

**CITY OF EVERETT, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2004**

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INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council  
City of Everett, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Everett, Massachusetts, as of and for the year ended June 30, 2004 (except for the Everett, Massachusetts, Contributory Retirement System which is as of and for the year ended December 31, 2003), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Everett's management. Our responsibility is to express an opinion 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 the standards applicable to financial audits contained in *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, each major fund, and the aggregate remaining fund information of the City of Everett, as of June 30, 2004 (except the Everett Contributory Retirement System which is as of December 31, 2003), and the respective changes in financial position, where applicable, thereof in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, and the supplementary information, appearing in the back of this report, are not

a required part of the basic financial statements but are supplementary information required by the *Governmental Accounting Standards Board*. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2005 on our consideration of the City of Everett's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Melanson Heath + Company P.C.*

Andover, Massachusetts  
February 18, 2005



## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Everett, we offer readers this narrative overview and analysis of the financial activities of the City of Everett for the fiscal year ended June 30, 2004. **All amounts, unless otherwise noted, are expressed in thousands.**

### A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The 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 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 our finances in a manner similar to a 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 financial statements focus on near-term inflows and outflows 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 funds with similar 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.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** Proprietary funds are maintained as follows:

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal service funds are used to account for self-insured employee health programs and general liability insurance programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

**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 statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by the *Governmental Accounting Standards Board*.

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 66,028 (i.e., net assets), a decrease of \$ (647) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ (2,814), a deficit increase of \$ (1,562) in comparison with the prior year.



- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 9, a decrease of \$ (1,746) in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 59,265, an increase of \$ 3,581 in comparison to the prior year.

### C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years:

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 62,215	\$ 62,286
Capital assets	<u>121,267</u>	<u>113,178</u>
Total assets	183,482	175,464
Long-term liabilities outstanding	62,155	57,024
Other liabilities	<u>55,299</u>	<u>51,765</u>
Total liabilities	117,454	108,789
Net assets:		
Invested in capital assets, net	50,090	47,964
Restricted	2,958	4,162
Unrestricted	<u>12,980</u>	<u>14,549</u>
Total net assets	\$ <u>66,028</u>	\$ <u>66,675</u>

### CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Revenues:		
Program revenues:		
Charges for services	\$ 12,259	\$ 17,897
Operating grants and contributions	32,653	27,630
Capital grants and contributions	777	313
General revenues:		
Property taxes	50,564	49,140
Excises	3,499	2,582
Penalties and interest on taxes	626	816
Grants and contributions not restricted to specific programs	7,277	7,836
Investment income	538	842
Other	<u>1,285</u>	<u>1,923</u>
Total revenues	109,478	108,979

(continued)

(continued)

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Expenses:		
General government	1,285	6,221
Public safety	15,322	15,056
Education	48,754	47,367
Public works	8,243	8,156
Water operations	2,858	3,089
Sewer operations	5,629	5,040
Health and human services	1,448	1,147
Culture and recreation	1,423	1,536
Employee benefits	15,472	20,570
Interest on long-term debt	4,363	4,056
Intergovernmental	5,293	4,792
Other	35	-
Total expenses	<u>110,125</u>	<u>117,030</u>
Decrease in net assets	( 647)	( 8,051)
Net assets - beginning of year (as restated)	<u>66,675</u>	<u>74,726</u>
Net assets - end of year	<u>\$ 66,028</u>	<u>\$ 66,675</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 66,028, a decrease of \$ (647) from the prior year.

The largest portion of net assets \$ 50,090 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of 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 net assets \$ 2,958 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 12,980 may be used to meet the government's ongoing obligations to citizens and creditors.



**Governmental activities.** Governmental activities for the year resulted in a decrease in net assets of \$ (647). Key elements of this increase/decrease are as follows:

General fund expenditures in excess of revenues	\$ (2,047)
Special revenue fund revenues over expenditures	511
Trust fund revenues over expenditures	32
Internal service fund revenues exceeding expenditures	1,154
Capital asset acquisitions from current year revenue	5,492
Depreciation expense in excess of principal debt service	(1,218)
Increase in allowance for uncollectibles	(4,431)
Other	( 140)
Total	\$ ( 647)

**D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, fund accounting is used 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.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ (2,814), a deficit increase of \$ (1,562) in comparison with the prior year. Key elements of this increase/decrease are as follows:

General fund expenditures in excess of revenues	\$ (2,047)
Special revenue fund revenues over expenditures	511
Trust fund revenues over expenditures	32
Other	( 58)
Total	\$ (1,562)

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 9, while total fund balance was \$ 434. 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 and total fund balance represent less than one half of one percent of total general fund expenditures.

