

CITY OF EVERETT, MASSACHUSETTS

*REPORT ON EXAMINATION OF
GENERAL PURPOSE FINANCIAL STATEMENTS*

FISCAL YEAR ENDED JUNE 30, 2001

CITY OF EVERETT, MASSACHUSETTS

REPORT ON EXAMINATION OF GENERAL PURPOSE
FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2001

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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 fiscal year ended June 30, 2001, (except for the Everett Contributory Retirement System which is as of and for the year ended December 31, 2000), 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 auditing standards generally accepted in the United States of America 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 general purpose 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, 2001 (except for the Everett Contributory Retirement System which is as of December 31, 2000), and the results of its operations and cash flows of its Nonexpendable Trust Funds and changes in net assets available for employees' pension benefits of its Pension Trust Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 6, 2001, on our consideration of the City of Everett, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

September 6, 2001

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General Purpose Financial Statements

ALL FUND TYPES AND ACCOUNT GROUP
COMBINED BALANCE SHEET

JUNE 30, 2001

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
ASSETS AND OTHER DEBITS			
CASH AND SHORT-TERM INVESTMENTS	\$ 13,637,241	\$ 2,787,532	\$ 18,676,222
INVESTMENTS			
RECEIVABLES:			
Real estate and personal property taxes	1,432,398		
Real estate tax liens	2,651,193		
Tax foreclosures	643,413		
Motor vehicle excise	976,413		
Water and sewer	1,457,511		
Dividends and interest			
Intergovernmental	25,630,000	1,324,084	
UDAG loans		1,449,453	
Other	105,612		
DUE FROM OTHER FUNDS	8,198		
OTHER ASSETS	887,784		
AMOUNTS TO BE PROVIDED FOR RETIREMENT OF LONG-TERM OBLIGATIONS			
TOTAL ASSETS AND OTHER DEBITS	\$ 47,429,763	\$ 5,561,069	\$ 18,676,222
LIABILITIES AND FUND EQUITY			
LIABILITIES:			
Warrants payable	\$ 1,899,319	\$ 375,694	\$ 3,153,031
Reserve for abatements	2,537,705		
Accrued expenditures and other liabilities	2,250,590	10,159	2,960
Due depositors			
Due to other funds		69,157	11,201
Deferred revenues	31,240,317	1,095,871	
Accrued compensated absences			
Bonds and notes payable			3,865,000
TOTAL LIABILITIES	37,927,931	1,550,881	7,032,192
FUND EQUITY:			
Reserved for:			
Encumbrances and continuing appropriations	1,458,402		
Nonexpendable trusts			
Employee' pension benefits			
UDAG loans		1,449,453	
Self-insurance	4,770,493		
Stabilization			
Unreserved	3,272,937	2,560,735	11,644,030
TOTAL FUND EQUITY	9,501,832	4,010,188	11,644,030
TOTAL LIABILITIES AND FUND EQUITY	\$ 47,429,763	\$ 5,561,069	\$ 18,676,222

See notes to general purpose financial statements.

Fiduciary Fund Types		Account Group	
Trust and Agency	Pension Trust December 31, 2000	General Long-Term Obligations	Total (Memorandum Only)
\$ 9,197,646	\$ 714,511	\$ -	\$ 45,013,152
473,198	50,928,214		51,401,412
			1,432,398
			2,651,193
			643,413
			976,413
			1,457,511
	22,877		22,877
	86,190		27,040,274
314,304			1,449,453
			419,916
72,159			80,357
			887,784
		<u>60,918,191</u>	<u>60,918,191</u>
<u>\$ 10,057,307</u>	<u>\$ 51,751,792</u>	<u>\$ 60,918,191</u>	<u>\$ 194,394,344</u>
\$ 15,621	\$ 92,170	\$ -	\$ 5,535,835
27,740			2,537,705
28,038			2,291,449
			28,038
			80,358
314,304	2,320,000		34,970,492
		1,361,000	1,361,000
		<u>59,557,191</u>	<u>63,422,191</u>
<u>385,703</u>	<u>2,412,170</u>	<u>60,918,191</u>	<u>110,227,068</u>
			1,458,402
1,187,788			1,187,788
	49,339,622		49,339,622
			1,449,453
			4,770,493
8,212,561			8,212,561
271,255			17,748,957
<u>9,671,604</u>	<u>49,339,622</u>	<u>-</u>	<u>84,167,276</u>
<u>\$ 10,057,307</u>	<u>\$ 51,751,792</u>	<u>\$ 60,918,191</u>	<u>\$ 194,394,344</u>

