

***CITY OF EVERETT, MASSACHUSETTS***

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

***FISCAL YEAR ENDED JUNE 30, 2002***



CITY OF EVERETT, MASSACHUSETTS

REPORT ON EXAMINATION OF GENERAL PURPOSE  
FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2002

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## ***Financial Section***





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## Independent Auditors' Report

To the Honorable Mayor  
City of Everett, Massachusetts

RAN·ONE | member

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, 2002, (except for the Everett Contributory Retirement System which is as of and for the year ended December 31, 2001), 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, 2002 (except for the Everett Contributory Retirement System which is as of December 31, 2001), 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.

As more fully described in Note 13, the City has restated the financial position of the Pension Trust Fund's beginning net assets available for employees' pension benefits.

In accordance with Government Auditing Standards, we have also issued our report dated September 6, 2002, 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, 2002, except for Note 11 which is dated February 19, 2003.

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# ***General Purpose Financial Statements***

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

JUNE 30, 2002

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
<b>ASSETS AND OTHER DEBITS</b>			
Cash and short-term investments.....	\$ 11,036,715	\$ 3,705,243	\$ 34,384,193
Investments.....	-	-	-
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,344,153	-	-
Tax liens.....	2,561,058	-	-
Tax foreclosures.....	643,400	-	-
Motor vehicle and other excise taxes.....	1,054,709	-	-
User fees.....	1,795,550	-	-
Departmental and other.....	20,075	-	-
Interest and dividends.....	-	-	-
Intergovernmental.....	36,645,000	763,679	-
Loans.....	-	629,651	-
Due from other funds.....	40,581	-	250,000
Working capital deposit.....	943,000	-	-
Other assets.....	36,205	-	-
Amounts to be provided for retirement of long-term obligations.....	-	-	-
<b>TOTAL ASSETS AND OTHER DEBITS.....</b>	<b>\$ 56,120,446</b>	<b>\$ 5,098,573</b>	<b>\$ 34,634,193</b>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>LIABILITIES:</b>			
Warrants payable.....	\$ 1,911,317	\$ 401,450	\$ 298,337
Accrued payroll.....	536,204	35,828	5,288
Tax refunds payable.....	1,305,000	-	-
Liabilities due depositors.....	-	-	-
Other liabilities.....	1,542,096	-	-
Deferred revenues.....	43,932,833	711,925	-
Due to other funds.....	11,583	265,571	18,259
Accrued compensated absences.....	-	-	-
Court judgments.....	-	-	-
Bonds and notes payable.....	-	-	38,865,000
<b>TOTAL LIABILITIES.....</b>	<b>49,239,033</b>	<b>1,414,774</b>	<b>39,186,884</b>
<b>FUND EQUITY:</b>			
Fund balances:			
Reserved for:			
Encumbrances and continuing appropriations.....	1,499,099	-	-
Loans.....	-	629,651	-
Nonexpendable trusts.....	-	-	-
Self-insurance.....	3,292,052	-	-
Stabilization.....	-	-	-
Employees' pension benefits.....	-	-	-
Unreserved:			
Undesignated.....	2,090,262	3,054,148	(4,552,691)
<b>TOTAL FUND EQUITY.....</b>	<b>6,881,413</b>	<b>3,683,799</b>	<b>(4,552,691)</b>
<b>TOTAL LIABILITIES AND FUND EQUITY.....</b>	<b>\$ 56,120,446</b>	<b>\$ 5,098,573</b>	<b>\$ 34,634,193</b>

See notes to general purpose financial statements.