The fund balance of the general fund decreased by \$ (2,047) during the current fiscal year. Key factors in this change are as follows:

Use of free cash	\$ ( 720)
Use of overlay surplus	(1,406)
Revenues less than budget	( 824)
School department overexpenditure	( 599)
Expenditures less than budget, exclusive of School deficit	1,903
Raising of prior year deficits	165
Expenditures of prior year encumbrances	( 425)
Other	( 141)
Total	\$ <u>(2,047)</u>

**Proprietary funds.** Unrestricted net assets of the internal service funds at the end of the year amounted to \$ 4,470, an increase of \$ 1,154 in comparison with the prior year.

#### **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$ 720. Major reasons for these amendments include:

- \$ 200 increase in the Education Instructional Salaries line item.
- \$ 209 increase in the Police Salaries line item.
- \$ 88 increase in the Facilities Maintenance utility line item.
- \$ 40 increase in the Veteran Benefit Allowance line item.
- \$ 183 increase in various other line items.

All of this increase was to be funded through the use of free cash.

#### **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets at year end amounted to \$ 121,267 (net of accumulated depreciation), an increase of \$ 8,089 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

The major capital asset event during the fiscal year was the investment of \$ 6,602,327 in building construction expenditures, accounted for in the major school building fund.

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$ 59,265, all of which was backed by the full faith and credit of the government.



Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

#### **G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

During FY05, the operating budget for the City of Everett increased \$ 6,401 or 6.8%. The breakdown is as follows: City Departments increased \$ 3,184 or 11.8%; School Department increased \$ 3,300 or 10.1%; and Fixed Costs decreased \$ 83. The major reason for the City Department cost increasing has to do with the restoration of services curtailed during FY03 due to lower state aid. In addition, the School Department increase occurred as a direct result of higher Chapter 70 monies received from the state. A more thorough examination of the operating budget trend reveals that from FY02 through FY05 the major elements of the budget increased as follows: City Departments increased \$ 1,988 or 7.1%; School Department increased \$ 1,600 or 4.6%; and the Fixed Costs increased \$ 4,693 or 15.7%.

It is expected that local receipts will increase over FY04, which ended with a revenue shortfall of \$ 829. The FY05 tax levy increased by \$ 5,844 and includes this revenue shortfall. The estimated revenues for FY05 utilized the more conservative FY04 actuals.

#### **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:

Office of City Auditor  
City of Everett, Massachusetts  
City Hall, 484 Broadway  
Everett, Massachusetts 02149

CITY OF EVERETT, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2004

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current:	
Cash and short-term investments	\$ 53,762,709
Investments	677,190
Receivables, net of allowance for uncollectibles:	
Property taxes	940,258
Excises	639,855
Water user charges	1,297,288
Sewer user charges	2,447,954
Intergovernmental	607,346
Other	80,572
Other assets	1,310,219
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Loans receivable	451,917
Capital assets, being depreciated, net	105,659,625
Capital assets, not being depreciated	<u>15,606,904</u>
<b>TOTAL ASSETS</b>	<b>183,481,837</b>
<b>LIABILITIES</b>	
Current:	
Warrants payable	2,969,366
Accounts payable	1,690,250
Accrued liabilities	3,803,519
Tax refunds payable	1,267,000
Anticipation notes payable	44,200,000
Health claims payable	1,313,991
Other current liabilities	114,193
Current portion of long-term liabilities:	
Bonds payable	3,212,389
Other	934,211
Noncurrent:	
Bonds payable, net of current portion	56,052,612
Other liabilities, net of current portion	<u>1,896,731</u>
<b>TOTAL LIABILITIES</b>	<b>117,454,262</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	50,089,777
Restricted for:	
Grants and other statutory restrictions	1,646,221
Permanent funds:	
Nonexpendable	1,037,020
Expendable	274,226
Unrestricted	<u>12,980,331</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>66,027,575</u></b>

See notes to financial statements.



CITY OF EVERETT, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2004

	<u>Program Revenues</u>			<u>Capital</u>	<u>Net (Expenses)</u>
	<u>Charges for</u>	<u>Operating</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Revenues and</u>
	<u>Services</u>	<u>Grants and</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Changes in Net Assets</u>
		<u>Contributions</u>		<u>Contributions</u>	<u>Governmental</u>
					<u>Activities</u>
<b>Governmental Activities:</b>					
General government	\$ 1,284,866	\$ -	\$ -	-	\$ (426,064)
Public safety	15,321,628	409,610	293,396	293,396	(13,086,533)
Education	48,754,494	31,659,138	205,089	205,089	(16,015,646)
Public works	8,242,634	82,690	273,347	273,347	(7,682,194)
Water operations	2,858,163	-	-	-	(1,025,388)
Sewer operations	5,628,751	-	-	-	1,209,180
Health and human services	1,447,739	173,962	-	-	(1,191,888)
Culture and recreation	1,423,532	327,240	5,000	5,000	(1,054,910)
Employee benefits	15,472,577	-	-	-	(15,472,577)
Debt Service	4,362,955	-	-	-	(4,362,955)
Intergovernmental	5,293,139	-	-	-	(5,293,139)
Other	34,887	-	-	-	(34,887)
<b>Total Governmental Activities</b>	<b>\$ 110,125,365</b>	<b>\$ 32,652,640</b>	<b>\$ 776,832</b>	<b>\$ 776,832</b>	<b>(64,437,001)</b>
<b>General Revenues:</b>					
Property taxes					50,563,888
Excises					3,499,408
Penalties, interest and other taxes					626,009
Grants and contributions not restricted to specific programs					7,276,580
Investment income					537,988
Other					1,285,863
<b>Total general revenues</b>					<b>63,789,736</b>
<b>Change in Net Assets</b>					<b>(647,265)</b>
<b>Net Assets:</b>					
Beginning of year, as restated					66,674,840
End of year					\$ 66,027,575