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

FISCAL YEAR ENDED JUNE 30, 2001

	Governmental Fund Types			Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trusts	
REVENUES:					
Real estate and personal property taxes, net of reserve for abatements	\$ 45,686,678	\$ -	\$ -	\$ -	\$ 45,686,678
Motor vehicle excise	3,354,469				3,354,469
Water and sewer	6,656,454				6,656,454
Intergovernmental	35,094,646	7,347,324	306,185		42,748,155
Departmental and other	3,771,500	2,132,300			5,903,800
Contributions		56,271	1,120,000	75,566	1,251,837
Investment income	1,016,260	29,267		475,256	1,520,783
TOTAL REVENUES	95,580,007	9,565,162	1,426,185	550,822	107,122,176
EXPENDITURES:					
Current:					
General government	3,214,662	1,581,896			4,796,558
Public safety	13,845,509	290,441	11,408		14,147,358
Education	33,737,000	6,874,881	14,960,185	3,045	55,575,111
Public works	5,250,641	479,478	3,779,060	60,247	9,569,426
Water and sewer assessment	6,999,545				6,999,545
Human services	965,628	141,953			1,107,581
Culture and recreation	2,208,227	136,433	131	45,970	2,390,761
Pension	9,262,243				9,262,243
Employee fringe benefits	8,922,247				8,922,247
Insurance	717,514				717,514
State and county charges	4,004,154				4,004,154
Debt Service:					
Principal	2,421,912				2,421,912
Interest	2,968,254				2,968,254
TOTAL EXPENDITURES	94,517,536	9,505,082	18,750,784	109,262	122,882,664
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,062,471	60,080	(17,324,599)	441,560	(15,760,488)
OTHER FINANCING SOURCES (USES):					
Proceeds of general obligation bonds			16,108,000		16,108,000
Proceeds of MWRA notes			952,417		952,417
Operating transfers in	221,148	144,643	2,203,735	1,500,000	4,069,526
Operating transfers out	(3,768,377)	(221,147)	(80,002)		(4,069,526)
TOTAL OTHER FINANCING SOURCES (USES)	(3,547,229)	(76,504)	19,184,150	1,500,000	17,060,417
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	(2,484,758)	(16,424)	1,859,551	1,941,560	1,299,929
FUND BALANCES AT BEGINNING OF YEAR	11,986,590	4,026,612	9,784,479	6,542,256	32,339,937
FUND BALANCES AT END OF YEAR	\$ 9,501,832	\$ 4,010,188	\$ 11,644,030	\$ 8,483,816	\$ 33,639,866

See notes to general purpose financial statements.

GENERAL FUND
 STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
 BUDGETARY BASIS - BUDGET AND ACTUAL
 FISCAL YEAR ENDED JUNE 30, 2001