Fiduciary Fund Types		Account Group	
Trust and Agency	Pension Trust December 31, 2001	General Long-Term Obligations	Total (Memorandum Only)
\$ 8,990,776	\$ 780,151	\$ -	\$ 58,897,078
1,002,108	46,470,972	-	47,473,080
-	-	-	1,344,153
-	-	-	2,561,058
-	-	-	643,400
-	-	-	1,054,709
-	-	-	1,795,550
353,678	39,069	-	412,822
-	20,296	-	20,296
-	-	-	37,408,679
-	-	-	629,651
4,832	-	-	295,413
-	-	-	943,000
-	-	-	36,205
-	-	59,785,538	59,785,538
<u>\$ 10,351,394</u>	<u>\$ 47,310,488</u>	<u>\$ 59,785,538</u>	<u>\$ 213,300,632</u>
\$ 11,833	\$ -	\$ -	\$ 2,622,937
49,125	-	-	626,445
-	-	-	1,305,000
22,619	-	-	22,619
-	-	-	1,542,096
353,690	-	-	44,998,448
-	-	-	295,413
-	-	1,352,000	1,352,000
-	-	840,000	840,000
-	-	57,593,538	96,458,538
<u>437,267</u>	<u>-</u>	<u>59,785,538</u>	<u>150,063,496</u>
-	-	-	1,499,099
-	-	-	629,651
1,256,910	-	-	1,256,910
-	-	-	3,292,052
8,435,518	-	-	8,435,518
-	47,310,488	-	47,310,488
<u>221,699</u>	<u>-</u>	<u>-</u>	<u>813,418</u>
<u>9,914,127</u>	<u>47,310,488</u>	<u>-</u>	<u>63,237,136</u>
<u>\$ 10,351,394</u>	<u>\$ 47,310,488</u>	<u>\$ 59,785,538</u>	<u>\$ 213,300,632</u>



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

FISCAL YEAR ENDED JUNE 30, 2002

	Governmental Fund Types			Fiduciary Fund Type	Total (Memorandum only)
	General	Special Revenue	Capital Projects	Expendable Trusts	
<b>REVENUES:</b>					
Real estate and personal property taxes, net of tax refunds.....	\$ 45,818,128	\$ -	\$ -	\$ -	\$ 45,818,128
Motor vehicle and other excise taxes.....	2,916,147	-	-	-	2,916,147
Charges for services.....	7,517,550	-	-	-	7,517,550
Intergovernmental.....	35,732,677	6,488,854	-	-	42,221,531
Departmental and other.....	2,785,059	2,101,695	-	-	4,886,754
Contributions.....	-	119,152	-	2,607	121,759
Investment income.....	975,127	20,826	-	284,092	1,280,045
<b>TOTAL REVENUES.....</b>	<b>95,744,688</b>	<b>8,730,527</b>	<b>-</b>	<b>286,699</b>	<b>104,761,914</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	3,468,033	1,790,704	-	-	5,258,737
Public safety.....	14,353,975	225,676	-	-	14,579,651
Education.....	34,806,743	7,042,200	11,941,722	3,619	53,794,284
City services facility.....	6,901,241	147,779	4,479,606	90,125	11,618,751
MWRA assessment.....	7,492,710	-	-	-	7,492,710
Human services.....	1,050,236	156,047	23,395	-	1,229,678
Culture and recreation.....	1,228,156	161,266	641,626	19,554	2,050,602
Pension benefits.....	9,766,190	-	-	-	9,766,190
Property and liability insurance.....	1,052,310	-	-	-	1,052,310
Employee benefits.....	8,128,411	-	-	-	8,128,411
State and county charges.....	4,454,656	-	-	-	4,454,656
Debt service:					
Principal.....	2,506,555	-	-	-	2,506,555
Interest.....	3,227,909	-	-	-	3,227,909
<b>TOTAL EXPENDITURES.....</b>	<b>98,437,125</b>	<b>9,523,672</b>	<b>17,086,349</b>	<b>113,298</b>	<b>125,160,444</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(2,692,437)</b>	<b>(793,145)</b>	<b>(17,086,349)</b>	<b>173,401</b>	<b>(20,398,530)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from bonds and notes.....	-	-	542,902	-	542,902
Sale of capital assets.....	-	885,500	-	-	885,500
Operating transfers in.....	153,000	306,210	346,726	-	805,936
Operating transfers out.....	(80,982)	(724,954)	-	-	(805,936)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>72,018</b>	<b>466,756</b>	<b>889,628</b>	<b>-</b>	<b>1,428,402</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(2,620,419)</b>	<b>(326,389)</b>	<b>(16,196,721)</b>	<b>173,401</b>	<b>(18,970,128)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>9,501,832</b>	<b>4,010,188</b>	<b>11,644,030</b>	<b>8,483,816</b>	<b>33,639,866</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 6,881,413</b>	<b>\$ 3,683,799</b>	<b>\$ (4,552,691)</b>	<b>\$ 8,657,217</b>	<b>\$ 14,669,738</b>