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2004

<b>ASSETS</b>	<u>General</u>	<u>School Building Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and short-term investments	\$ 6,405,553	\$ 28,674,414	\$ 12,998,395	\$ 48,078,362
Investments	-	-	677,190	677,190
Receivables, net of allowance:				
Property taxes	982,328	-	-	982,328
Excises	715,007	-	-	715,007
Water user charges	1,362,879	-	-	1,362,879
Sewer user charges	2,597,543	-	-	2,597,543
Departmental and other	46,158	-	34,414	80,572
Intergovernmental	1,887	-	605,459	607,346
Due from other funds	116,669	-	1,628	118,297
Other assets	33,154	-	515,382	548,536
<b>TOTAL ASSETS</b>	<b>\$ 12,261,178</b>	<b>\$ 28,674,414</b>	<b>\$ 14,832,468</b>	<b>\$ 55,768,060</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Warrants payable	\$ 1,821,127	\$ -	\$ 1,148,239	\$ 2,969,366
Accounts payable	627,472	-	-	627,472
Deferred revenues	5,281,756	-	834,289	6,116,045
Accrued liabilities	2,764,528	415,162	40,540	3,220,230
Tax refunds payable	1,267,000	-	-	1,267,000
Anticipation notes payable	-	44,200,000	-	44,200,000
Due to other funds	9,318	20,342	96,309	125,969
Other liabilities	55,615	-	-	55,615
<b>TOTAL LIABILITIES</b>	<b>11,826,816</b>	<b>44,635,504</b>	<b>2,119,377</b>	<b>58,581,697</b>
Fund Balances:				
Reserved for:				
Encumbrances and continuing appropriations	425,271	-	-	425,271
Perpetual (nonexpendable) permanent funds	-	-	1,037,020	1,037,020
Unreserved:				
Undesignated, reported in:				
General fund	9,091	-	-	9,091
Special revenue funds	-	-	7,978,212	7,978,212
Capital project funds	-	(15,961,090)	3,423,633	(12,537,457)
Permanent funds	-	-	274,226	274,226
<b>TOTAL FUND BALANCES</b>	<b>434,362</b>	<b>(15,961,090)</b>	<b>12,713,091</b>	<b>(2,813,637)</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 12,261,178</b>	<b>\$ 28,674,414</b>	<b>\$ 14,832,468</b>	<b>\$ 55,768,060</b>

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>School Building Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 54,018,371	\$ -	\$ -	\$ 54,018,371
Excises	3,135,439	-	-	3,135,439
Penalties, interest and other taxes	626,009	-	-	626,009
Charges for services	794,281	-	1,049,566	1,843,847
Licenses and permits	604,065	-	-	604,065
Fines and forfeits	724,847	-	-	724,847
Intergovernmental	33,169,060	-	10,270,300	43,439,360
Water	2,701,387	-	-	2,701,387
Sewer	6,185,342	-	-	6,185,342
Investment income	286,126	-	115,361	401,487
Other	1,120,756	-	185,185	1,305,941
Total Revenues	<u>103,365,683</u>	<u>-</u>	<u>11,620,412</u>	<u>114,986,095</u>
<b>Expenditures:</b>				
Current:				
General government	3,922,858	-	1,176,140	5,098,998
Public safety	13,970,547	-	1,440,952	15,411,499
Education	39,502,067	5,352,885	7,297,026	52,151,978
Public works	7,208,774	-	753,088	7,961,862
Water	2,858,163	-	459,104	3,317,267
Sewer	5,628,751	-	670,828	6,299,579
Health and human services	1,063,126	-	367,671	1,430,797
Culture and recreation	794,253	-	104,422	898,675
Employee benefits	17,236,029	-	-	17,236,029
Other	10,160	-	5,024	15,184
Debt service	6,679,845	-	-	6,679,845
Intergovernmental	5,293,139	-	-	5,293,139
Total Expenditures	<u>104,167,712</u>	<u>5,352,885</u>	<u>12,274,255</u>	<u>121,794,852</u>
Excess (deficiency) of revenues over expenditures	(802,029)	(5,352,885)	(653,843)	(6,808,757)
<b>Other Financing Sources (Uses):</b>				
Proceeds of bond anticipation notes	-	-	6,368,939	6,368,939
Operating transfers in	32,413	-	323,320	355,733
Operating transfers out	(1,277,205)	-	(200,679)	(1,477,884)
Total Other Financing Sources (Uses)	<u>(1,244,792)</u>	<u>-</u>	<u>6,491,580</u>	<u>5,246,788</u>
Change in fund balances	(2,046,821)	(5,352,885)	5,837,737	(1,561,969)
Fund Balance, at Beginning of Year, as restated	<u>2,481,183</u>	<u>(10,608,205)</u>	<u>6,875,354</u>	<u>(1,251,668)</u>
Fund Balance, at End of Year	<u>\$ 434,362</u>	<u>\$ (15,961,090)</u>	<u>\$ 12,713,091</u>	<u>\$ (2,813,637)</u>