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Real estate and personal property taxes, net of reserve for abatements	\$ 44,845,306	\$ 50,286,402	\$ 5,441,096
Motor vehicle excise	2,600,000	3,354,469	754,469
Water and sewer	7,414,771	6,656,454	(758,317)
Intergovernmental	29,426,745	30,554,646	1,127,901
Departmental and other	3,574,471	3,771,500	197,029
Investment income	1,074,191	928,851	(145,340)
TOTAL REVENUES	88,935,484	95,552,322	6,616,838
EXPENDITURES:			
Current:			
General government	4,029,893	3,719,468	310,425
Public safety	14,579,914	14,281,129	298,785
Education	32,893,000	33,164,489	(271,489)
Public works	5,547,920	5,325,400	222,520
Water and sewer assessment	7,219,614	6,999,545	220,069
Human services	1,101,934	965,628	136,306
Culture and recreation	2,362,138	2,299,056	63,082
Pension	4,775,888	4,722,243	53,645
Employee fringe benefits	8,267,000	8,066,746	200,254
Insurance	635,000	605,019	29,981
State and county charges	3,062,163	4,004,154	(941,991)
Debt Service:			
Principal	2,421,912	2,421,912	-
Interest	3,038,711	2,968,254	70,457
TOTAL EXPENDITURES	89,935,087	89,543,043	392,044
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(999,603)	6,009,279	7,008,882
OTHER FINANCING SOURCES (USES):			
Encumbrance reversions		177,908	177,908
Operating transfers in	173,788	221,148	47,360
Operating transfers out	(3,818,377)	(3,818,377)	-
Use of overlay surplus	2,926,687	2,926,687	-
Use of unreserved fund balance	1,717,505	1,717,505	-
TOTAL OTHER FINANCING SOURCES (USES)	999,603	1,224,871	225,268
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	\$ -	\$ 7,234,150	\$ 7,234,150

See notes to general purpose financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2001

EXPENSES	\$ (2,363)
FUND EQUITY, Beginning of year	<u>1,190,151</u>
FUND EQUITY, End of year	<u>\$ 1,187,788</u>

See notes to general purpose financial statements.

NONEXPENDABLE TRUST FUNDS

STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2001

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net (loss)	\$ (2,363)
CASH FLOWS FROM INVESTMENT ACTIVITIES:	
Sales and purchases of investments - net	<u>716,954</u>
NET INCREASE IN CASH	714,591
CASH AND SHORT TERM INVESTMENTS AT BEGINNING OF YEAR	<u>537,219</u>
CASH AND SHORT TERM INVESTMENTS AT END OF YEAR	<u>\$ 1,251,810</u>
<u>RECONCILIATION TO COMBINED BALANCE SHEET:</u>	
Cash and short term investments at end of year	\$ 1,251,810
Cash and short term investments at end of year, expendable trusts and agency funds	<u>7,945,836</u>
CASH AND SHORT TERM INVESTMENTS PER THE COMBINED BALANCE SHEET	<u>\$ 9,197,646</u>

See notes to general purpose financial statements.

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

YEAR ENDED DECEMBER 31, 2000

ADDITIONS:

Contributions:	
Employer contributions	\$ 4,549,000
Employee contributions	<u>1,762,633</u>
Total contributions	<u>6,311,633</u>
Net investment income (loss):	
Net appreciation in fair value of investments	(3,236,077)
Interest	238,233
Dividends	<u>220,534</u>
Total investment loss	(2,777,310)
Less: investment expense	<u>(271,804)</u>
Net investment loss	<u>(3,049,114)</u>
Other:	
Intergovernmental	848,770
Transfers from other systems	<u>78,365</u>
Total other additions	<u>927,135</u>
Total additions	<u>4,189,654</u>

DEDUCTIONS:

Administration	137,872
Retirement benefits and refunds	9,480,134
Transfers to other systems	<u>375,286</u>
Total deductions	<u>9,993,292</u>
Net decrease	(5,803,638)
Net assets available for employees' pension benefits at beginning of year (fund balance reserved for employees' pension benefits)	<u>55,143,260</u>
Net assets available for employees' pension benefits at end of year (fund balance reserved for employees' pension benefits)	<u>\$ 49,339,622</u>

See notes to general purpose financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying general purpose 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 general purpose financial statements to be misleading or incomplete. As required by GAAP, these general purpose 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 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 and 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 an original maturity 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 general purpose financial statements and therefore are not reported.

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 fiscal year payments are made. As a result of this practice, the accompanying general purpose 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 as reserved and designated where legally restricted for a specific future use. Otherwise, these balances are considered unreserved.

