is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of the Council.

The City adopts an annual budget for the General Fund in conformity with the guidelines described above. The original fiscal year 1999 approved budget for the General Fund authorized \$71,519,872 in appropriations and other amounts to be raised. During fiscal year 1999, the Council approved supplemental appropriations in the General Fund for \$10,219,563.

The Office of the City Auditor has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the City's accounting system.

**B. Budgetary - GAAP Reconciliation**

Accounting principles followed for purposes of preparing financial statements on a budgetary basis differ from those used to present financial statements in conformity with generally accepted accounting principles (GAAP). A reconciliation of budgetary-basis to GAAP-basis results for the General Fund for the year ended June 30, 1999, is presented below:

**Budgetary – GAAP Reconciliation**

Excess of revenues and other financing Sources (uses) over expenditures – budgetary basis.....	\$2,367,220
Perspective differences related to fund classification of insurance trust funds.....	(224,179)
<u>Basis of accounting differences:</u>	
Net increase in revenues.....	368,256
Net decrease in recording expenditures, encumbrances and continuing appropriations.....	946,010
Tax abatement settlement.....	4,500,000
Encumbrance reversions.....	(98,843)
Transfers from unreserved fund balance.....	<u>( 2,446,080)</u>
Excess of revenues and other financing sources (uses) over expenditures – GAAP basis...	<u>\$5,412,384</u>

**C. Excess of Expenditures Over Appropriations**

For the fiscal year ended June 30, 1999, expenditures for the MWRA water, MBTA assessment, school choice assessment and charter school assessment exceeded budgeted appropriations. These amounts will be raised in the tax levy for fiscal year 2000.

**D. Individual Fund Deficits**

Several individual fund deficits exist at June 30, 1999, within the Special Revenue and Capital Projects Funds. These deficits will be funded through grants, available fund balance and bond proceeds during fiscal year 2000.

**NOTE 3 - CASH AND INVESTMENTS**

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Short-term Investments". The deposits and investments of the Trust Funds are held separately from those of other City funds.

At year-end, the carrying amount of the City's deposits was \$36,901,685 and the bank balance was \$38,247,950. Of the bank balance, \$900,000 was covered by Federal Depository Insurance, \$22,841,578 was covered by Depository Insurance and \$14,506,372 was uninsured and uncollateralized. The carrying amount of cash at June 30, 1999, consisted of the following:

Checking, Savings, and NOW accounts	\$15,966,198
Money Market accounts	3,473,379
Certificates of Deposit	<u>17,462,108</u>
Total carrying amount of cash	<u>\$36,901,685</u>

At December 31, 1998, the carrying amount of deposits for the Everett Contributory Retirement System (the System) was \$210,645 and the bank balance was \$526,542. The entire bank balance was covered by Federal Depository Insurance.

Statutes authorize the City to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State treasurer's investment pool. In addition, there are various restrictions limiting the amount and length of deposits and investments.

Investments are classified as to collateral risk into the following three categories:

- Category 1: Insured or registered, or securities held by the City or its agent in the City's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not the City's name.

Investments for the City are summarized as follows:

<u>Investments in Category 3:</u>	
U.S. Government Securities.....	\$ 468,010
 <u>Investments not subject to categorization:</u>	
State Treasurer's Investment Pool (MMDT).....	<u>5,545,174</u>
Total Investments.....	<u>\$6,013,184</u>

Investments for the System at December 31, 1998 are summarized as follows:

<u>Investments in Category 3:</u>	
Equity Securities.....	\$26,965,956
Fixed Income Securities.....	<u>26,348,764</u>
Sub-total.....	53,314,720
<u>Investments not subject to categorization:</u>	
Mutual Funds.....	<u>1,982,995</u>
Total Investments.....	<u>\$55,297,715</u>

The following is a reconciliation of the City's investments as summarized on the previous page to the balance as recorded in the combined balance sheet at June 30, 1999:

