

CITY OF EVERETT, MASSACHUSETTS

**REPORT ON EXAMINATION OF
GENERAL PURPOSE FINANCIAL STATEMENTS**

FISCAL YEAR ENDED JUNE 30, 2000

CITY OF EVERETT, MASSACHUSETTS

REPORT ON EXAMINATION OF GENERAL PURPOSE
FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2000

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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, 2000, (except for the Everett Contributory Retirement System which is as of and for the year ended December 31, 1999), 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, 2000 (except for the Everett Contributory Retirement System which is as of December 31, 1999), 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 6, 2000, 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.



September 6, 2000

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General Purpose Financial Statements

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

JUNE 30, 2000

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
ASSETS AND OTHER DEBITS			
CASH AND SHORT-TERM INVESTMENTS	\$ 14,685,589	\$ 2,333,461	\$ 11,316,077
INVESTMENTS			
RECEIVABLES:			
Real estate and personal property taxes	1,456,512		
Real estate tax liens	3,717,071		
Tax foreclosures	58,383		
Motor vehicle excise	1,364,033		
Water and sewer	883,609		
Other	10,330		
Dividends and interest		256,364	
Intergovernmental		1,910,560	
UDAG loan receivables			
DUE FROM OTHER FUNDS	54,514		
OTHER ASSETS	767,069		
AMOUNTS TO BE PROVIDED FOR RETIREMENT OF LONG-TERM OBLIGATIONS			
TOTAL ASSETS AND OTHER DEBITS	\$ 22,997,110	\$ 4,500,385	\$ 11,316,077
LIABILITIES AND FUND EQUITY			
LIABILITIES:			
Warrants payable	\$ 1,451,868	\$ 354,455	\$ 1,518,881
Reserve for abatements	5,348,527		
Accrued expenditures and other liabilities	1,694,665	76,067	1,515
Due depositors			
Due to other funds	72,220	43,251	11,202
Deferred revenues	2,443,240		
Accrued compensated absences			
Bonds and notes payable			
TOTAL LIABILITIES	11,010,520	473,773	1,531,598
FUND EQUITY (DEFICIT):			
Reserved for:			
Encumbrances and continuing appropriations	1,113,986		
Nonexpendable trust			
Pension benefits			
UDAG loan receivables		1,910,560	
Self-insurance	4,624,612		
Rate stabilization			
Unreserved	6,247,992	2,116,052	9,784,479
TOTAL FUND EQUITY (DEFICIT)	11,986,590	4,026,612	9,784,479
TOTAL LIABILITIES, FUND EQUITY (DEFICIT)	\$ 22,997,110	\$ 4,500,385	\$ 11,316,077

See notes to general purpose financial statements.

Fiduciary Fund Types		Account Group	Total
Trust and Agency	Retirement System December 31, 1999	General Long-Term Obligations Group	(Memorandum Only)
\$ 7,126,476	\$ 1,626,473	\$ -	\$ 37,088,076
652,932	55,417,289		56,070,221
			1,456,512
			3,717,071
			58,383
			1,364,033
			883,609
121,521			131,851
	321,811		321,811
	6,687		263,051
			1,910,560
72,159			126,673
			767,069
		46,278,686	46,278,686
<u>\$ 7,973,088</u>	<u>\$ 57,372,260</u>	<u>\$ 46,278,686</u>	<u>\$ 150,437,606</u>
\$ 6,731	\$ -	\$ -	\$ 3,331,935
21,799			5,348,527
90,628			1,794,046
			90,628
			126,673
121,523	2,229,000		4,793,763
		1,360,000	1,360,000
		44,918,686	44,918,686
<u>240,681</u>	<u>2,229,000</u>	<u>46,278,686</u>	<u>61,764,258</u>
			1,113,986
1,190,151			1,190,151
	55,143,260		55,143,260
			1,910,560
			4,624,612
6,320,119			6,320,119
222,137			18,370,660
<u>7,732,407</u>	<u>55,143,260</u>	<u>-</u>	<u>88,673,348</u>
<u>\$ 7,973,088</u>	<u>\$ 57,372,260</u>	<u>\$ 46,278,686</u>	<u>\$ 150,437,606</u>