Fund balances have been "reserved for" the following:

"Encumbrances and continuing appropriations" represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

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

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

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

"Self-insurance" represents amounts accumulated for the payment of health claims for the City's employees and retirees.

"Stabilization" 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. Investment Income

Investment income from Special Revenue and Capital Projects Funds is legally assigned to the General Fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income from the Nonexpendable Trust Fund is legally assigned to the Expendable Trust Fund.

K. 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.

L. 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 fiscal year paid. For the fiscal year ended June 30, 2001, this expenditure totaled approximately \$2,461,000. There were approximately 130 participants eligible to receive benefits at June 30, 2001.

M. Use of Estimates

The preparation of general purpose financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the general purpose 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.

N. Total (Memorandum Only) Column

The total column used on the Combined General Purpose 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 2001 approved budget for the General Fund authorized \$87,055,530 in appropriations and other amounts to be raised. During fiscal year 2001, the Council approved supplemental appropriations in the General Fund for \$6,697,934.

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 fiscal year ended June 30, 2001, is presented below:

Budgetary – GAAP Reconciliation

Excess of revenues and other financing Sources (uses) over expenditures – budgetary basis.....	\$7,234,150
Perspective differences related to fund classification of insurance trust funds.....	128,937
<u>Basis of accounting differences:</u>	
Net decrease in revenues.....	(59,724)
Net increase in recording expenditures, encumbrances and continuing appropriations.....	(4,966,021)
Encumbrance reversions.....	(177,908)
Overlay reversions.....	(2,926,687)
Use of unreserved fund balance.....	<u>(1,717,505)</u>
(Deficiency) of revenues and other financing sources (uses) over expenditures – GAAP basis....	<u>(\$2,484,758)</u>

C. Excess of Expenditures Over Appropriations

For the fiscal year ended June 30, 2001, expenditures for Education and State and County Charges exceeded budgeted appropriations. These amounts will be raised in the tax levy for fiscal year 2002.

D. Individual Fund Deficits

Several individual fund deficits exist at June 30, 2001, within the Special Revenue and Capital Projects Funds. These deficits will be funded through grants, available fund balance and bond proceeds during fiscal year 2002.

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 fiscal year-end, the carrying amount of the City's deposits was \$17,265,165 and the bank balance was \$18,015,670. Of the bank balance, \$700,000 was covered by Federal Depository Insurance, \$7,409,985 was covered by the Depository Insurance Fund and \$9,905,685 was uninsured and uncollateralized. The carrying amount of cash at June 30, 2001, consists of the following:

Checking, Savings, and NOW accounts..	\$12,535,374
Money Market deposits.....	4,291,953
Certificates of deposit.....	<u>437,838</u>
Total carrying amount of cash.....	<u>\$17,265,165</u>

At December 31, 2000, the carrying amount of deposits for the System was \$42,727 and the bank balance of \$104,696 was covered by Federal Depository Insurance. The carrying amount of cash at December 31, 2000, consists of a checking account.

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 (the Pool). In addition, there are various restrictions limiting the amount and length of deposits and investments.

The City participates in the Pool, which meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

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 in the City's name.

Investments for the City subject to categorization are summarized as follows:

<u>Investments (category three):</u>	
U.S. Government Securities.....	\$ 473,198
<u>Investments not subject to categorization:</u>	
Money Market Mutual Funds.....	17,202,250
State Treasurer's Investment Pool (MMDT).....	<u>9,831,226</u>
Total Investments.....	<u>\$27,506,674</u>

Investments for the System at December 31, 2000, are summarized as follows:

<u>Investments (category 3):</u>	
Equity Securities.....	\$20,248,712
Fixed Income Securities.....	<u>327,214</u>
Sub-total.....	20,575,926
<u>Investments not subject to categorization:</u>	
Money Market Mutual Funds.....	671,784
Mutual Funds.....	<u>30,352,288</u>
Total Investments.....	<u>\$51,599,998</u>

The following is a reconciliation of the City's investments as summarized above to the balance as reported in the combined balance sheet at June 30, 2001:

