

***CITY OF EVERETT, MASSACHUSETTS***

***REPORT ON EXAMINATION OF  
BASIC FINANCIAL STATEMENTS***

***FISCAL YEAR ENDED JUNE 30, 2003***



CITY OF EVERETT, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2003

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## Independent Auditors' Report

To the Honorable Mayor  
City of Everett, Massachusetts

 member

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Everett, Massachusetts, as of and for the fiscal year ended June 30, 2003 (except for the Everett Contributory Retirement System which is as of and for the year ended December 31, 2002), which collectively comprise the City basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Everett, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Everett, Massachusetts, as of June 30, 2003 (except for the Everett Contributory Retirement System which is as of December 31, 2002), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal 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 implemented several Governmental Accounting Standards Board Statements, which changed the beginning fund equity position of several funds and established net assets for governmental activities and business-type activities.

In accordance with Government Auditing Standards, we have also issued our report dated December 22, 2003, 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.

Management's discussion and analysis, located on the following pages, and schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, located after the notes to the basic financial statements, are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Powers + Sullivan".

December 22, 2003

# ***Management's Discussion and Analysis***

## ***Management's Discussion and Analysis***

As management of the City of Everett, we offer readers of these basic financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2003. This is the first year our financial statements have been prepared under the Governmental Accounting Standards Board Statement Number 34 – Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. This new reporting model represents a major change when compared to prior financial statements.

### ***Overview of the Financial Statements***

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

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

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

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

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

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

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

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town's own programs.

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

## Financial Highlights

		Governmental Activities
<b>Assets:</b>		
Current assets.....	\$	64,687,477
Noncurrent assets (excluding capital).....		34,464,347
Capital assets.....		113,178,329
<b>Total assets.....</b>		<b>212,330,153</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....		7,879,655
Noncurrent liabilities (excluding debt).....		440,955
Current debt.....		47,572,526
Noncurrent debt.....		52,896,062
<b>Total liabilities.....</b>		<b>108,789,198</b>
<b>Net Assets:</b>		
Capital assets net of related debt.....		84,829,741
Restricted.....		4,162,507
Unrestricted.....		14,548,707
<b>Total net assets.....</b>		<b>103,540,955</b>
<b>Program revenues:</b>		
Charges for services.....		19,455,941
Operating grants and contributions.....		27,762,832
Capital grants and contributions.....		312,570
<b>General Revenues:</b>		
Real estate and personal property taxes.....		48,470,855
Tax liens.....		45,422
Motor vehicle and other excise taxes.....		2,784,171
Penalties and interest on taxes.....		816,405
Nonrestricted grants.....		7,836,425
Unrestricted investment income.....		842,325
Other revenues.....		1,922,821
<b>Total revenues.....</b>		<b>110,249,767</b>
<b>Expenses:</b>		
General Government.....		5,671,749
Public Safety.....		15,055,873
Education.....		47,367,543
Public Works.....		8,155,758
MWRA assessment.....		8,128,876
Human Services.....		1,146,966
Culture and recreation.....		1,535,709
Pension benefits.....		10,736,902
Property and liability insurance.....		548,472
Employee benefits.....		9,833,476
Interest.....		4,055,869
State and county charges.....		4,792,273
<b>Total expenses.....</b>		<b>117,029,466</b>
<b>Change in net assets.....</b>	<b>\$</b>	<b>(6,779,699)</b>



## **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$103,540,955 at the close of FY2003.

Net assets of \$84,829,741 (82%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net assets \$4,162,507 (4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$14,548,707 (14%) may be used to meet the government's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the City is able to report positive balances in all categories of net assets.

The governmental activities net assets decreased by (\$6,779,699) during the current fiscal year. The primary reasons for this decrease was the use of approximately \$4,000,000 in prior year net assets to balance the FY2003 budget and the expense of approximately \$4,800,000 in repairs and other costs to the New Lafayette School to correct for construction problems. This expense has not been capitalized as an asset. In order to fund the additional expenses incurred the Commonwealth enacted Chapter 309 of the Acts of 2002 in September 2002 that allows the City to borrow up to \$9,500,000 of which \$6,135,000 was issued and outstanding at year-end. The ultimate repayment of this borrowing will be determined when the litigations between the City and Contractor is settled. Since this is the first year of reporting under GASB #34 no meaningful historical trends have been established to draw further conclusions.

## **Financial Analysis of the Government's Funds**

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

### *Major Funds*

The General Fund is the chief operating fund and a major fund. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$1,755,340, while total fund balance was \$2,481,183. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 1.8% of total general fund expenditures, while total fund balance represents 2.5% of that same amount.

The fund balance of the general fund decreased by (\$416,503) during the fiscal year. However, the general fund includes a \$4,000,000 transfer from the Stabilization Fund. The City's current level of revenues was not sufficient to cover its actual level of expenditures. At the end of FY2003, there was \$4,590,000 remaining in the Stabilization Fund that the General Fund can draw on in the future.

The Internal Service Fund accounts for the risk financing governmental activities related to providing health insurance, workers compensation, and municipal insurance. This fund is reported as a proprietary fund and uses the full accrual basis of accounting. The FY2003 results of operations show an increase in net assets of \$255,910 and a balance at year-end of \$3,315,882. These risk financing activities are currently over funded and represent a potential reserve the General Fund can draw on in the future.

The combined balances in the General, Stabilization and Internal Service funds are approximately \$10,387,000.

The School Construction Fund is a major fund used to control the construction and major renovation of Everett Schools. At June 30, 2003 there was approximately \$30,550,000 in unexpended funds derived mainly from long and short term bonds and notes. In addition, \$41,135,000 in short-term notes was outstanding and has not been permanently financed. GAAP requires that the temporary notes be reported as a fund liability which has created a temporary deficit of (\$10,608,000) in the fund. FY2003 expenditures of \$8,753,000 are reported, of which \$4,746,000 related to the repairs to the Lafayette School.