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
BALANCES TO NET ASSETS OF GOVERNMENTAL  
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2004

<b>Total governmental fund balances</b>	\$ ( 2,813,637)
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	121,266,529
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	5,842,221
• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.	4,470,272
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	( 583,289)
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	( <u>62,154,521</u> )
<b>Net assets of governmental activities</b>	\$ <u><u>66,027,575</u></u>

See notes to financial statements.



CITY OF EVERETT, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2004

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$( 1,561,969)

<ul style="list-style-type: none"> <li>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:</li> </ul>	
Capital outlay purchases	12,094,373
Depreciation	( 4,006,172)
<ul style="list-style-type: none"> <li>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.</li> </ul>	( 4,432,918)
<ul style="list-style-type: none"> <li>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:</li> </ul>	
Issuance of debt	( 6,386,939)
Repayments of debt	2,787,526
<ul style="list-style-type: none"> <li>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li> </ul>	( 349,697)
<ul style="list-style-type: none"> <li>Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.</li> </ul>	54,141
<ul style="list-style-type: none"> <li>Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities.</li> </ul>	<u>1,154,390</u>
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ ( <u>647,265</u> )</b>

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2004

	<u>Governmental Activities</u>
	Internal Service Fund
<b><u>ASSETS</u></b>	
Cash and short-term investments	\$ 5,684,347
Due from other funds	7,893
Other assets	<u>1,213,600</u>
<b>TOTAL ASSETS</b>	<b>6,905,840</b>
<b><u>LIABILITIES</u></b>	
Current:	
Warrants payable	1,062,778
Health claims payable	1,313,991
Workers compensation payable	58,578
Due to other funds	<u>221</u>
<b>TOTAL LIABILITIES</b>	<b>2,435,568</b>
<b><u>NET ASSETS</u></b>	
Unrestricted	<u>4,470,272</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>4,470,272</u></b>

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2004

	<u>Governmental Activities</u>
	Internal Service Fund
<b>Operating Revenues:</b>	
Charges for services	\$ 9,294,531
<b>Operating Expenses:</b>	
Non-personnel services	<u>9,398,794</u>
Operating Income	(104,263)
<b>Nonoperating Revenues:</b>	
Investment income	<u>136,502</u>
Income Before Transfers	32,239
<b>Transfers:</b>	
Operating transfers in	<u>1,122,151</u>
Change in Net Assets	1,154,390
Net Assets at Beginning of Year	<u>3,315,882</u>
Net Assets at End of Year	<u><u>\$ 4,470,272</u></u>

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS  
 FIDUCIARY FUNDS  
 STATEMENT OF FIDUCIARY NET ASSETS  
 JUNE 30, 2004

	Pension Trust Fund (as of December <u>31, 2003</u> )	Agency <u>Funds</u>
<b><u>ASSETS</u></b>		
Cash and short term investments	\$ 593,874	\$ 380,180
Investments	44,107,516	-
Other assets	<u>53,232</u>	<u>311,844</u>
Total Assets	44,754,622	692,024
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
Other liabilities	<u>13,877</u>	<u>692,024</u>
Total Liabilities	<u>13,877</u>	<u>692,024</u>
 <b><u>NET ASSETS</u></b>		
Total Net Assets Held in Trust for Pension Benefits and Other Purposes	\$ <u><u>44,740,745</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.



CITY OF EVERETT, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2004

	Pension Trust Fund (For the Year Ended <u>December 31, 2003</u> )
<b>Additions:</b>	
Contributions:	
Employers	\$ 5,850,000
Other systems and Commonwealth of Massachusetts	154,484
Plan members	2,056,109
Intergovernmental	<u>506,176</u>
Total contributions	8,566,769
Investment Income:	
Increase in fair value of investments	7,818,219
Less: management fees	<u>(218,232)</u>
Net investment income	<u>7,599,987</u>
Total additions	16,166,756
<b>Deductions:</b>	
Benefit payments to plan members and beneficiaries	10,712,782
Transfers to other systems	593,885
Administrative expenses	<u>144,464</u>
Total deductions	<u>11,451,131</u>
Net increase	4,715,625
<b>Net assets:</b>	
Beginning of year	<u>40,025,120</u>
End of year	<u>\$ 44,740,745</u>

See notes to financial statements.