See notes to general purpose financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2002

	Budgeted Amounts		Actual Budgetary Amounts	Variance Positive (Negative)
	Original Budget	Final Budget		
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ 45,343,847	\$ 45,343,847	\$ 46,139,128	\$ 795,281
Motor vehicle and other excise taxes.....	3,354,469	3,354,469	2,916,147	(438,322)
Charges for services.....	6,656,454	6,656,454	7,517,550	861,096
Intergovernmental.....	34,621,965	34,621,965	31,263,677	(3,358,288)
Departmental and other.....	3,664,031	3,664,031	2,785,059	(878,972)
Investment income.....	928,851	928,851	888,751	(40,100)
<b>TOTAL REVENUES.....</b>	<b>94,569,617</b>	<b>94,569,617</b>	<b>91,510,312</b>	<b>(3,059,305)</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	4,854,437	4,327,118	3,468,033	859,085
Public safety.....	13,962,052	15,000,621	14,353,975	646,646
Education.....	34,556,589	34,556,589	34,806,743	(250,154)
City services facility.....	8,204,864	8,329,582	6,901,241	1,428,341
MWRA assessment.....	7,938,191	7,508,981	7,492,710	16,271
Human services.....	1,127,207	1,102,325	1,050,236	52,089
Culture and recreation.....	1,230,360	1,243,633	1,228,156	15,477
Pension benefits.....	4,966,854	5,396,064	5,297,190	98,874
Property and liability insurance.....	663,477	663,477	577,694	85,783
Employee benefits.....	8,605,000	8,880,000	9,003,040	(123,040)
State and county charges.....	3,161,966	3,161,966	4,454,656	(1,292,690)
Debt service:				
Principal.....	2,506,555	2,506,555	2,506,555	-
Interest.....	5,152,735	5,152,735	3,227,909	1,924,826
<b>TOTAL EXPENDITURES.....</b>	<b>96,930,287</b>	<b>97,829,646</b>	<b>94,368,138</b>	<b>3,461,508</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(2,360,670)</b>	<b>(3,260,029)</b>	<b>(2,857,826)</b>	<b>402,203</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in.....	133,000	153,000	153,000	-
Operating transfers out.....	(550,000)	(580,982)	(80,982)	500,000
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>(417,000)</b>	<b>(427,982)</b>	<b>72,018</b>	<b>500,000</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(2,777,670)</b>	<b>(3,688,011)</b>	<b>(2,785,808)</b>	<b>902,203</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>7,791,169</b>	<b>7,791,169</b>	<b>7,791,169</b>	<b>-</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ 5,013,499</b>	<b>\$ 4,103,158</b>	<b>\$ 5,005,361</b>	<b>\$ 902,203</b>

See notes to general purpose financial statements.

**NONEXPENDABLE TRUST FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY**  
**FISCAL YEAR ENDED JUNE 30, 2002**

<u>OPERATING REVENUES:</u>	
Contributions.....	\$ <u>3,414</u>
 <u>NONOPERATING REVENUES (EXPENSES):</u>	
Investment income.....	<u>65,708</u>
NET INCOME (LOSS).....	69,122
FUND EQUITY, Beginning of year.....	<u>1,187,788</u>
FUND EQUITY, End of year.....	\$ <u><u>1,256,910</u></u>

See notes to general purpose financial statements.