### ***General Fund Budgetary Highlights***

The \$585,000 increase between the original and the final amended expenditure budget was mainly due to approximately \$500,000 increase for workers compensation employee benefits. Operating transfers in were increased by an additional \$4,000,000 from the stabilization fund. The significant state and county charges budget deficit of (\$1,482,548) was primarily due to the unbudgeted assessments on the Cherry Sheet for Charter Schools of \$1,457,677 and School Choice of \$27,950.

### ***Capital Asset and Debt Administration***

The City is currently in the process of completing a significant school building capital improvement program. At June 30, 2003, the City has approximately \$30,550,000 in unspent proceeds from debt issuances. Current school related short-term bond anticipation notes include a 2.5% \$35,000,000 note due in September 2003. Long-term school related debt outstanding at June 30, 2003 amounts to \$51,485,000 that is supported by a Commonwealth of Massachusetts subsidy of approximately \$51,369,000 that will be received in future fiscal years. Of this amount, approximately \$16,048,000 represents reimbursement of long-term interest costs, and approximately \$35,321,000 represents reimbursement of approved construction costs.

The City had completed the New Lafayette School at the end of FY2002 with a planned opening in September 2002. Before the school was opened it was determined that faulty construction caused the City to delay the opening for a year. The City terminated its relationship with the original contractor and hired a new contractor to repair the facility. The Commonwealth enacted Chapter 309 of the Acts of 2002 in September 2002 that allowed the City to borrow up to \$9,500,000 for the express purpose of funding all of the costs incurred by the City to remedy the problem. During FY2003 the City borrowed \$6,135,000 in short-term notes and incurred approximately \$4,800,000 in additional costs. The legislation allows the City to fund these unforeseen expenses through borrowing until reaching a settlement with the original contractor.

The City also has a 1.03% \$3,650,000 bond anticipation note outstanding, due in March 2004, for the construction of a public works facility.

Other outstanding long-term debt, as of June 30, 2003, totaled \$4,198,588 for various CIP related projects.

### ***Pension Trust Fund***

The (\$7,285,368) decrease in net assets of the Pension Trust Fund represents \$7,780,694 of contributions to the trust, (\$5,794,726) of net investment losses, \$722,973 of other additions, (\$9,687,050) of deductions for benefits, and (\$307,259) of other deductions. Additional information on the funding progress and plan requirements are in the notes to the basic financial statements

## ***Requests for Information***

This financial report is designed to provide a general overview of the City of Everett's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Auditor.

# ***Basic Financial Statements***

**STATEMENT OF NET ASSETS**

JUNE 30, 2003

	<i>Primary Government</i>
	Governmental Activities
<b>ASSETS</b>	
CURRENT:	
Cash and short-term investments.....	\$ 51,733,142
Investments.....	905,068
Receivables, net of allowance for uncollectibles:	
Real estate and personal property taxes.....	1,123,146
Tax liens.....	1,952,200
Motor vehicle excise taxes.....	784,823
User fees.....	3,960,422
Departmental and other.....	100,855
Intergovernmental.....	2,232,866
Loans.....	63,465
Working capital deposit.....	1,098,400
Tax foreclosures.....	685,793
Other assets.....	47,297
NONCURRENT:	
Receivables, net of allowance for uncollectibles:	
Intergovernmental.....	33,932,808
Loans.....	531,539
Capital assets, net of accumulated depreciation.....	113,178,329
<b>TOTAL ASSETS</b> .....	<b>212,330,153</b>
<b>LIABILITIES</b>	
CURRENT:	
Warrants payable.....	2,458,216
Accrued payroll.....	639,597
Health claims payable.....	1,395,000
Tax refunds payable.....	1,267,000
Accrued interest.....	985,662
Other liabilities.....	57,135
Compensated absences.....	899,045
Workers' compensation.....	178,000
Bonds and notes payable.....	47,572,526
NONCURRENT:	
Compensated absences.....	440,955
Bonds and notes payable.....	52,896,062
<b>TOTAL LIABILITIES</b> .....	<b>108,789,198</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt.....	84,829,741
Restricted for:	
Loans.....	595,004
Permanent funds:	
Expendable.....	257,848
Nonexpendable.....	1,296,910
Other purposes.....	2,012,745
Unrestricted.....	14,548,707
<b>TOTAL NET ASSETS</b> .....	<b>\$ 103,540,955</b>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 5,671,749	\$ 747,345	\$ 1,303,777	\$ -	\$ (3,620,627)
Public safety.....	15,055,873	1,390,175	1,254,991	-	(12,410,707)
Education.....	47,367,543	797,134	22,823,178	-	(23,747,231)
Public works.....	8,155,758	261,033	417,754	312,570	(7,164,401)
MWRA assessment.....	8,128,876	10,959,824	-	-	2,830,948
Human services.....	1,146,966	84,057	86,033	-	(976,876)
Culture and recreation.....	1,535,709	13,373	179,381	-	(1,342,955)
Pension benefits.....	10,736,902	5,203,000	-	-	(5,533,902)
Property and liability insurance..	548,472	-	-	-	(548,472)
Employee benefits.....	9,833,476	-	-	-	(9,833,476)
Interest.....	4,055,869	-	1,697,718	-	(2,358,151)
State and county charges.....	4,792,273	-	-	-	(4,792,273)
 Total Governmental Activities..	 \$ <u>117,029,466</u>	 \$ <u>19,455,941</u>	 \$ <u>27,762,832</u>	 \$ <u>312,570</u>	 \$ <u>(69,498,123)</u>

*General revenues:*

Real estate and personal property taxes, net of tax refunds payable.....	48,470,855
Tax liens.....	45,422
Motor vehicle and other excise taxes.....	2,784,171
Penalties and interest on taxes.....	816,405
Grants and contributions not restricted to specific programs.....	7,836,425
Unrestricted investment income.....	842,325
Miscellaneous.....	<u>1,922,821</u>
 Total general revenues and transfers.....	 <u>62,718,424</u>
 Change in net assets.....	 (6,779,699)
 <i>Net Assets:</i>	
Beginning of year.....	<u>110,320,654</u>
End of year.....	<u>\$ 103,540,955</u>

See notes to basic financial statements.