# CITY OF EVERETT, MASSACHUSETTS

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

The accounting policies of the City of Everett (the City) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

#### A. Reporting Entity

The government is a municipal corporation governed by an elected City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2004, it was determined that no entities met the required GASB-39 criteria of component units.

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

In the Fiduciary Funds: The Everett Contributory Retirement System which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can 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., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given 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 (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

#### Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter 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.

### 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*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

#### Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received



by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *School building projects fund* is a capital projects fund that accounts for the financial activity associated with the City's ongoing school construction and renovation projects.

The self-insured employee health program, workers compensation program, and the City's general liability insurance activities are reported as an internal service fund in the accompanying financial statements.

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

#### D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type is included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

#### E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally

guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Contributory Retirement System and Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

*F. Property Tax Limitations*

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2004 tax levy reflected an excess capacity of \$ 3,771,456.

*G. Interfund Receivables and Payables*

Transactions between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate the portion not available for appropriation and not available as expendable financial resources.

*H. Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:



<u>Assets</u>	<u>Years</u>
Land improvements	5 - 50
Buildings and improvements	5 - 50
Machinery and equipment	3 - 20
Infrastructure	10 - 15
Library books	5
School books	5
Vehicles	

I. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

J. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

L. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

M. Statement of Cash Flows

No separate statement of cash flows for the internal service fund is presented since the only change in the cash balance comes from operations.



## 2. Stewardship, Compliance and Accountability

### A. Budgetary Information

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the City Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at City Council meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the City Council is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

### B. Budgetary Basis

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

### C. Excess of Expenditures Over Appropriations

Expenditures exceeding appropriations during the current fiscal year were as follows:

Education	\$ <u>(599,240)</u>
-----------	---------------------

The City will fund this overexpenditure in fiscal year 2005 with unspent School Department appropriations.

D. Deficit Fund Equity

The City's special revenue and capital project funds reflect various individual deficit fund balance accounts, which will be funded by future receipts and bond issuances.

3. Cash and Short-Term Investments

The carrying amount of the City's and Retirement System's deposits with financial institutions at June 30, 2004 and December 31, 2003 was \$ 54,142,889 and \$ 593,874, respectively. The bank balances, which do not include reconciling items such as deposits in transit and outstanding checks, are categorized as follows:

	<u>City Deposits June 30, 2004</u>	<u>Retirement System Deposits December 31, 2003</u>
Uncollateralized	\$ 52,422,884	\$ 620,430
State investment pool	<u>1,614,710</u>	<u>-</u>
Total Bank Balance	\$ <u>54,037,594</u>	\$ <u>620,430</u>

4. Investments

Investments are categorized into the following three categories of credit risk:

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

At year end, the government's investment balances were as follows:

	<u>Category</u>			
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>
U.S. Government securities	\$ <u>-</u>	\$ <u>-</u>	\$ <u>677,190</u>	\$ <u>677,190</u>
Total Investments				\$ <u>677,190</u>

At December 31, 2003, the Everett Retirement System's investment balances were as follows:

	Category			Total
	1	2	3	
Corporate equity	\$ -	\$ -	\$ 43,774,991	\$ 43,774,991
Corporate bonds	-	-	332,525	332,525
Total Investments	\$ -	\$ -	\$ 44,107,516	\$ 44,107,516

## 5. Taxes Receivable

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 a semi-annual basis 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 they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The City has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2004 consist of the following (in thousands):

Real Estate		
2004	\$ 573	
2003	35	
2002	30	
2001	4	
Prior	<u>2</u>	
		\$ 644
Personal Property		
2004	49	
2003	16	
2002	12	
2001	6	
Prior	<u>4</u>	
		87
Tax Liens		237
Deferred Taxes		<u>14</u>
Total		\$ <u>982</u>



**6. Allowance for Doubtful Accounts**

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>
Property taxes	\$ 42
Excises	75
Water user charges	66
Sewer user charges	150

**7. Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2004.

**8. Interfund Fund Receivables/Payables**

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2004 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 116,669	\$ 9,318
Nonmajor governmental funds	1,628	116,651
Proprietary funds	<u>7,893</u>	<u>221</u>
Total	\$ <u>126,190</u>	\$ <u>126,190</u>

**9. Capital Assets**

Capital asset activity for the year ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 85,273,118	\$ -	\$ -	\$ 85,273,118
Machinery, equipment, and furnishings	12,670,505	401,275	( 157,214)	12,914,566
Infrastructure	<u>50,782,546</u>	<u>635,871</u>	<u>(1,640,674)</u>	<u>49,777,743</u>
Total capital assets, being depreciated	148,726,169	1,037,146	(1,797,888)	147,965,427

(continued)

(continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for:				
Buildings and improvements	( 14,567,979)	( 1,891,775)	-	( 16,459,754)
Machinery, equipment, and furnishings	( 7,490,895)	( 1,355,587)	157,214	( 8,689,268)
Infrastructure	( 18,038,644)	( 758,810)	1,640,674	( 17,156,780)
Total accumulated depreciation	( 40,097,518)	( 4,006,172)	1,797,888	( 42,305,802)
Total capital assets, being depreciated, net	108,628,651	( 2,969,026)	-	105,659,625
Capital assets, not being depreciated:				
Land	4,549,677	4,454,900	-	9,004,577
Construction in progress	-	6,602,327	-	6,602,327
Total capital assets, not being depreciated	4,549,677	11,057,227	-	15,606,904
Governmental activities capital assets, net	\$ 113,178,328	\$ 8,088,201	\$ -	\$ 121,266,529

Depreciation expense was charged to functions of the City as follows:

Governmental Activities:

General government	\$ 149,001
Public safety	331,077
Education	2,021,622
Public works	1,056,472
Culture and recreation	446,440
Other	1,560

Total depreciation expense - governmental activities \$ 4,006,172

## 10. Warrants and Accounts Payable

Warrants payable represent 2004 expenditures paid by July 15, 2004 as permitted by law. Accounts payable represent additional 2004 expenditures paid after July 15, 2004.

## 11. Deferred Revenue

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.

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2004 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

**12. Tax Refunds Payable**

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Appellate Tax Board.

**13. Anticipation Notes Payable**

The City had the following notes outstanding at June 30, 2004:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2004</u>
Bond anticipation notes	1.04%	10/01/03	10/01/04	\$ 9,200,000
Bond anticipation notes	1.75%	09/12/03	09/10/04	<u>35,000,000</u>
Total				\$ <u>44,200,000</u>

The following summarizes activity in notes payable during fiscal year 2004:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation notes	\$ <u>44,765,000</u>	\$ <u>44,200,000</u>	\$ <u>(44,785,000)</u>	\$ <u>44,200,000</u>

**14. Long-Term Debt**

**A. General Obligation Bonds**

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2004</u>
Oct 15, 1994 - Energy Cons	10/15/04	5.0 - 6.0%	\$ 8,500
Oct 15, 1994 - HVAC	10/15/04	5.1 - 6.0%	70,000
Oct 15, 1994 - Fire Truck	10/15/04	5.1 - 6.0%	75,250
Oct 15, 1994 - Roof Repair	10/15/04	5.1 - 6.0%	16,000
Sept 15, 1996 - Depart Eq.	09/15/11	4.5 - 6.25%	640,000
Sept 15, 1996 - Comm System	09/15/06	4.5 - 6.25%	105,000
Aug 15, 1998 - Adv Ref of 7/15/90 - Library	07/15/07	4.1 - 4.5%	646,780
Aug 15, 1998 - Adv Ref of 7/15/90 - Rec	07/15/04	4.1 - 4.5%	25,020

(continued)



(continued)

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2004</u>
Mar 15, 2001 - MWRA Sewer	02/15/06	.0%	163,806
Sept 5, 2002 - MWRA Sewer	08/15/07	.0%	305,624
Nov 1, 2003 - MWPTA CW-02-31	08/01/23	Variable	424,139
Mar 1, 2004 - School Remodeling	03/01/22	2.125 - 4.5%	2,400,000
Mar 1, 2004 - Public works Facility	03/01/20	2.125 - 4.5%	3,435,000
Oct 15, 1994 - Land Acquis.	10/15/04	5.1 - 6.0%	25,250
Jan 15, 2000 - School	12/15/09	5.0 - 6.125%	35,090,000
Dec 1, 2000 - School	12/01/09	5.0 - 6.0%	14,500,000
Feb 15, 2001 - MWRA Water	02/15/11	0.0%	380,032
Jun 27, 2002 - MWRA	05/15/12	0.0%	434,322
Sep 5, 2002 - MWRA	08/15/12	0.0%	302,278
May 20, 2004 - MWRA	05/15/14	0.0%	109,800
Aug 15, 1998 - Adv Ref of 7/15/90 - School	07/15/07	4.1 - 4.5%	<u>108,200</u>
Total Governmental Activities:			<u>\$ 59,265,001</u>

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2004 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 3,212,389	\$ 2,952,573	\$ 6,164,962
2006	3,122,501	2,809,326	5,931,827
2007	3,155,944	2,675,542	5,831,486
2008	3,176,301	2,539,440	5,715,741
2009	3,075,024	2,402,654	5,477,678
2010 - 2014	17,177,842	9,613,609	26,791,451
2015 - 2019	21,110,000	4,462,170	25,572,170
Thereafter	<u>5,235,000</u>	<u>183,569</u>	<u>5,418,569</u>
Total	<u>\$ 59,265,001</u>	<u>\$ 27,638,883</u>	<u>\$ 86,903,884</u>

The General fund has been designated as the sources to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2004.