Investments of the City as summarized on the previous page.....	\$ 6,013,184
Less: Short-term investments reported in the combined balance sheet as cash and short-term investments.....	( 5,545,174)
Investments of the City as reported on the combined balance sheet.....	<u>\$ 468,010</u>

The following is a reconciliation of the City's balance of cash and short-term investments as reported on the combined balance sheet at June 30, 1999:

Carrying amount of cash.....	\$36,901,685
Add: Short-term investments.....	<u>5,545,174</u>
Cash and short-term investments as reported on the combined balance sheet.....	<u>\$42,446,859</u>

#### NOTE 4 - PENSION PLAN

*Plan Description* - The City contributes to the City of Everett Contributory Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan administered by the Everett Retirement Board. Substantially all employees are members of the System except for public school teachers and certain administrators who are members of the Commonwealth of Massachusetts Teachers Contributory Retirement System to which the City does not contribute. Contributions to the MTCRS are funded by the Commonwealth of Massachusetts. These on-behalf payments are not available from the Commonwealth and, therefore, have not been reported in the general purpose financial statements. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws (MGL) assigns authority to establish and amend benefit provisions of the plan. Cost of living increases granted between 1981 and 1997 are funded by the Commonwealth. Cost of living increases granted after 1997 are the responsibility of the System. The System issues a publicly available financial report in accordance with guidelines established by the Commonwealth of Massachusetts Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 484 Broadway, Everett, Massachusetts, 02149.

*Funding Policy* - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the System its share of the system-wide actuarial determined contribution that are apportioned among the employers based on active current payroll. The current apportionment required the City to contribute 95% of the annual pension cost of employers. The contributions of plan members and the City are governed by Chapter 32 of the MGL.

*Annual Pension Cost* - The City's contributions to the System for the years ended June 30, 1999, 1998 and 1997 were \$4,511,298, \$4,777,156 and \$4,662,547 respectively, which equaled its required contribution for each year. At June 30, 1999, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 1998 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included an 8.0% investment rate of return and a 5.5% salary increase per annum. The actuarial value of the System's assets was determined using the fair value of the assets. The system's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 1998, was 26 years.

**Schedule of Funding Progress  
(Dollar amounts in thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/98	\$ 53,566	\$88,863	\$35,297	60.3%	\$ 16,895	208.9%
01/01/97	45,601	86,143	40,542	52.9%	16,403	247.2%
01/01/94	36,476	79,028	42,552	46.2%	13,262	320.8%

*Non-contributory Retirement Allowance* – The City pays the entire retirement allowance for certain retirees who are eligible for non-contributory benefits and are not members of the System. The general fund expenditure for fiscal 1999 was approximately \$367,000.

**NOTE 5 – SHORT-TERM FINANCING**

The City is authorized to borrow on a temporary basis to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations of the City and carry maturity dates that are limited by statute. Interest expenditures for short-term borrowings are accounted for in the General Fund.

The City has the following notes outstanding at June 30, 1999:

<u>Type</u>	<u>Purpose</u>	<u>Rate</u>	<u>Due Date</u>	<u>Amount</u>
BAN	School Building Program.....	3.25	12/17/99	\$ 4,000,000
BAN	School Building Program.....	3.25	12/17/99	<u>30,000,000</u>
Total short-term financing...				<u>\$34,000,000</u>

#### NOTE 6 - LONG-TERM DEBT

State law permits the City, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 2 1/2% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, a City may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

In fiscal 1999, the City advance refunded \$1,350,000 of general obligation bonds through the issuance of \$1,485,000 of general obligation refunding bonds. The proceeds of the refunding bonds were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liabilities have been removed from the General Long-Term Obligations Account Group. Through this advance refunding, the City has taken advantage of lower interest rates to realize a decrease in its aggregate debt service payments by approximately \$60,000 over the next 10 years. The City also realized an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$55,000. At June 30, 1999, approximately \$1,350,000 of the bonds refunded in fiscal 1999 remains outstanding and are considered defeased.