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2003

ASSETS	General	School Construction	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments.....	\$ 6,244,248	\$ 30,549,607	\$ 10,528,801	\$ 47,322,656
Investments.....	-	-	905,068	905,068
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	1,123,146	-	-	1,123,146
Tax liens.....	1,952,200	-	-	1,952,200
Motor vehicle excise taxes.....	784,823	-	-	784,823
User fees.....	3,960,422	-	-	3,960,422
Departmental and other.....	100,855	-	-	100,855
Intergovernmental.....	35,321,032	-	844,642	36,165,674
Loans.....	-	-	595,004	595,004
Tax foreclosures.....	685,793	-	-	685,793
Due from other funds.....	28,440	-	254,857	283,297
Other assets.....	47,297	-	-	47,297
<b>TOTAL ASSETS.....</b>	<b>\$ 50,248,256</b>	<b>\$ 30,549,607</b>	<b>\$ 13,128,372</b>	<b>\$ 93,926,235</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Warrants payable.....	\$ 1,407,646	-	\$ 421,650	\$ 1,829,296
Accrued payroll.....	609,812	3,169	26,616	639,597
Tax refunds payable.....	1,267,000	-	-	1,267,000
Accrued interest on short-term debt.....	771,772	-	-	771,772
Other liabilities.....	57,014	-	-	57,014
Deferred revenues.....	43,650,718	-	844,642	44,495,360
Due to other funds.....	3,111	19,643	269,580	292,334
Notes payable.....	-	41,135,000	3,650,000	44,785,000
<b>TOTAL LIABILITIES.....</b>	<b>47,767,073</b>	<b>41,157,812</b>	<b>5,212,488</b>	<b>94,137,373</b>
<b>FUND BALANCES:</b>				
Reserved for:				
Encumbrances and continuing appropriations...	725,843	-	-	725,843
Loans.....	-	-	595,004	595,004
Perpetual permanent funds.....	-	-	1,311,246	1,311,246
Unreserved:				
Undesignated, reported in:				
General fund.....	1,755,340	-	-	1,755,340
Special revenue funds.....	-	-	7,666,422	7,666,422
Capital projects funds.....	-	(10,608,205)	(1,900,300)	(12,508,505)
Permanent funds.....	-	-	243,512	243,512
<b>TOTAL FUND BALANCES.....</b>	<b>2,481,183</b>	<b>(10,608,205)</b>	<b>7,915,884</b>	<b>(211,138)</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 50,248,256</b>	<b>\$ 30,549,607</b>	<b>\$ 13,128,372</b>	<b>\$ 93,926,235</b>

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

FISCAL YEAR ENDED JUNE 30, 2003

Total governmental fund balances.....		\$	(211,138)
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....			113,178,329
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....			44,495,360
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....			3,315,882
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....			(213,890)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds			
Bonds and notes payable.....	(55,683,588)		
Compensated absences.....	(1,340,000)		
Net effect of reporting long-term liabilities.....			(57,023,588)
Net assets of governmental activities.....		\$	<u>103,540,955</u>

See notes to basic financial statements.



**GOVERNMENTAL FUNDS**  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2003

	General	School Construction	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ 49,142,479	\$ -	\$ -	\$ 49,142,479
Tax liens.....	607,852	-	-	607,852
Motor vehicle and other excise taxes.....	3,061,671	-	-	3,061,671
Charges for services.....	8,793,924	-	-	8,793,924
Penalties and interest on taxes.....	816,405	-	-	816,405
Intergovernmental.....	34,595,185	-	7,383,055	41,978,240
Departmental and other.....	3,035,660	-	1,915,587	4,951,247
Contributions.....	-	318,748	179,969	498,717
Investment income.....	537,884	-	257,944	795,828
<b>TOTAL REVENUES.....</b>	<b>100,591,060</b>	<b>318,748</b>	<b>9,736,555</b>	<b>110,646,363</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	3,916,977	-	1,704,185	5,621,162
Public safety.....	14,768,559	-	598,443	15,367,002
Education.....	34,695,402	8,752,784	6,001,300	49,449,486
Public works.....	7,426,654	-	1,074,067	8,500,721
MWRA assessment.....	8,128,876	-	-	8,128,876
Human services.....	1,075,017	-	89,689	1,164,706
Culture and recreation.....	953,168	-	363,986	1,317,154
Pension benefits.....	10,731,402	-	-	10,731,402
Property and liability insurance.....	548,472	-	-	548,472
Employee benefits.....	9,936,357	-	-	9,936,357
Claims and judgments.....	1,169,290	-	-	1,169,290
State and county charges.....	4,792,273	-	-	4,792,273
Debt service:				
Principal.....	2,627,845	-	-	2,627,845
Interest.....	4,075,571	-	-	4,075,571
<b>TOTAL EXPENDITURES.....</b>	<b>104,845,863</b>	<b>8,752,784</b>	<b>9,831,670</b>	<b>123,430,317</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(4,254,803)</b>	<b>(8,434,036)</b>	<b>(95,115)</b>	<b>(12,783,954)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from bonds and notes.....	-	-	717,895	717,895
Operating transfers in.....	4,176,919	-	250,619	4,427,538
Operating transfers out.....	(338,619)	-	(4,176,919)	(4,515,538)
<b>TOTAL OTHER FINANCING SOURCES (USES)....</b>	<b>3,838,300</b>	<b>-</b>	<b>(3,208,405)</b>	<b>629,895</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(416,503)</b>	<b>(8,434,036)</b>	<b>(3,303,520)</b>	<b>(12,154,059)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>2,897,686</b>	<b>(2,174,169)</b>	<b>11,219,404</b>	<b>11,942,921</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 2,481,183</b>	<b>\$ (10,608,205)</b>	<b>\$ 7,915,884</b>	<b>\$ (211,138)</b>