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2004, the following changes occurred in long-term liabilities:

	Total Balance <u>7/1/03</u>	Additions	Reductions	Total Balance <u>6/30/04</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/04</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 55,683,588	\$ 6,368,939	\$ (2,787,526)	\$ 59,265,001	\$ (3,212,389)	\$ 56,052,612
Other:						
Compensated absences	<u>2,885,083</u>	<u>-</u>	<u>( 54,141)</u>	<u>2,830,942</u>	<u>( 934,211)</u>	<u>1,896,731</u>
Totals	\$ <u>58,568,671</u>	\$ <u>6,368,939</u>	\$ <u>(2,841,667)</u>	\$ <u>62,095,943</u>	\$ <u>(4,146,600)</u>	\$ <u>57,949,343</u>

## 15. Restricted Net Assets

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

## 16. Reserves of Fund Equity

"Reserves" of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at June 30, 2004:

Reserved for Encumbrances and Continuing Appropriations - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Permanent Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

## 17. General Fund Undesignated Fund Balance

The undesignated general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraphs summarize the major differences.

Massachusetts general laws include provisions to allow municipalities to overexpend certain appropriations if they are incurred in an emergency situ-



ation and for the safety of the public. The most common example involves the "snow and ice" appropriation. All such overexpenditures, however, must be funded in the subsequent year's tax rate.

Massachusetts General Laws require that non-property tax revenue budget shortfalls, net of appropriation turnbacks, be funded in the subsequent year. The same treatment is also applied to the excess of actual property tax abatements and exemptions over the provision for abatements and exemptions (overlay).

The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS.

The following summarizes the specific differences between GAAP basis and statutory basis of reporting the general fund undesignated fund balance:

GAAP basis balance	\$ 9,091
Appropriation deficits	599,240
Tax refund estimate	<u>1,267,000</u>
Statutory (UMAS) Balance	<u>\$ 1,875,331</u>

## 18. Subsequent Events

### Debt

Subsequent to June 30, 2004, the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond anticipation note	\$ 20,000,000	1.60%	09/10/04	09/09/05
Bond anticipation note	15,000,000	1.55%	09/10/04	09/09/05
Bond anticipation note	9,300,000	1.70%	10/01/04	09/09/05
General obligation refunding bonds	22,270,000	2.00 - 5.38%	09/15/04	12/15/19

## 19. Commitments and Contingencies

Outstanding Lawsuits - There are several pending lawsuits in which the City is involved. The City's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute



a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**20. Post-Employment Health Care and Life Insurance Benefits**

The City has accepted Chapter 32B of Massachusetts General Laws to provide for health care and life insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the City's group plans. The cost of these benefits are included in the total cost of benefits for both active and retired employees. The number of participants currently eligible to receive benefits, and cost of benefits for retirees, their dependents, or their survivors for the year ended June 30, 2004 was not available.

**21. Contributory Retirement System**

*A. Plan Description and Contribution Information*

Substantially all employees of the City (except teachers and administrators under contract employed by the School Department) are members of the Everett Contributory Retirement System (ECRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the ECRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the ECRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The ECRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2003, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	634
Terminated plan members entitled to but not yet receiving benefits	111
Active plan members	<u>528</u>
Total	<u>1,273</u>
Number of participating employers	2

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after

January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of \$ 30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

**B. Summary of Significant Accounting Policies**

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported in accordance with PERAC requirements.

**C. Teachers**

As required by State statutes, teachers of the City are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The City is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$ 30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%*
January 1, 1984 - June 30, 1996	8%*
July 1, 1996 - June 30, 2001	9%*
Beginning July 1, 2001	11%



\* Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$ 30,000.

The City's current year covered payroll for teachers and administrators was available.

In fiscal year 2004, the Commonwealth of Massachusetts contributed \$ 5,653,079 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

## 22. Self Insurance

The City self insures against claims for workers compensation, unemployment and most employee health coverage. Annual estimated requirements for claims are provided in the City's annual operating budget.

### Workers' Compensation

The City contracts with an insurance consultant for claims processing of the City's workers compensation policy, which has no excess liability coverage for any employees. The Workers' Compensation claims liability represents an estimate of future costs based on a historical analysis of similar claims for all employees excluding public safety. The City is unable to make any reasonable estimate of its liability for public safety employees.

### Health Insurance

The City contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the City is liable for claims up to \$ 100,000 per individual. The claims liability represents an estimate of claims incurred but unpaid at year end, based on past historical costs and claims paid subsequent to year end.