Investments of the City as summarized above.....	\$27,506,674
Less: Short-term investments reported in the combined balance sheet as cash and short-term investments.....	(<u>27,033,476</u>)
Investments of the City as reported on the combined balance sheet.....	<u>\$ 473,198</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, 2001:

Carrying amount of cash.....	\$17,265,165
Add: Short-term investments.....	<u>27,033,476</u>
Cash and short-term investments as reported on the combined balance sheet.....	<u>\$44,298,641</u>

The following is a reconciliation of the City's Retirement System's investments as summarized above to the balance as recorded in the combined balance sheet at June 30, 2001:

Investments of the City's Retirement System as summarized above.....	\$51,599,998
Less: Short-term investments reported in the combined balance sheet as cash and short-term investments.....	(671,784)
Investments of the City as reported on the combined balance sheet.....	<u>\$50,928,214</u>

The following is a reconciliation of the System's balance of cash and short-term investments as reported on the combined balance sheet:

Carrying amount of cash.....	\$ 42,727
Add: Short-term investments.....	<u>671,784</u>
Cash and short-term investments as reported on the combined balance sheet.....	<u>\$714,511</u>

NOTE 4 - PENSION PLAN

Plan Description - The City contributes to 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 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 \$4,540,000 for the fiscal year ended June 30, 2001, 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 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's 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, 2001, 2000 and 1999 were \$4,415,888, 4,244,462, and \$4,511,298, respectively, which equaled its required contribution for each fiscal year. At June 30, 2001, 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, 2001, was 27 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 year 2001 totaled approximately \$306,000.

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.

At June 30, 2001, the City has the following short-term debt outstanding:

Type	Date of Maturity	Interest Rate	Outstanding at June 30, 2001
BAN	09/14/01	4.60%	\$3,865,000

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, 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".

During fiscal year 1999, 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 general purpose financial statements. At June 30, 2001, 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, 2001, and the debt service requirements follow.

Bonds and Notes Payable Schedule

Project	Date of Issue	Interest Rate (%)	Outstanding at June 30, 2000	Issued	Redeemed	Outstanding at June 30, 2001
General Obligation 1990.....	07/15/90	6.89	\$ 730,000	\$ -	\$ 730,000	\$ -
Municipal Purpose Loan 1996...	10/15/94	5.64	1,035,000	-	225,000	810,000
911 Communications System....	09/15/96	5.53	245,000	-	35,000	210,000
DPW Equipment.....	09/15/96	5.53	1,050,000	-	115,000	935,000
MWRA Inflow Infiltration 1996...	02/15/96	0.00	74,550	-	74,550	-
MWRA Water 1998.....	05/21/98	0.00	90,936	-	30,312	60,624
MWRA Water 1999.....	06/10/99	0.00	151,800	-	37,950	113,850
MWRA Water 1999.....	12/24/98	0.00	56,400	-	14,100	42,300
Refunding Bonds of 1999.....	08/15/98	4.35	1,485,000	-	30,000	1,455,000
General Obligation 2000.....	01/15/00	5.75	40,000,000	-	1,130,000	38,870,000
General Obligation 2001.....	12/01/00	6.00	-	16,108,000	-	16,108,000
MWRA Sewer Bond.....	03/15/01	0.00	-	409,515	-	409,515
MWRA Water Bond.....	02/15/01	0.00	-	542,902	-	542,902
Total bonds and notes payable..			<u>\$44,918,686</u>	<u>\$17,060,417</u>	<u>\$2,421,912</u>	<u>\$59,557,191</u>

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

Year Ending June 30	Principal	Interest	Total
2002.....	\$ 2,506,555	\$ 3,225,476	\$ 5,732,031
2003.....	2,538,555	3,079,913	5,618,468
2004.....	2,623,243	2,931,847	5,555,090
2005.....	2,671,193	2,785,911	5,457,104
2006.....	2,581,193	2,644,636	5,225,829
Thereafter....	<u>46,636,452</u>	<u>20,234,800</u>	<u>66,871,252</u>
Total.....	<u>\$59,557,191</u>	<u>\$34,902,583</u>	<u>\$94,459,774</u>

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. In previous year, for each community approved for the project, financial assistance received from the MWRA consists of 25% as a grant and 75% as a non-interest bearing loan. The loan payable portion of all is payable in five equal annual installments. At June 30, 2001, the outstanding principal amount of these loans totaled \$1,169,191.