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds.....		\$ (12,154,059)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay.....	6,746,750	
Depreciation expense.....	<u>(3,950,148)</u>	
Net effect of reporting capital assets.....		2,796,602
<p>Governmental funds record certain long-term liabilities when paid while expenses are recorded when incurred. This amount represents the timing difference.....</p>		
		841,821
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		(461,625)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Proceeds from bonds and notes.....	(717,895)	
Debt service principal payments.....	<u>2,627,845</u>	
Net effect of reporting long-term debt.....		1,909,950
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	12,000	
Net change in accrued interest on long-term debt.....	<u>19,702</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		31,702
<p>Internal service funds are used by management to account for health insurance and workers' compensation activities.</p>		
The net activity of internal service funds is reported with Governmental Activities...		<u>255,910</u>
Change in net assets of governmental activities.....		<u>\$ (6,779,699)</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF NET ASSETS**

JUNE 30, 2003

		Governmental Activities - Internal Service Funds
<b>ASSETS</b>		
CURRENT:		
Cash and short-term investments.....	\$	4,410,486
Working capital deposit.....		1,098,400
Due from other funds.....		10,183
TOTAL ASSETS.....		5,519,069
 <b>LIABILITIES</b>		
CURRENT:		
Warrants payable.....		628,920
Due to other funds.....		1,146
Health claims payable.....		1,395,000
Other liabilities.....		121
Workers' compensation.....		178,000
Total current liabilities.....		2,203,187
 <b>NET ASSETS</b>		
Unrestricted.....	\$	3,315,882

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2003

	Governmental Activities - Internal Service Funds
<u>OPERATING REVENUES:</u>	
Contributions.....	\$ <u>9,302,005</u>
<u>OPERATING EXPENSES:</u>	
Employee benefits .....	<u>9,199,124</u>
OPERATING INCOME (LOSS).....	<u>102,881</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>	
Investment income.....	<u>65,029</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS.....	<u>167,910</u>
<u>OPERATING TRANSFERS:</u>	
Transfers in.....	<u>88,000</u>
CHANGE IN NET ASSETS.....	255,910
NET ASSETS AT BEGINNING OF YEAR.....	<u>3,059,972</u>
NET ASSETS AT END OF YEAR.....	<u>\$ <u>3,315,882</u></u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2003

	<u>Governmental Activities - Internal Service Funds</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	
Receipts from interfund services provided.....	\$ 9,292,968
Payments for interfund services used.....	<u>(9,046,336)</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>246,632</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>	
Transfers in.....	<u>88,000</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>	
Investment income.....	<u>65,029</u>
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....	399,661
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	<u>4,010,825</u>
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	<u>\$ 4,410,486</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>	
Operating income (loss).....	\$ <u>102,881</u>
Adjustments to reconcile operating income (loss) to net cash from operating activities:	
Changes in assets and liabilities:	
Due from other funds.....	(10,183)
Working capital deposit.....	(155,400)
Warrants payable.....	223,067
Health claims payable.....	139,000
Other liabilities.....	121
Due to other funds.....	1,146
Workers' compensation.....	<u>(54,000)</u>
Total adjustments.....	<u>143,751</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 246,632</u>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2003

	Pension Trust Fund (as of December 31, 2001)	Agency Funds
<b>ASSETS</b>		
CURRENT:		
Cash and short-term investments.....	\$ 371,975	\$ 197,366
Investments.....	39,614,852	-
Interest and dividends.....	19,402	-
Receivables, net of allowance for uncollectibles:		
Departmental and other.....	53,959	332,481
<b>TOTAL ASSETS</b> .....	<b>40,060,189</b>	<b>529,847</b>
<b>LIABILITIES</b>		
Warrants payable.....	35,069	20,528
Accrued payroll.....	-	54,386
Liabilities due depositors.....	-	122,439
Deferred revenue.....	-	332,494
<b>TOTAL LIABILITIES</b> .....	<b>35,069</b>	<b>529,847</b>
<b>NET ASSETS</b>		
Held in trust for pension benefits and other purposes.....	\$ 40,025,120	\$ -

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2003

	Pension Trust Fund (as of December 31, 2002)
<u>ADDITIONS:</u>	
Contributions:	
Employer.....	\$ 5,726,854
Employee.....	2,053,840
	7,780,694
Net investment income (loss):	
Net change in fair value of investments.....	(5,971,083)
Interest.....	407,213
	(5,563,870)
Less: investment expense.....	(230,856)
	(5,794,726)
Intergovernmental.....	656,290
	66,683
Transfers from other systems.....	66,683
	66,683
TOTAL ADDITIONS.....	2,708,941
<u>DEDUCTIONS:</u>	
Administration.....	159,251
Transfers to other systems.....	148,008
Retirement benefits and refunds.....	9,687,050
	9,994,309
TOTAL DEDUCTIONS.....	9,994,309
CHANGE IN NET ASSETS.....	(7,285,368)
NET ASSETS AT BEGINNING OF YEAR.....	47,310,488
NET ASSETS AT END OF YEAR.....	\$ 40,025,120

See notes to basic financial statements.

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

The accompanying basic financial statements of the Everett, Massachusetts (the City) have been prepared in accordance with accounting principles generally accepted in the United States of America (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 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 basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the City (the primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

*Blended Component Units* - Blended component units are entities that are legally separate from the City, but are so related that they are, in substance, the same as the City or entities providing services entirely or almost entirely for the benefit of the City. The following component unit is blended within the primary government:

In the Fiduciary Funds:

The Everett Contributory Retirement System (the System) was established to provide retirement benefits to City employees, the City Housing Authority employees, and their beneficiaries. The System is governed by a five-member board comprised of the City Auditor (ex-officio), two members elected by the System's participants, one member appointed by the Mayor and one member appointed by the Board 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 in the fiduciary fund financial statements.

**Availability of Financial Information for Component Unit**

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 484 Broadway, Everett, Massachusetts 02149.

**B. Government-Wide and Fund Financial Statements***Government-Wide Financial Statements*

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component unit. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.



### *Fund Financial Statements*

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

#### *Major Fund Criteria*

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Internal service funds and fiduciary funds are reported by fund type.

### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

#### *Government-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

*Fund Financial Statements*

**Governmental** fund financial statements are reported using 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.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received 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.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *School Building capital projects fund* is used to account for financial resources to complete the capital plan related to all of the City's schools.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

**Proprietary** fund financial statements are reported using 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 when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City currently does not have any significant enterprise activities that meet the GASB criteria that require the use of enterprise funds.