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

FISCAL YEAR ENDED JUNE 30, 2002

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CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers and users..... \$ 3,414

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment income..... 65,708

NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS..... 69,122

CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR..... 1,251,810

CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR..... \$ 1,320,932

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH  
FROM OPERATING ACTIVITIES:

Operating income (loss)..... \$ 3,414

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, 2001

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**ADDITIONS:**

Employer contributions.....	\$	5,053,146
Employee contributions.....		<u>1,832,023</u>
 Total contributions.....		 <u>6,885,169</u>
 Net investment income (loss):		
Net change in fair value of investments.....		(2,338,662)
Interest.....		<u>310,822</u>
 Total investment income (loss).....		 <u>(2,027,840)</u>
 Less: investment expense.....		 <u>(246,259)</u>
 Net investment income (loss).....		 <u>(2,274,099)</u>
 Intergovernmental.....		 856,364
Transfers from other systems.....		<u>229,411</u>
 Total additions.....		 <u>5,696,845</u>
 <b>DEDUCTIONS:</b>		
Administration.....		141,986
Transfers to other systems.....		332,632
Retirement benefits and refunds.....		<u>9,571,361</u>
 Total deductions.....		 <u>10,045,979</u>
 Net increase (decrease).....		 <u>(4,349,134)</u>
 Net assets available for employees' pension benefits at beginning of year (fund balance reserved for employees' pension benefits), as restated.....		
		<u>51,659,622</u>
 Net assets available for employees' pension benefits at end of year (fund balance reserved for employees' pension benefits).....		
	\$	<u><u>47,310,488</u></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 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on December 29<sup>th</sup> and May 1<sup>st</sup> and are subject to penalties and interest if they are not paid by the respective due date. Tax liens are processed by the fourth quarter of every fiscal year on delinquent properties. Property taxes levied are recorded as receivables in the fiscal year of the levy and are recorded under the modified accrual basis of accounting.

#### E. Inventories

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

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

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

"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.

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



#### 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, 2002, this expenditure totaled approximately \$2,847,000. There were approximately 130 participants eligible to receive benefits at June 30, 2002.

#### 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 Column (Memorandum Only)

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 2002 approved budget for the General Fund authorized \$97,480,287 in appropriations and other amounts to be raised and included \$1,458,402 in encumbrances and appropriations carried over from prior years. During fiscal year 2002, the Council approved supplemental appropriations in the General Fund for \$930,341.

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, 2002, is presented on the subsequent page:



**Budgetary – GAAP Reconciliation**

Net change in fund balance - budgetary basis.....	\$ (2,785,808)
<u>Perspective difference:</u>	
Net change in recording insurance trust funds in the general fund for GAAP.....	111,067
<u>Basis of accounting differences:</u>	
Net change in recording 60-day receipts.....	(84,000)
Net change in recording tax refunds payable.....	(237,000)
Net change in recording accrued liabilities.....	(61,500)
Net change in working capital deposit.....	352,800
Net change in recording unrecorded liabilities.....	84,022
Recognition of revenue for on-behalf payments.....	4,469,000
Recognition of expenditures for on-behalf payments.....	<u>(4,469,000)</u>
Net change in fund balance - GAAP basis.....	<u>\$ (2,620,419)</u>

**C. Excess of Expenditures Over Appropriations**

For the fiscal year ended June 30, 2002, expenditures for education, employee benefits and state and county charges exceeded budgeted appropriations. These amounts will be raised in the tax levy for fiscal year 2003.

**D. Individual Fund Deficits**

Several individual fund deficits exist at June 30, 2002, within the Special Revenue and Capital Projects Funds. These deficits will be funded through grants, available fund balance and bond proceeds during fiscal year 2003.

**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.

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.

At fiscal year-end, the carrying amount of the City's deposits was \$52,414,377 and the bank balance was \$53,826,602. Of the bank balance, \$800,000 was covered by Federal Depository Insurance, \$15,961,581 was covered by the Depository Insurance Fund and \$37,065,021 was uninsured and uncollateralized.