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, 2001, the City had the following authorized and unissued debt:

<u>Description</u>	<u>Amount Authorized and Unissued</u>
School building construction.....	\$62,119,000
Sewer testing/inspection.....	94,000
Water main removal and installation.....	103,000
Water gate replacement.....	150,000
Public works facility.....	<u>3,865,816</u>
Total.....	<u>\$66,331,816</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 for compensated absences. These liabilities will be liquidated in the future from Governmental Funds.

During the fiscal year ended June 30, 2001, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group:

	Balance July 1, <u>2000</u>	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance June 30, <u>2001</u>
Long-Term Notes and Bonds.....	\$44,918,686	\$17,060,417	(\$2,421,912)	\$ -	\$59,557,191
Compensated Absences.....	<u>1,360,000</u>	-	-	<u>1,000</u>	<u>1,361,000</u>
Total.....	<u>\$46,278,686</u>	<u>\$17,060,417</u>	<u>(\$2,421,912)</u>	<u>\$ 1,000</u>	<u>\$60,918,191</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, 2001, the amount of the liability for health insurance claims was \$1,125,000. This liability is the City's best estimate based on available information. Changes in the reported liability since July 1, 1999 are summarized as follows:

	<u>Balance at Beginning of Fiscal Year</u>	<u>Current Year Claims and Changes in Estimate</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-End</u>
Fiscal Year 2000	\$478,000	\$6,993,000	(\$ 6,581,000)	\$ 890,000
Fiscal Year 2001	890,000	7,847,410	(7,612,410)	1,125,000

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 MGL Chapter 152. The City has recorded a liability of \$301,500 at June 30, 2001, which represents all outstanding claims as of that date. Changes in the reported liability since July 1, 1999, are summarized as follows:

	<u>Balance at Beginning of Fiscal Year</u>	<u>Current Year Claims and Changes in Estimate</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-End</u>
Fiscal Year 2000	\$ 98,500	\$282,500	(\$195,000)	\$186,000
Fiscal Year 2001	186,000	300,500	(185,000)	301,500

NOTE 8 – STABILIZATION FUND

The City has \$8,212,561 in a Stabilization Fund reported as an Expendable Trust Fund. The City transferred \$1,500,000 into the Fund during fiscal year 2001. The City may use the Stabilization Fund for general and/or capital purposes upon approval of 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, 2001, the City has signed contracts amounting to approximately \$50,000,000 for construction of the new Lafayette Elementary School, the new Lewis Elementary School, the new Hamilton school, and the new Everett High School. The City has expended approximately \$35,000,000 on these contracts through June 30, 2001. The City is funding the project through the issuance of school building construction bonds.

The Commonwealth has approved construction assistance equal to approximately 60% 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. During fiscal year 2001, the City received approximately \$3,022,000 of such assistance, and approximately \$57,400,000 will be received in future fiscal years. Of this amount approximately \$22,600,000 represents reimbursement of long-term interest costs, and approximately \$34,800,000 represent reimbursement of construction costs. Accordingly, an intergovernmental receivable and corresponding deferred revenue have been reported in these general purpose financial statements in the amount of \$25,630,000 for reimbursable costs incurred to date.

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

The City entered into an agreement on December 10, 1999, with Sithe Mystic LLC (Sithe), a limited liability company 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 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>
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.....	<u>15,000,000</u>
Total.....	<u>\$311,100,000</u>

During fiscal year 2001, the City received \$17,900,000 in property taxes from Sithe.

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, 2001, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 2001.

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, 2001, 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.