The following proprietary fund is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to employee health insurance, workers' compensation, municipal building insurance and other liability insurance.

**Fiduciary** fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *agency fund* is used to account for assets held in a purely custodial capacity.

#### *Government-Wide and Fund Financial Statements*

For the government-wide financial statements, and proprietary and fiduciary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

#### D. Cash and Investments

##### *Government-Wide and Fund Financial Statements*

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.

#### E. Accounts Receivable

##### *Government-Wide and Fund Financial Statements*

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

#### ***Real Estate, Personal Property Taxes and Tax Liens***

Real estate and personal 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. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate tax liens are processed by the fourth quarter of every fiscal year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

**Motor Vehicle Excise**

Motor vehicle excise taxes are assessed annually for each vehicle registered and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

**Water and Sewer**

User fees are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period. Water and Sewer liens are processed in December of every year and included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the fiscal year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

**Departmental and Other**

Departmental and other receivables consist primarily of police and fire details and are recorded as receivables in the fiscal year accrued. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

**Intergovernmental**

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

**Loans**

The Department of Planning and Economic Development administers loan programs that provide housing assistance to residents and capital needs assistance for small businesses. Upon issuance, a receivable is recorded for the principal amount of the loan.

**F. Inventories*****Government-Wide and Fund Financial Statements***

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

G. Capital Assets

*Government-Wide Financial Statements*

Capital assets, which include land, land improvements, buildings, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	5-50
Buildings.....	5-50
Machinery and equipment.....	3-20
Infrastructure.....	10-50
Library Books.....	10
School books.....	5
Vehicles.....	5

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

*Governmental Fund Financial Statements*

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

I. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as operating transfers in and operating transfers out.

*Government-Wide Financial Statements*

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

*Fund Financial Statements*

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

J. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

K. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)*

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been "restricted for" the following:

"Loans" represents community development outstanding loans receivable balances.

"Permanent funds - expendable" represents amounts held in trust for which the expenditures are restricted by various trust agreements.

"Permanent funds - nonexpendable" represents amounts held in trust for which only investment earnings may be expended.

"Other specific purposes" represents restrictions placed on assets from outside parties.

*Fund Financial Statements (Fund Balances)*

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

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 community development outstanding loans receivable balances.

"Perpetual permanent funds" represents amounts held in trust for which only investment earnings may be expended.

### L. Long-term debt

#### *Government-Wide and Proprietary Fund Financial Statements*

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

#### *Governmental Fund Financial Statements*

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

### N. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

### O. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

#### *Government-Wide and Proprietary Fund Financial Statements*

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

#### *Governmental Fund Financial Statements*

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

### P. Post Retirement Benefits

#### *Government-Wide and Fund Financial Statements*

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. 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, 2003, this expense/expenditure totaled approximately \$3,158,000. There were approximately 145 participants eligible to receive benefits at June 30, 2003.

In addition, the Commonwealth charges the City its share of the costs related to Teachers who retired from the City. For the fiscal year ended June 30, 2003, this expense/expenditure totaled \$1,039,689 and is reported as a state and county charge. The Commonwealth does not disclose the number of participants.

### Q. Use of Estimates

#### *Government-Wide and Fund Financial Statements*

The preparation of basic 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 basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

### R. Total Column

#### *Government-Wide Financial Statements*

The total column presented on the government-wide financial statements represents consolidated financial information.

#### *Fund Financial Statements*

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

## **NOTE 2 - CASH AND INVESTMENTS**

A cash and investment pool is maintained 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 funds.

Statutes authorize the investment 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 Pool 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 who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Short-term investments and 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 deposits totaled \$50,138,381 and the bank balance totaled \$51,379,878. Of the bank balance, \$700,000 was covered by Federal Depository Insurance, \$10,336,792 was covered by the Depositors Insurance Fund, and \$40,343,086 was uninsured and uncollateralized.



At December 31, 2002, the carrying amount of deposits for the System totaled \$54,612 and the bank balance of \$414,123 was covered by Federal Depository Insurance.

The following details the carrying amount of cash and short-term investments and investments as reported in the basic financial statements at June 30, 2003:

	Cash and Short-term Investments	Investments	Total
<b><i>Cash balances (excluding the System) at June 30, 2003</i></b>			
Checking, savings and NOW accounts.....	\$ 18,650,467	\$ -	\$ 18,650,467
Certificates of deposit.....	4,190,191	-	4,190,191
Money market deposits.....	27,297,723	-	27,297,723
	<u>50,138,381</u>	<u>-</u>	<u>50,138,381</u>
<b><i>Investments not subject to categorization:</i></b>			
MMDT.....	1,613,259	-	1,613,259
Money market mutual funds.....	178,868	-	178,868
<b><i>Investments subject to categorization (Category 3):</i></b>			
U.S. government securities.....	-	905,068	905,068
	<u>1,792,127</u>	<u>905,068</u>	<u>2,697,195</u>
Total cash and short-term investments and investments of the Town at June 30, 2003.....	<u>51,930,508</u>	<u>905,068</u>	<u>52,835,576</u>
<b><i>System cash balances at December 31, 2002:</i></b>			
Checking, savings and NOW accounts.....	54,613	-	54,613
<b><i>Investments not subject to categorization:</i></b>			
Money market mutual funds.....	317,363	-	317,363
<b><i>Investments subject to categorization (Category 3):</i></b>			
U.S. government securities.....	-	121,676	121,676
Equity securities.....	-	37,089,164	37,089,164
Fixed income securities.....	-	332,144	332,144
International securities.....	-	2,071,868	2,071,868
	<u>317,363</u>	<u>39,614,852</u>	<u>39,932,215</u>
Total cash and short-term investments and investments of the System at December 31, 2002.....	<u>371,976</u>	<u>39,614,852</u>	<u>39,986,828</u>
<b><i>Total cash and short-term investments and investments as reported on the financial statements.....</i></b>	<b><u>\$ 52,302,484</u></b>	<b><u>\$ 40,519,920</u></b>	<b><u>\$ 92,822,404</u></b>