At December 31, 2001, the carrying amount of deposits for the System was \$433,264 and the bank balance of \$689,477 was covered by Federal Depository Insurance.

The following details the carrying amount of the City's cash and short-term investments and investments as reported on the combined balance sheet as of June 30, 2002. The City's investments that are subject to categorization are classified as category 3.

	Cash and Short-term Investments	Investments	Total
<b>Cash balances (excluding the System) at June 30, 2002:</b>			
Checking, savings and NOW accounts.....	\$ 14,939,217	\$ -	\$ 14,939,217
Certificates of deposit.....	4,035,663	-	4,035,663
Money market deposits.....	33,439,497	-	33,439,497
	<u>52,414,377</u>	<u>-</u>	<u>52,414,377</u>
<u>Investments not subject to categorization:</u>			
MMDT.....	5,643,017	-	5,643,017
Money market mutual funds.....	59,533	-	59,533
<u>Investments subject to categorization (Category 3):</u>			
U.S. government securities.....	-	1,002,108	1,002,108
	<u>5,702,550</u>	<u>1,002,108</u>	<u>6,704,658</u>
Total cash and short-term investments and investments at June 30, 2002.....	<u>58,116,927</u>	<u>1,002,108</u>	<u>59,119,035</u>
<b>System cash balances at December 31, 2001:</b>			
Checking, savings and NOW accounts.....	433,264	-	433,264
	<u>433,264</u>	<u>-</u>	<u>433,264</u>
<u>Investments not subject to categorization:</u>			
Money market mutual funds.....	346,887	-	346,887
<u>Investments subject to categorization (Category 3):</u>			
Equity securities.....	-	46,156,771	46,156,771
Fixed income securities.....	-	314,200	314,200
	<u>346,887</u>	<u>46,470,971</u>	<u>46,817,858</u>
Total cash and short-term investments and investments of the System at December 31, 2001.....	<u>780,151</u>	<u>46,470,971</u>	<u>47,251,122</u>
<b>Total cash and short-term investments and investments as reported on the combined balance sheet.....</b>	<b><u>\$ 58,897,078</u></b>	<b><u>\$ 47,473,079</u></b>	<b><u>\$ 106,370,157</u></b>



**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 (MTCRS) 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 \$4,469,000 for the fiscal year ended June 30, 2002, and, accordingly, is reported in the City's 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, 2002, 2001 and 2000 were \$5,036,064, 4,415,888, and \$4,244,462, respectively, which equaled its required contribution for each fiscal year. At June 30, 2002, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2001, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included an 8.5% 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, 2002, was 28 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)
1/1/2001	\$ 51,660	\$ 113,565	\$ 61,905	45.5%	\$ 21,179	292.3%
1/1/1999	55,875	108,557	52,682	51.5%	18,994	277.4%
1/1/1998	53,566	100,338	46,772	53.4%	16,895	276.8%
1/1/1997	45,601	86,143	40,542	52.9%	16,403	247.2%
1/1/1994	36,476	79,028	42,552	46.2%	13,262	320.9%

*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 2002 totaled approximately \$316,000.

**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, 2002, the City has the following short-term debt outstanding:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2001	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2002
BAN	Public works facility.....	2.50	03/14/03	\$ 3,865,000	\$ 3,865,000	\$ 3,865,000	\$ 3,865,000
BAN	School building construction....	3.25	09/12/02	-	30,000,000	-	30,000,000
BAN	School building construction....	3.13	09/12/02	-	5,000,000	-	5,000,000
Total.....				\$ 3,865,000	\$ 38,865,000	\$ 3,865,000	\$ 38,865,000

**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, 2002, approximately \$1,150,000 of bonds outstanding from the advance refunding are considered defeased.