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

FISCAL YEAR ENDED JUNE 30, 2000

	Governmental Fund Types			Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
REVENUES:					
Real estate and personal property taxes, net of reserve for abatements	\$ 45,036,013	\$ -	\$ -	\$ -	\$ 45,036,013
Motor vehicle excise	2,359,564				2,359,564
Water and sewer	6,295,325				6,295,325
Intergovernmental	28,579,359	7,110,778			35,690,137
Departmental and other	2,854,269	1,604,955			4,459,224
Payment in lieu of taxes	1,460,851				1,460,851
Contributions		135,053	104,000	18,702	257,755
Investment income	1,196,848	13,086		357,199	1,567,133
TOTAL REVENUES	87,782,229	8,863,872	104,000	375,901	97,126,002
EXPENDITURES:					
Current:					
General Government	3,456,362	918,966			4,375,328
Public Safety	13,622,143	302,761	694,495		14,619,399
Education	30,972,651	5,285,643	12,577,548	5,417	48,841,259
Public Works	4,770,124	637,951	586,792	37,557	6,032,424
Water and Sewer assessment	6,678,258				6,678,258
Human Services	855,118	237,963			1,093,081
Culture and Recreation	2,192,044	185,760	50,601	33,290	2,461,695
Pension	8,743,754				8,743,754
Employee fringe benefits	7,530,102				7,530,102
Insurance	658,841				658,841
State and County charges	3,649,585				3,649,585
Debt Service:					
Principal	1,271,912				1,271,912
Interest	2,227,339				2,227,339
TOTAL EXPENDITURES	86,628,233	7,569,044	13,909,436	76,264	108,182,977
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,153,996	1,294,828	(13,805,436)	299,637	(11,056,975)
OTHER FINANCING SOURCES (USES):					
Bond proceeds			40,000,000		40,000,000
Transfers in	880,852	74,056	953,154	1,500,000	3,408,062
Transfers out	(2,527,210)	(880,852)			(3,408,062)
TOTAL OTHER FINANCING SOURCES (USES)	(1,646,358)	(806,796)	40,953,154	1,500,000	40,000,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	(492,362)	488,032	27,147,718	1,799,637	28,943,025
FUND BALANCES (DEFICITS) AT BEGINNING OF YEAR	12,478,952	3,538,580	(17,363,239)	4,742,619	3,396,912
FUND BALANCES (DEFICITS) AT END OF YEAR	\$ 11,986,590	\$ 4,026,612	\$ 9,784,479	\$ 6,542,256	\$ 32,339,937

See notes to general purpose financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2000

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Real estate and personal property taxes, net of reserve for abatements	\$ 44,339,990	\$ 44,292,197	\$ (47,793)
Motor vehicle excise	2,344,996	2,359,564	14,568
Water and sewer	6,809,232	6,295,325	(513,907)
Intergovernmental	23,652,743	24,432,264	779,521
Departmental and other	2,373,281	2,834,784	461,503
Payment in lieu of taxes	1,460,851	1,460,851	-
Investment income	970,132	1,074,191	104,059
TOTAL REVENUES	81,951,225	82,749,176	797,951
EXPENDITURES:			
Current:			
General Government	3,719,993	3,510,031	209,962
Public Safety	14,060,417	13,713,724	346,693
Education	30,945,781	30,945,781	-
Public Works	4,892,325	4,696,623	195,702
Water and Sewer assessment	6,678,258	6,678,258	-
Human Services	1,032,513	854,700	177,813
Culture and Recreation	2,213,521	2,094,660	118,861
Pension	4,644,462	4,596,659	47,803
Employee fringe benefits	7,560,585	7,517,038	43,547
Insurance	633,996	580,940	53,056
State and County charges	3,055,297	3,649,585	(594,288)
Debt Service:			
Debt Service - principal	1,271,912	1,271,912	-
Debt Service - interest	2,433,945	2,297,360	136,585
TOTAL EXPENDITURES	83,143,005	82,407,271	735,734
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,191,780)	341,905	1,533,685
OTHER FINANCING SOURCES (USES):			
Encumbrance reversions		128,432	128,432
Transfers in	880,852	880,852	-
Transfers out	(2,362,913)	(2,527,210)	(164,297)
Transfers from unreserved fund balance	2,673,841	2,673,841	-
TOTAL OTHER FINANCING SOURCES (USES)	1,191,780	1,155,915	(35,865)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	\$ -	\$ 1,497,820	\$ 1,497,820

See notes to general purpose financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2000

CONTRIBUTIONS	\$ 71,362
FUND EQUITY, Beginning of year	<u>1,118,789</u>
FUND EQUITY, End of year	<u>\$ 1,190,151</u>

See notes to general purpose financial statements.