**NOTE 3 – RECEIVABLES**

At June 30, 2003, receivables for the individual major, non-major governmental funds and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 1,858,951	\$ (735,805)	\$ 1,123,146
Tax liens.....	1,952,200	-	1,952,200
Motor vehicle and other excise taxes.....	1,264,952	(480,129)	784,823
User fees.....	3,960,422	-	3,960,422
Departmental and other.....	100,855	-	100,855
Intergovernmental.....	36,165,674	-	36,165,674
Loans.....	595,004	-	595,004
Total.....	<u>\$ 45,898,058</u>	<u>\$ (1,215,934)</u>	<u>\$ 44,682,124</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes.....	\$ 845,593	\$ -	\$ 845,593
Tax liens.....	1,952,200	-	1,952,200
Motor vehicle and other excise taxes.....	784,823	-	784,823
User fees.....	3,960,422	-	3,960,422
Departmental and other.....	100,855	-	100,855
Intergovernmental.....	35,321,032	844,642	36,165,674
Tax foreclosures.....	685,793	-	685,793
Total.....	<u>\$ 43,650,718</u>	<u>\$ 844,642</u>	<u>\$ 44,495,360</u>

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

**Governmental Activities**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 3,380,387	\$ 1,169,290	\$ -	\$ 4,549,677
<u>Capital assets being depreciated:</u>				
Land improvements.....	\$ 1,151,120	\$ -	\$ -	\$ 1,151,120
Buildings.....	80,106,552	4,015,446	-	84,121,998
Machinery and equipment.....	5,435,695	217,160	-	5,652,855
Vehicles.....	3,447,970	646,509	-	4,094,479
Textbooks.....	1,278,840	31,764	-	1,310,604
Library books.....	1,506,000	106,567	-	1,612,567
Infrastructure.....	49,053,242	1,729,304	-	50,782,546
Total capital assets being depreciated.....	141,979,419	6,746,750	-	148,726,169
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(110,710)	(38,372)	-	(149,082)
Buildings.....	(12,565,494)	(1,853,403)	-	(14,418,897)
Machinery and equipment.....	(2,893,709)	(622,387)	-	(3,516,096)
Vehicles.....	(1,666,343)	(287,296)	-	(1,953,639)
Textbooks.....	(772,359)	(138,178)	-	(910,537)
Library books.....	(858,921)	(251,702)	-	(1,110,623)
Infrastructure.....	(17,279,834)	(758,810)	-	(18,038,644)
Total accumulated depreciation.....	(36,147,370)	(3,950,148)	-	(40,097,518)
Total capital assets being depreciated, net.....	105,832,049	2,796,602	-	108,628,652
Total governmental activities capital assets, net.....	\$ 109,212,436	\$ 3,965,892	\$ -	\$ 113,178,329

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental Activities:**

General government.....	\$ 92,977
Public safety.....	331,077
Education.....	2,021,622
Public works.....	1,056,472
Human services.....	1,560
Culture and recreation.....	446,440
Total depreciation expense - governmental activities.....	\$ 3,950,148

**NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2003, are summarized as follows:

Operating Transfers Out:	Operating Transfers In:			
	General Fund	Nonmajor Governmental Funds	Internal Service Funds	Total
General Fund.....	\$ -	\$ 250,619	\$ 88,000	\$ 338,619
Nonmajor Governmental Fun	4,176,919	-	-	4,176,919
Total.....	\$ 4,176,919	\$ 250,619	\$ 88,000	\$ 4,515,538

**NOTE 6 – SHORT-TERM FINANCING**

Short-term debt may be authorized and issued 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 and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund.

Details related to the short-term debt activity for the fiscal year ended June 30, 2003, is as follows:

Purpose	Rate (%)	Due Date	Balance at June 30, 2002	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2003
Public works facility.....	1.03	3/12/2004	\$ 3,865,000	\$ -	\$ 215,000	\$ 3,650,000
School building construction.....	3.25	9/12/2002	30,000,000	-	30,000,000	-
School building construction.....	3.13	9/12/2002	5,000,000	-	5,000,000	-
School building construction.....	2.50	9/12/2003	-	35,000,000	-	35,000,000
Chapter 309 of the Acts of 2002 Note.....	1.48	10/1/2003	-	6,135,000	-	6,135,000
Total.....			\$ 38,865,000	\$ 41,135,000	\$ 35,215,000	\$ 44,785,000

**NOTE 7 - LONG-TERM DEBT**

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 2 1/2% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

During fiscal year 1999, certain general obligation bonds were defeased 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's assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2003, approximately \$950,000 of bonds outstanding from the advance refunding is considered defeased.

Details related to the outstanding indebtedness at June 30, 2003, and the debt service requirements are as follows:

**Bonds and Notes Payable Schedule – Governmental Funds**

Project	Interest Rate (%)	Outstanding at June 30, 2002	Issued	Redeemed	Outstanding at June 30, 2003
School Remodeling 1995.....	5.64%	\$ 50,000	\$ -	\$ 50,000	\$ -
Land acquisition 1995.....	5.64%	61,550	-	11,050	50,500
Energy Conservation 1995.....	5.64%	44,250	-	27,250	17,000
HVAC 1995.....	5.64%	210,000	-	70,000	140,000
Fire Truck 1995.....	5.64%	186,200	-	35,700	150,500
Roof Repairs 1995.....	5.64%	48,000	-	16,000	32,000
911 Police and Fire Comm. System.....	5.53%	175,000	-	35,000	140,000
Department of Public Works Equipment.....	5.53%	820,000	-	90,000	730,000
MWRA Water Bond.....	0.00%	30,312	-	30,312	-
MWRA Water Bond.....	0.00%	75,900	-	37,950	37,950
MWRA Water Bond.....	0.00%	28,200	-	14,100	14,100
General Obligation Refunding Bonds.....	4.35%	1,225,000	-	225,000	1,000,000
General Obligation School 2000.....	5.75%	37,680,000	-	1,260,000	36,420,000
General Obligation School 2001.....	6.00%	15,600,000	-	535,000	15,065,000
MWRA Sewer Bond.....	0.00%	327,612	-	81,903	245,709
MWRA Water Bond.....	0.00%	488,612	-	54,290	434,322
MWRA Water Bond.....	0.00%	542,902	-	54,290	488,612
MWRA Water Bond.....	0.00%	-	382,030	-	382,030
MWRA Water Bond.....	0.00%	-	335,865	-	335,865
Total.....		\$ 57,593,538	\$ 717,895	\$ 2,627,845	\$ 55,683,588