Details related to the City's outstanding indebtedness at June 30, 2002, and the debt service requirements follow:

**Bonds and Notes Payable Schedule**

Project	Interest Rate (%)	Outstanding at June 30, 2001	Issued	Redeemed	Outstanding at June 30, 2002
School Remodeling 1995.....	5.64%	\$ 100,000	\$ -	\$ 50,000	\$ 50,000
Land acquisition 1995.....	5.64%	72,600	-	11,050	61,550
Energy Conservation 1995.....	5.64%	71,500	-	27,250	44,250
HVAC 1995.....	5.64%	280,000	-	70,000	210,000
Fire Truck 1995.....	5.64%	221,900	-	35,700	186,200
Roof Repairs 1995.....	5.64%	64,000	-	16,000	48,000
911 Police and Fire Comm. System.....	5.53%	210,000	-	35,000	175,000
Department of Public Works Equipment....	5.53%	935,000	-	115,000	820,000
MWRA Water Bond.....	0.00%	60,624	-	30,312	30,312
MWRA Water Bond.....	0.00%	113,850	-	37,950	75,900
MWRA Water Bond.....	0.00%	42,300	-	14,100	28,200
General Obligation Refunding Bonds.....	4.35%	1,455,000	-	230,000	1,225,000
General Obligation School 2000.....	5.75%	38,870,000	-	1,190,000	37,680,000
General Obligation School 2001.....	6.00%	16,108,000	-	508,000	15,600,000
MWRA Sewer Bond.....	0.00%	409,515	-	81,903	327,612
MWRA Water Bond.....	0.00%	542,902	-	54,290	488,612
MWRA Water Bond.....	0.00%	-	542,902	-	542,902
Total.....		\$ 59,557,191	\$ 542,902	\$ 2,506,555	\$ 57,593,538

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

Fiscal Year	Principal	Interest	Total
2003.....	\$ 2,627,845	\$ 3,005,964	\$ 5,633,809
2004.....	2,677,533	2,871,797	5,549,330
2005.....	2,725,483	2,739,861	5,465,344
2006.....	2,635,483	2,612,686	5,248,169
2007.....	2,668,580	2,486,909	5,155,489
2008.....	2,688,580	2,359,258	5,047,838
2009.....	2,663,580	2,231,145	4,894,725
2010.....	2,803,581	2,098,552	4,902,133
2011.....	2,953,582	1,956,687	4,910,269
2012.....	3,044,291	1,798,252	4,842,543
2013.....	3,090,000	1,623,496	4,713,496
2014.....	3,255,000	1,439,615	4,694,615
2015.....	3,445,000	1,245,424	4,690,424
2016.....	3,635,000	1,039,552	4,674,552
2017.....	3,835,000	826,759	4,661,759
2018.....	4,050,000	606,487	4,656,487
2019.....	4,280,000	373,037	4,653,037
2020.....	4,515,000	126,544	4,641,544
Total.....	\$ 57,593,538	\$ 31,442,025	\$ 89,035,563

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. At June 30, 2002, the outstanding principal amount of these loans totaled \$1,493,538.

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, 2002, the City had the following authorized and unissued debt:

Purpose	Amount
School building construction.....	\$ 62,119,000
New Lafayette School.....	9,500,000
Water construction projects.....	5,782,765
Public works facility.....	3,865,816
Sewer construction projects.....	382,030
Sewer testing/inspection project.....	94,000
Total.....	<u>\$ 81,743,611</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, 2002, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group:

	Balance June 30, 2001	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance June 30, 2002
Long-Term Bonds and Notes.....	\$ 59,557,191	\$ 542,902	\$ (2,506,555)	\$ -	\$ 57,593,538
Court Judgments.....	-	-	-	840,000	840,000
Compensated Absences.....	<u>1,361,000</u>	-	-	<u>(9,000)</u>	<u>1,352,000</u>
Total.....	<u>\$ 60,918,191</u>	<u>\$ 542,902</u>	<u>\$ (2,506,555)</u>	<u>\$ 831,000</u>	<u>\$ 59,785,538</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 \$110,000 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, 2002, the amount of the liability for health insurance claims was \$1,256,000. This liability is the City's best estimate based on available information. Changes in the reported liability since July 1, 2000 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 Year 2001.....	\$ 890,000	\$ 7,847,410	\$ (7,612,410)	\$ 1,125,000
Fiscal Year 2002.....	1,125,000	8,553,557	(8,422,557)	1,256,000