NONEXPENDABLE TRUST FUNDS

STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2000

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	\$ 71,362
CASH FLOWS FROM INVESTMENT ACTIVITIES:	
Net sales of investments	<u>465,857</u>
NET CHANGE IN CASH	537,219
CASH AT BEGINNING OF YEAR	<u>-</u>
CASH AT END OF YEAR	<u>\$ 537,219</u>
RECONCILIATION:	
Cash at end of year	\$ 537,219
Cash at end of year, expendable trusts and agency funds	<u>6,589,257</u>
CASH PER THE COMBINED BALANCE SHEET	<u>\$ 7,126,476</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, 1999

ADDITIONS:

Contributions:

Employer contributions	\$ 4,617,632
Employee contributions	<u>1,657,202</u>
Total contributions	<u>6,274,834</u>

Net investment income:

Net appreciation in fair value of investments	1,804,217
Interest	1,826,449
Dividends	<u>367,042</u>
Total investment income	3,997,708

Less: investment expense	<u>(238,509)</u>
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Net investment income	<u>3,759,199</u>
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Other:

Intergovernmental	841,610
Transfers from other systems	<u>89,023</u>
Total other additions	<u>930,633</u>

Total additions	<u>10,964,666</u>
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DEDUCTIONS:

Administration	137,609
Retirement benefits and refunds	9,084,096
Transfers to other systems	<u>312,240</u>
Total deductions	<u>9,533,945</u>

Net increase	1,430,721
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Net assets available for pension benefits at beginning of year (fund balance reserved for pension benefits)	<u>53,712,539</u>
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Net assets available for pension benefits at end of year (fund balance reserved for pension benefits)	<u><u>\$ 55,143,260</u></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 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 December 29th, and May 1st 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.

"Rate stabilization" which represents the amount accumulated for general and/or capital purposes upon approval of the City Council.

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, 2000, this expenditure was approximately \$2,488,000.

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 2000 approved budget for the General Fund authorized \$80,474,699 in appropriations and other amounts to be raised. During fiscal year 2000, the Council approved supplemental appropriations in the General Fund for \$5,031,219.

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, 2000, is presented below:

Budgetary – GAAP Reconciliation

Excess of revenues and other financing Sources (uses) over expenditures – budgetary basis.....	\$1,497,820
Perspective differences related to fund classification of insurance trust funds.....	(726,775)
<u>Basis of accounting differences:</u>	
Net increase in revenues.....	4,910,396
Net increase in recording expenditures, encumbrances and continuing appropriations.....	(3,371,530)
Encumbrance reversions.....	(128,432)
Transfers from unreserved fund balance.....	<u>(2,673,841)</u>
Excess (Deficiency) of revenues and other financing sources (uses) over expenditures – GAAP basis...	<u>(\$ 492,362)</u>

C. Excess of Expenditures Over Appropriations

For the fiscal year ended June 30, 2000, expenditures for state charges and transfers to Capital Projects Funds exceeded budgeted appropriations. These amounts will be raised in the tax levy for fiscal year 2001.

D. Individual Fund Deficits

Several individual fund deficits exist at June 30, 2000, within the Special Revenue and Capital Projects Funds. These deficits will be funded through grants, available fund balance and bond proceeds during fiscal year 2001.

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 \$14,446,535 and the bank balance was \$15,439,162. Of the bank balance, \$700,000 was covered by Federal Depository Insurance, \$7,167,659 was covered by Depository Insurance and \$7,571,503 was uninsured and uncollateralized. The carrying amount of cash at June 30, 2000, consisted of the following:

Checking, Savings, and NOW accounts..	\$ 9,413,438
Money Market accounts.....	4,595,259
Certificates of Deposit.....	<u>437,838</u>
Total carrying amount of cash.....	<u>\$14,446,535</u>

At December 31, 1999, the carrying amount of deposits for the Everett Contributory Retirement System (the System) was \$1,626,473 and the bank balance was \$1,850,893. The entire bank balance was covered by Federal Depository Insurance. The carrying amount of cash at December 31, 1999, consisted of the following:

Checking, Savings, and NOW accounts...	\$ 70,444
Money Market accounts.....	<u>1,556,029</u>
Total carrying amount of cash.....	<u>\$1,626,473</u>

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.....	\$ 652,932
<u>Investments not subject to categorization:</u>	
Money Market Mutual Funds.....	13,642,194
State Treasurer's Investment Pool (MMDT).....	<u>7,372,874</u>
Total Investments.....	<u>\$21,668,000</u>