Details related to the City's outstanding indebtedness at June 30, 1999, and the debt service requirements follow.

#### ***Bonds and Notes Payable Schedule***

<u>Project</u>	<u>Date of Issue</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 1998</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Defeased</u>	<u>Outstanding at June 30, 1999</u>
General Obligation 1990.....	07/15/90	6.89	\$ 3,560,000	\$ -	\$ 740,000	\$1,350,000	\$1,470,000
Municipal Purpose Loan 1996...	10/15/94	5.64	1,520,000		260,000		1,260,000
Refunding Bonds 1992.....	05/01/92	5.66	65,000		65,000		-
911 Communications System....	09/15/96	5.53	320,000		40,000		280,000
DPW Equipment.....	09/15/96	5.53	1,275,000		110,000		1,165,000
MWRA Inflow Infiltration 1994...	07/15/93	0.00	63,630		63,630		-
MWRA Inflow Infiltration 1996...	02/15/96	0.00	223,650		74,550		149,100
MWRA Water 1998.....	05/21/98	0.00	151,561		30,313		121,248
MWRA Water 1999.....	06/10/99	0.00		189,750			189,750
MWRA Water 1999.....	12/24/98	0.00		70,500			70,500
Refunding Bonds of 1999.....	08/15/98	4.35	-	1,485,000	-	-	1,485,000
Total bonds and notes payable..			<u>\$7,178,841</u>	<u>\$1,745,250</u>	<u>\$1,383,493</u>	<u>\$1,350,000</u>	<u>\$6,190,598</u>

Debt service requirements for interest and principal for bonds payable in future years are as follows:

Year Ending June 30	Principal	Interest	Total
2000.....	\$1,271,912	\$ 269,131	\$1,541,043
2001.....	1,291,912	198,638	1,490,550
2002.....	672,362	149,651	822,013
2003.....	607,362	122,678	730,040
2004.....	592,050	96,388	688,438
Thereafter....	<u>1,755,000</u>	<u>205,844</u>	<u>1,960,844</u>
Total.....	<u>\$6,190,598</u>	<u>\$1,042,330</u>	<u>\$7,232,928</u>

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. As of June 30, 1999, the City had the following authorized and unissued debt:

Description	Amount Authorized and Unissued
Public works equipment.....	\$ 3,500
Street improvements.....	99,689
School building construction.....	118,227,000
MWRA water bond.....	<u>37,500</u>
Total.....	<u>\$118,367,689</u>

General Long-Term Obligations Account Group

The City records its liability for long-term bonds and notes in the General Long-Term Obligations Account Group. Other general long-term obligations recognized by the City are its obligations under claims and judgments, vacation and sick pay benefits. These liabilities will be liquidated in the future from governmental funds.

During the year ended June 30, 1999, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group:

	Balance July 1, 1998	Bonds and Notes Issued	Bonds and Notes Redeemed/ Defeased	Other Net Increase (Decrease)	Balance June 30, 1998
Long-Term Notes and Bonds.....	\$ 7,178,841	\$1,745,250	\$2,733,493	\$ -	\$6,190,598
Compensated Absences.....	1,177,000	-	-	83,000	1,260,000
Claims and Judgments.....	<u>5,952,000</u>	-	-	<u>(5,952,000)</u>	<u>0</u>
Total.....	<u>\$14,307,841</u>	<u>\$1,745,250</u>	<u>\$2,733,493</u>	<u>(\$5,869,000)</u>	<u>\$7,450,598</u>



**NOTE 7 – RISK FINANCING**

The City is self-insured for its workers' compensation and a portion of its health insurance activities. These activities are accounted for in the City's general fund and accounted for under the modified accrual basis of accounting.

*Health Insurance*

The City estimates its Incurred But Not Reported (IBNR) claims based on two and one half month claims paid average. The City purchases individual stop loss insurance for claims in excess of the \$90,000 coverage provided by the City.