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004.....	\$ 2,787,526	\$ 2,923,968	\$ 5,711,494
2005.....	2,835,476	2,779,782	5,615,258
2006.....	2,745,476	2,640,269	5,385,745
2007.....	2,778,572	2,677,067	5,455,639
2008.....	2,798,573	2,489,731	5,288,303
2009.....	2,697,166	2,231,145	4,928,311
2010.....	2,837,168	2,098,552	4,935,719
2011.....	2,987,168	1,956,687	4,943,855
2012.....	3,077,878	1,798,252	4,876,130
2013.....	3,123,586	1,623,496	4,747,082
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.....	<u>4,515,000</u>	<u>126,544</u>	<u>4,641,544</u>
Total .....	\$ <u>55,683,588</u>	\$ <u>28,876,366</u>	\$ <u>84,559,954</u>

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. 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, 2003, the outstanding principal amount of these loans totaled \$1,938,588.

The Commonwealth has approved school construction assistance. 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 2003, approximately \$3,022,000 of such assistance was received. Approximately \$51,369,000 will be received in future fiscal years. Of this amount, approximately \$16,048,000 represents reimbursement of long-term interest costs, and approximately \$35,321,000 represents reimbursement of approved construction costs. Accordingly, a \$35,321,000 intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2003, the City had the following authorized and unissued debt:

Purpose	Amount
School building.....	\$ 27,119,000
Public works facility.....	816
Water construction projects.....	3,578,331
Chapter 309 of the Acts of 2002 Debt.....	3,365,000
CW-02-31 / CW SRF-1204.....	450,000
Total.....	<u>\$ 34,513,147</u>

### Changes in Long-term Liabilities

During the fiscal year ended June 30, 2003, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-Term Bonds and Notes.....	\$ 57,593,538	\$ 717,895	\$ (2,627,845)	\$ 55,683,588	\$ 2,787,526
Compensated Absences.....	1,352,000	-	(12,000)	1,340,000	899,045
Health claims.....	1,256,000	139,000	-	1,395,000	1,395,000
Workers' compensation.....	232,000	-	(54,000)	178,000	178,000
Court Judgements.....	840,000	329,290	(1,169,290)	-	-
Total.....	<u>\$ 61,273,538</u>	<u>\$ 1,186,185</u>	<u>\$ (3,863,135)</u>	<u>\$ 58,596,588</u>	<u>\$ 5,259,571</u>

Internal service funds predominantly serve the governmental funds. Accordingly, the internal service fund's long-term liabilities are included as part of the governmental activities totals above. At fiscal year end, \$178,000 of internal service funds accrued liabilities for Worker's Compensation is included above. Except for the amounts related to the internal service funds, the governmental activities long-term liabilities are generally liquidated by the general fund.

### **NOTE 8 – RISK FINANCING**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

The City is self-insured for its health insurance and workers' compensation activities. These activities are accounted for in the internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

(a) *Health Insurance*

The estimate of Incurred But Not Reported (IBNR) claims is based on a three month claims paid average. At June 30, 2003, the amount of the liability for health insurance claims totaled \$1,395,000. This liability is the best estimate based on available information. Changes in the reported liability since July 1, 2001, are as follows:

	Balance at Beginning of Fiscal Year		Current Year Claims and Changes in Estimate		Claims Payments		Balance at Fiscal Year-End
Fiscal Year 2002.....	\$ 1,125,000	\$	8,553,557	\$	(8,422,557)	\$	1,256,000
Fiscal Year 2003.....	1,256,000		9,841,075		(9,702,075)		1,395,000

(b) *Workers' Compensation*

Workers' compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future workers' compensation liability is based on history and injury type.

At June 30, 2003, the amount of the liability for workers' compensation claims totaled \$178,000. Changes in the reported liability since July 1, 2001, are as follows:

	Balance at Beginning of Fiscal Year		Current Year Claims and Changes in Estimate		Claims Payments		Balance at Fiscal Year-End
Fiscal Year 2002.....	\$ 301,500	\$	77,500	\$	(147,000)	\$	232,000
Fiscal Year 2003.....	232,000		51,000		(105,000)		178,000

## NOTE 9 - 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 \$5,203,000 for the fiscal year ended June 30, 2003, 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.

At December 31, 2002, the System's membership consists of the following:

Active members.....	605
Inactive members.....	91
Disabled members.....	69
Retirees and beneficiaries currently receiving benefits.....	<u>532</u>
Total.....	<u><u>1297</u></u>

*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 fiscal years ended June 30, 2003, 2002, and 2001 were \$5,238,750, \$5,036,064, and \$4,415,888, respectively, which equaled its required contribution for each fiscal year. At June 30, 2003, 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 normal actuarial cost method. The actuarial assumptions included an 8.5 % investment rate of return and projected salary increases of 5.5% per year. 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 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%

*Noncontributory Retirement Allowance* – The City pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2003 totaled approximately \$290,000.

**NOTE 10 - 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 water construction projects and as a result has authorized expenditures of approximately \$104,800,000. The City has expended approximately \$62,757,000 on these contracts through June 30, 2003. The City is funding the projects through the issuance of bonds.

**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>
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>\$275,300,000</u>

During fiscal year 2003, 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, 2003, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 2003.

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, 2003, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**NOTE 12 – NEW LAFAYETTE SCHOOL**

The Commonwealth enacted Chapter 309 of the Acts of 2002 that authorized the City 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.

During FY2003, the City issued \$6,135,000 in short-term debt and expended approximately \$4,800,000 in capital repairs and additional cost associated with the delayed opening. The School opened in September 2003 after the proper repairs were made. The City will vigorously pursue a settlement for all of the costs incurred however due to the uncertainty of litigation has not recorded the expected reimbursement.