Investments for the System at December 31, 1999 are summarized as follows:

<u>Investments in Category 3:</u>	
Equity Securities.....	\$34,136,953
Fixed Income Securities.....	<u>20,070,319</u>
Sub-total.....	54,207,272
<u>Investments not subject to categorization:</u>	
Mutual Funds.....	<u>1,210,017</u>
Total Investments.....	<u>\$55,417,289</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, 2000:

Investments of the City as summarized above.....	\$21,668,000
Less: Short-term investments reported in the combined balance sheet as cash and short-term investments.....	(<u>21,015,068</u>)
Investments of the City as reported on the combined balance sheet.....	<u>\$ 652,932</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, 2000:

Carrying amount of cash.....	\$14,446,535
Add: Short-term investments.....	<u>21,015,068</u>
Cash and short-term investments as reported on the combined balance sheet.....	<u>\$35,461,603</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 Retirement System (TRS) to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are funded by the Commonwealth of Massachusetts (the Commonwealth). The amount of these on-behalf payments totaled approximately \$4,100,000 for the fiscal year ended June 30, 2000, and, accordingly, are reported in the General Fund as Intergovernmental Revenues and Pension Expenditures.

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, 2000, 1999 and 1998 were \$4,244,462, \$4,511,298 and \$4,777,156 respectively, which equaled its required contribution for each year. At June 30, 2000, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 1999 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, 1999, was 29 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)
01/01/99	\$ 55,875	\$108,557	\$52,682	51.5%	\$ 18,994	277.4%
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 2000 was approximately \$352,000.

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 does not have any short-term loans outstanding at June 30, 2000.

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".

The City defeased certain general obligation and other bonds by placing the proceeds of bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the financial statements. At June 30, 2000, approximately \$1,350,000 of bonds outstanding from the advance refunding are considered defeased.

Details related to the City's outstanding indebtedness at June 30, 2000, and the debt service requirements follow.

Bonds and Notes Payable Schedule

Project	Date of Issue	Interest Rate (%)	Outstanding at June 30, 1999	Issued	Redeemed	Outstanding at June 30, 2000
General Obligation 1990.....	07/15/90	6.89	\$1,470,000	\$ -	\$ 740,000	\$ 730,000
Municipal Purpose Loan 1996...	10/15/94	5.64	1,260,000	-	225,000	1,035,000
911 Communications System....	09/15/96	5.53	280,000	-	35,000	245,000
DPW Equipment.....	09/15/96	5.53	1,165,000	-	115,000	1,050,000
MWRA Inflow Infiltration 1996...	02/15/96	0.00	149,100	-	74,550	74,550
MWRA Water 1998.....	05/21/98	0.00	121,248	-	30,312	90,936
MWRA Water 1999.....	06/10/99	0.00	189,750	-	37,950	151,800
MWRA Water 1999.....	12/24/98	0.00	70,500	-	14,100	56,400
Refunding Bonds of 1999.....	08/15/98	4.35	1,485,000	-	-	1,485,000
General Obligation 2000.....	01/15/00	5.75	-	40,000,000	-	40,000,000
Total bonds and notes payable..			<u>\$6,190,598</u>	<u>\$40,000,000</u>	<u>\$1,271,912</u>	<u>\$44,918,686</u>

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

Year Ending June 30	Principal	Interest	Total
2001.....	\$ 2,421,912	\$ 2,538,354	\$ 4,960,266
2002.....	1,862,362	2,412,867	4,275,229
2003.....	1,867,362	2,298,595	4,165,957
2004.....	1,922,050	2,180,704	4,102,754
2005.....	1,940,000	2,063,768	4,003,768
Thereafter....	<u>34,905,000</u>	<u>16,832,994</u>	<u>51,737,994</u>
Total.....	<u>\$44,918,686</u>	<u>\$28,327,282</u>	<u>\$73,245,968</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, 2000, the City had the following authorized and unissued debt:

<u>Description</u>	<u>Amount Authorized And Unissued</u>
School building construction.....	\$78,227,000
Sewer testing/inspection.....	94,000
Water main removal and installation.....	103,000
Water gate replacement.....	150,000
Sewer design and construction.....	409,515
Public works facility.....	<u>3,865,816</u>
Total.....	<u>\$82,849,331</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 vacation and sick pay benefits. These liabilities will be liquidated in the future from governmental funds.