#### *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 \$232,000 at June 30, 2002, which represents all outstanding claims as of that date. Changes in the reported liability since July 1, 2000, 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 Year 2001.....	\$ 186,000	\$ 300,500	\$ (185,000)	\$ 301,500
Fiscal Year 2002.....	301,500	77,500	(147,000)	232,000

#### **NOTE 8 – STABILIZATION FUND**

The City has \$8,435,518 in a Stabilization Fund reported as an Expendable Trust Fund. 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 is in the process of constructing the new Lafayette Elementary School, the new English Elementary School, the new Keverian Elementary School, the Parlin Junior High School and the new Everett High School and as a result has signed contracts totaling approximately \$53,000,000. The City has expended approximately \$47,000,000 on these contracts through June 30, 2002. The City is funding the project through the issuance of school building construction bonds.

The Commonwealth has approved school construction assistance 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 2002, the City received approximately \$3,022,000 of such assistance. Approximately \$54,400,000 will be received in future fiscal years. Of this amount, approximately \$17,755,000 represents reimbursement of long-term interest costs, and approximately \$36,645,000 represents reimbursement of approved construction costs. Accordingly, an intergovernmental receivable and corresponding deferred revenue have been reported in these general purpose financial statements in the amount of \$36,645,000.

**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>
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>\$293,200,000</u>

During fiscal year 2002, 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, 2002, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 2002.

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, 2002, 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.

On February 19, 2003, the Middlesex County Superior Court adjudicated an eminent domain case, which awarded approximately \$1,170,000 to the plaintiff. The award will be off-set by approximately \$330,000 in delinquent taxes resulting in a net liability of approximately \$840,000. Accordingly, the City has accrued an \$840,000 court judgment liability in the General Long-Term Obligation Account Group at June 30, 2002.

**NOTE 12 – NEW LAFAYETTE SCHOOL**

The City is authorized to borrow \$9,500,000 for the cost of additional work required by construction problems relating to the City's new Lafayette school. The additional work includes transporting students to an alternative site due to the delay in opening the school, the cost of the utilities required with respect to the school during the period that the additional work is carried out, costs with respect to the retrofitting of school facilities to accommodate students displaced by the additional work and other costs associated with the additional work and costs currently subject to litigation among the City and certain other entities involved in the construction of the school.

**NOTE 13 – RESTATEMENTS**

During fiscal year 2002, the System implemented GASB Statement #33, Accounting and Financial Reporting for Nonexchange Transactions, in the pension trust fund. Accordingly, the previously reported net assets of \$49,339,622 have been increased in the amount of \$2,320,000 to reflect the pronouncement. The restated beginning net assets of the pension trust fund at December 31, 2001, totals \$51,659,622.

**NOTE 14 – FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS**

The GASB has issued the following pronouncements:

- Statement #34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (Statement #34).
- Statement #37, Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments; Omnibus
- Statement #38, Certain Financial Statement Note Disclosures

The significant changes related to the implementation of these statements include the following:

- For the first time the financial statements will include:
  - A Management Discussion and Analysis (MD&A) section that provides an analysis of the overall financial position and results of operations.
  - Financial statements prepared using full accrual accounting for all of the non-fiduciary activities, including reporting all capital assets.
  - A change in the fund financial statements to focus on the major funds.

The City's implementation date is fiscal year 2003.

During fiscal year 2002, the GASB issued Statement #39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14, which is required to be implemented during fiscal year 2004. It is expected that this pronouncement will not significantly impact the basic financial statements.