**NOTE 13 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During fiscal year 2003, the following GASB pronouncements were implemented:

- Statement #34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- 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 pronouncements identified above are all related to the new financial reporting requirements as defined in Statement #34. Fiscal year 2003 is the required implementation date. The most significant changes required by the new financial reporting standards are as follows:

- Management's discussion and analysis.
- Basic financial statements, which include:
  - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting.

- Fund financial statements, consisting of a series of statements that focus on major governmental and enterprise funds.
- Schedules to reconcile the fund financial statements to the government-wide financial statements.
- Notes to the basic financial statements.

As a result of implementing these pronouncements, the following restatements have been made to beginning fund balances and net assets:

### **Fund Financial Statements**

The following beginning fund balances have been restated to reflect the change in focus of reporting from generic fund types to major funds and to record an interest expense accrual:

Description	6/30/2002 Previously Reported Balances	Reclass to Other Funds	Adjustments	6/30/2002 Restated Balances
General Fund.....	\$ 6,881,413	\$ (3,059,972)	\$ (923,755)	\$ 2,897,686
Special Revenue Fund.....	3,683,799	(3,683,799)	-	-
Capital Projects Fund.....	(4,552,691)	4,552,691	-	-
Expendable Trust Fund.....	8,657,217	(8,657,217)	-	-
Nonexpendable Trust Fund.....	1,256,910	(1,256,910)	-	-
Internal Service Fund.....	-	3,059,972	-	3,059,972
School Construction.....	-	(2,174,169)	-	(2,174,169)
Nonmajor Governmental Funds..	-	11,219,404	-	11,219,404
Total.....	<u>\$ 15,926,648</u>	<u>\$ -</u>	<u>\$ (923,755)</u>	<u>\$ 15,002,893</u>

### **Future Implementation of GASB Pronouncements**

The GASB issued Statement #39, Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement #14, which is required to be implemented during fiscal year 2004. Management has yet to determine if this pronouncement will significantly impact the basic financial statements.

The GASB issued Statement #40, Deposit and Investment Risk Disclosures, an Amendment of GASB Statement #3, which is required to be implemented during fiscal year 2005. There will be no change in the financial statements as this GASB will only require changes to the note disclosure.

***Required Supplementary Information***

**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**

FISCAL YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual Budgetary Amounts	Variance to Final Budget
	Original Budget	Final Budget		
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ 48,737,116	\$ 48,431,043	\$ 48,958,479	\$ 527,436
Tax liens.....	-	-	607,852	607,852
Motor vehicle and other excise taxes.....	2,916,080	2,916,080	3,061,671	145,591
Charges for services.....	8,269,305	8,269,305	8,793,924	524,619
Penalties and interest on taxes.....	313,705	313,705	816,405	502,700
Intergovernmental.....	30,800,147	30,800,147	29,392,185	(1,407,962)
Departmental and other.....	2,146,695	2,146,695	3,035,660	888,965
Investment income.....	888,751	888,751	537,884	(350,867)
<b>TOTAL REVENUES.....</b>	<b>94,071,799</b>	<b>93,765,726</b>	<b>95,204,060</b>	<b>1,438,334</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	4,781,177	4,391,987	3,916,977	475,010
Public safety.....	14,661,057	15,364,165	14,768,559	595,606
Education.....	34,521,885	34,539,165	34,695,402	(156,237)
Public works.....	8,274,336	8,092,117	7,426,654	665,463
MWRA assessment.....	8,271,866	8,128,834	8,128,876	(42)
Human services.....	1,123,254	1,188,008	1,075,017	112,991
Culture and recreation.....	963,629	977,130	953,168	23,962
Pension benefits.....	5,538,750	5,538,750	5,528,402	10,348
Property and liability insurance.....	673,000	673,000	548,472	124,528
Employee benefits.....	9,965,000	10,465,000	9,936,357	528,643
Claims and judgments.....	117,919	117,919	1,169,290	(1,051,371)
State and county charges.....	3,309,725	3,309,725	4,792,273	(1,482,548)
Principal.....	2,704,254	2,704,254	2,627,845	76,409
Interest.....	4,245,969	4,245,969	4,227,554	18,415
<b>TOTAL EXPENDITURES.....</b>	<b>99,151,821</b>	<b>99,736,023</b>	<b>99,794,846</b>	<b>(58,823)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES..</b>	<b>(5,080,022)</b>	<b>(5,970,297)</b>	<b>(4,590,786)</b>	<b>1,379,511</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in.....	133,000	4,133,000	4,176,919	43,919
Operating transfers out.....	(415,000)	(415,000)	(338,619)	76,381
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>(282,000)</b>	<b>3,718,000</b>	<b>3,838,300</b>	<b>120,300</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(5,362,022)</b>	<b>(2,252,297)</b>	<b>(752,486)</b>	<b>1,499,811</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>5,005,441</b>	<b>5,005,441</b>	<b>5,005,441</b>	<b>-</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ (356,581)</b>	<b>\$ 2,753,144</b>	<b>\$ 4,252,955</b>	<b>\$ 1,499,811</b>

See notes to required supplementary information.

**NOTE A - 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.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The Office of the City Auditor has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2003, is presented below:

Net change in fund balance - budgetary basis.....	\$	(752,486)
<u>Basis of accounting differences:</u>		
Net change in recording 60-day receipts.....		146,000
Net change in recording tax refunds payable.....		38,000
Net change in recording accrued liabilities.....		<u>151,983</u>
Net change in fund balance - GAAP basis.....	\$	<u>(416,503)</u>

C. Excess of Expenditures Over Appropriations

For the fiscal year ended June 30, 2003, expenditures for education, MWRA assessment, claims and judgments and state and county charges exceeded budgeted appropriations. These amounts will be raised in the tax levy for fiscal year 2004

D. Individual Fund Deficits

Several individual fund deficits exist at June 30, 2003, within the special revenue and capital projects funds. These deficits will be funded through grants, available fund balance and bond proceeds during fiscal year 2004.