During the year ended June 30, 2000, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group:

	<u>Balance July 1, 1999</u>	<u>Bonds and Notes Issued</u>	<u>Bonds and Notes Redeemed</u>	<u>Other Net Increase (Decrease)</u>	<u>Balance June 30, 2000</u>
Long-Term Notes and Bonds.....	\$ 6,190,598	\$40,000,000	\$1,271,912	\$ -	\$44,918,686
Compensated Absences.....	1,260,000	-	-	100,000	1,360,000
Total.....	<u>\$7,450,598</u>	<u>\$40,000,000</u>	<u>\$1,271,912</u>	<u>\$ 100,000</u>	<u>\$46,278,686</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. Settled claims have not exceeded this third party insurance coverage in any of the past four fiscal years.

At June 30, 2000, the amount of the liability for health insurance claims was \$890,000. 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.....	\$565,000	\$4,003,000	\$(4,090,000)	\$478,000
Fiscal 2000.....	\$478,000	\$6,993,000	\$(6,581,000)	\$890,000

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 \$186,000 at June 30, 2000, 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.....	\$72,500	\$276,000	\$(250,000)	\$ 98,500
Fiscal 2000.....	\$98,500	\$282,500	\$(195,000)	\$186,000

NOTE 8 – STABILIZATION FUND

The City has \$6,320,119 in a stabilization fund reported as an expendable trust fund. The City transferred \$1,500,000 into the fund in fiscal year 2000. 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, as part of its capital plan, authorized the expenditure of approximately \$118,000,000 over a seven-year period, beginning in fiscal year 1997 for the purpose of school construction. At June 30, 2000, 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 \$30,000,000 on these contracts through June 30, 2000. The City is funding the project through the issuance of school building construction bonds. The Commonwealth of Massachusetts has approved construction assistance equal to approximately 70% of the total cost of the project to the City. The assistance program, which is administered by the School Building Assistance Bureau, provides resources for future debt service of general obligation school bonds outstanding. These resources are subject to annual appropriation by the State Legislature and the City's compliance with certain reporting requirements. Assuming annual appropriations by the Commonwealth for existing and future general obligation school bonds for approved school construction projects, approximately \$119,000,000 will be received in future years.

NOTE 10 – PAYMENT IN LIEU OF TAXES AND TAX INCREMENT FINANCING AGREEMENT

The City entered into an agreement on December 10, 1999 with the Sithe Mystic LLC, a limited liability corporation (Sithe) for annual payments in lieu of property taxes with respect to the Mystic Station Power Plant (the Existing Plant), owned by Sithe. The agreement was made due to the desire and need of both parties to have an accurate projection of their respective expenses and revenues with respect to the Existing Plant. A twenty-year agreement for payments in lieu of taxes has been entered into commencing July 1, 2000 and ending on June 30, 2020.

A second tax increment financing agreement was made on December 10, 1999 related to land on Dexter Street owned by Sithe. The agreement calls for a tax increment exemption to Sithe where the City shall receive an annual tax payment calculated in accordance with the agreement. Sithe proposes to construct and operate (or one or more of its affiliates construct and/or operate) a 1600± megawatt electric generating power facility (the Project). The City and Sithe agree that construction and operation of the Project will benefit the City by locating a state-of-the-art energy facility within the City that will provide an assured revenue stream. The exemption term is from July 1, 2000 to June 30, 2020. Sithe will make combined payments for the tax increment financing agreement and the agreement for payment in lieu of taxes as follows:

<u>Fiscal Year</u>	<u>Total Payments</u>
2001.....	\$17,900,000
2002.....	17,900,000
2003.....	17,900,000
2004.....	17,900,000
2005.....	17,900,000
2006.....	17,900,000
2007.....	17,900,000
2008.....	17,900,000
2009.....	17,900,000
2010.....	17,900,000
2011.....	15,000,000
2012.....	15,000,000
2013.....	15,000,000
2014.....	15,000,000
2015.....	15,000,000
2016.....	15,000,000
2017.....	15,000,000
2018.....	15,000,000
2019.....	15,000,000
2020.....	15,000,000
Total.....	<u>\$329,000,000</u>

During fiscal 2000 the City received approximately \$19,400,000 from Sithe which consisted of approximately \$17,900,000 in property taxes and approximately \$1,500,000 as a payment in lieu of taxes. A further contribution of \$1,000,000 will be made to the City for the renovation of the Central Fire Station when Sithe receives its first draw from the construction lender for the project.

NOTE 11 - 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, 2000, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 2000.

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, 2000, 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.