At June 30, 1999, the amount of the liability for health insurance claims was \$478,000. This liability is the City's best estimate based on available information. Changes in the reported liability since July 1, 1998 are summarized as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal 1999.....	<u>\$565,000</u>	<u>\$4,003,000</u>	<u>\$(4,090,000)</u>	<u>\$478,000</u>

*Workers' Compensation*

Workers' compensation claims are administered by the City's Personnel Department and are funded on a pay-as-you-go basis from annual appropriations. The City contracts with a third party for the administration, implementation and management of a comprehensive self-insured workers' compensation program and legal services in accordance with the provisions of Chapter 152. The City has recorded a liability of \$98,500 at June 30, 1999, which represents all outstanding claims as of that date. Changes in the reported liability since July 1, 1998 are summarized as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal 1999.....	<u>\$72,500</u>	<u>\$276,000</u>	<u>\$(250,000)</u>	<u>\$98,500</u>

**NOTE 8 – STABILIZATION FUND**

The City has \$4,532,877 in a stabilization fund reported as an expendable trust fund. The City transferred \$2,827,718 into the fund in fiscal year 1999. The City may use the stabilization fund for general or capital purposes upon approval by the Board of Alderman, Common Council and the Mayor.

**NOTE 9 - COMMITMENTS**

The City's capital plan authorizes the expenditure of approximately \$118,000,000 over a ten year period, beginning in fiscal year 1997 for the purpose of school construction. At June 30, 1999, the City has signed contracts amounting to approximately \$36,000,000 for construction of the new Lafayette Elementary School and the new Lewis Elementary School. The City has expended approximately \$16,000,000 on these contracts through June 30, 1999. The City is funding the project through the issuance of school building construction bonds. The City anticipates that the Commonwealth of Massachusetts will pay approximately 70% of principle and interest on the school building construction bonds.

**NOTE 10 - CONTINGENCIES**

Various legal actions and claims are pending against the City. Litigation is subject to many uncertainties and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 1999, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 1999.

The City participates in a number of federal financial assistance programs. Although the City grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 1999, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**NOTE 11 – SUBSEQUENT EVENT**

In prior years, the Boston Edison Company brought a property tax abatement case against the City alleging that its property was disproportionately assessed. The State Appellate Tax Board had rendered judgment against the City that required the City to refund real estate taxes and accrued interest of approximately \$10,452,000 to the plaintiff. That judgement had been appealed. Boston Edison has sold its major generating facility, rights to the property tax settlement and associated appeals for fiscal years 1984 through 1998 to Sithe New England, Inc. (Sithe). Sithe is proposing to construct a new 1,600 megawatt electric power plant in the City of Everett. The City and Sithe have entered into a long-term agreement on December 10, 1999 that, among other things, discharges the City from all of the court judgement and all related real estate tax cases.

The City had accrued its potential liability by recording, at June 30, 1998, \$4,500,000 in the General Fund and \$5,952,000 in the General Long-Term Obligation Account Group. The effect on the fiscal 1999 financial statements is to eliminate the long-term portion of \$5,952,000 and to record, as a source of funds, a tax abatement settlement of \$4,500,000 in the General Fund.

***ADDITIONAL INFORMATION***

**YEAR 2000 COMPLIANCE - UNAUDITED**

The City is committed to make Year 2000 compliance changes or updates to its computer systems and other equipment. As of June 30, 1999, the City has:

- 1) Developed a project plan that identifies and prioritizes mission critical systems for conversion,
- 2) Assessed its existing systems for Year 2000 compliance and,
- 3) Has begun the process of converting its existing systems or switching to compliant systems.

Steps further to be completed by the City are:

- 1) Completion of conversion or replacement of existing systems,
- 2) Testing the success of the conversions and replacements and,
- 3) Implementing the systems.

To date, the City has invested approximately \$152,000 towards the Year 2000 compliance project. The project, which will continue through fiscal year 2000, is expected to cost an additional \$10,000, approximately.