Changes in the aggregate liability for claims for the year ended June 30, 2004 are as follows:

	<u>Workers Compensation</u>	<u>Health Coverage</u>
Claims liability, July 1, 2003	\$ 178,000	\$ 1,395,000
Claims incurred/recognized in fiscal year 2004	325,250	9,073,544
Claims paid in fiscal year 2004	<u>(444,672)</u>	<u>(9,154,553)</u>
Claims liability, June 30, 2004	\$ <u>58,578</u>	\$ <u>1,313,991</u>



**23. Risk Management**

The government 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 government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

**24. Beginning Net Assets/Fund Balance Restatement**

The beginning (July 1, 2003) fund balances of the City have been restated as follows:

Government-Wide Financial Statements:

	<u>Governmental Activities</u>
As previously reported	\$ 103,540,955
Remove receivable established for reimbursement from Commonwealth for eligible school debt service	( 35,321,032)
Record additional compensated absences payable	( <u>1,545,083</u> )
As restated	\$ <u>66,674,840</u>

Fund Financial Statements:

	<u>Nonmajor Governmental Funds</u>
As previously reported	\$ 7,915,884
Reclassification of UDAG loans deferred revenue	( <u>1,040,530</u> )
As restated	\$ <u>6,875,354</u>

**CITY OF EVERETT, MASSACHUSETTS  
CONTRIBUTORY RETIREMENT SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION**

**Schedules of Funding Progress and Employer Contributions**

The following schedules are presented in accordance with the Governmental Accounting Standards Board Statement 25.

**Schedule of Funding Progress (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 Percent- age of Covered Payroll [(b - a)/c]
01/01/2004	\$ 50,498	\$ 128,181	\$ 77,683	39.4%	\$ 20,907	371.6%
01/01/2001	\$ 51,660	\$ 113,565	\$ 61,906	45.5%	\$ 21,179	292.3%
01/01/1999	\$ 55,875	\$ 108,557	\$ 52,682	51.5%	\$ 18,994	277.4%
01/01/1998	\$ 53,566	\$ 100,338	\$ 46,772	53.4%	\$ 16,895	276.8%

**Schedule of Employer Contributions:**

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2000	\$ 4,244,462	100%
2001	\$ 4,415,388	100%
2002	\$ 5,036,064	100%
2003	\$ 5,557,500	100%

The required information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	01/01/2004
Actuarial cost method	Entry Age
Amortization method	Level
Remaining amortization period	23
Asset valuation method	Smoothed Value
Actuarial assumptions:	
Investment rate of return	8.5
Projected salary increase	5.5

CITY OF EVERETT, MASSACHUSETTS  
GENERAL FUND

SCHEDULE OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2004

REQUIRED SUPPLEMENTARY INFORMATION

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>Revenues and Other Sources:</b>				
Taxes	\$ 55,081,570	\$ 55,081,570	\$ 55,081,570	\$ -
Excise	3,061,669	3,061,669	3,135,439	73,770
Penalties, interest and other taxes	830,517	830,517	626,009	(204,508)
Charges for services	545,295	545,295	794,281	248,986
Licenses and permits	588,072	588,072	604,065	15,993
Fines and forfeits	738,470	738,470	724,847	(13,623)
Intergovernmental	27,457,511	27,457,511	27,515,981	58,470
Water	3,187,892	3,187,892	2,701,387	(486,505)
Sewer	5,636,033	5,636,033	6,185,342	549,309
Investment income	537,884	537,884	286,126	(251,758)
Other	1,967,391	1,967,391	1,120,756	(846,635)
Transfers in	-	-	32,413	32,413
Other financing sources	1,405,703	2,125,626	2,125,626	-
Total Revenues and Other Sources	101,038,007	101,757,930	100,933,842	(824,088)
<b>Expenditures and Other Uses:</b>				
General government	4,718,371	4,488,916	3,610,609	878,307
Public safety	13,954,433	14,432,225	14,179,907	252,318
Education	32,800,000	33,000,000	33,599,240	(599,240)
Public works	7,020,690	7,187,385	7,110,718	76,667
Water	2,873,932	2,873,932	2,863,579	10,353
Sewer	5,687,920	5,687,920	5,628,751	59,169
Health and human services	1,025,969	1,078,469	1,063,098	15,371
Culture and recreation	813,596	815,987	794,438	21,549
Employee benefits	17,460,349	17,460,349	17,147,670	312,679
Debt service	6,856,229	6,856,229	6,679,845	176,384
Intergovernmental	5,393,642	5,393,642	5,293,140	100,502
Transfers out	1,222,151	1,272,151	1,272,151	-
Other	1,210,725	1,210,725	1,210,725	-
Total Expenditures and Other Uses	101,038,007	101,757,930	100,453,871	1,304,059
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 479,971	\$ 479,971

See notes to financial statements.



CITY OF EVERETT, MASSACHUSETTS

Notes to the Required Supplementary Information  
June 30, 2004

Budget/GAAP Reconciliation

The budgetary data for the general is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 103,365,683	\$ 104,167,712
Other financing sources/uses (GAAP basis)	<u>32,413</u>	<u>1,277,205</u>
Subtotal (GAAP Basis)	103,398,096	105,444,917
Adjust tax revenue to accrual basis	1,063,199	-
Reverse beginning of year appro- priation carryforwards from expenditures	-	( 725,843)
Add end of year appropriation carry- forwards to expenditures	-	425,271
Raising of prior years deficits	-	164,492
Reverse accrued payroll adjustment	-	( 248,120)
Recognize use of fund balance as funding source	719,923	-
Recognize use of overlay surplus	1,405,703	-
Raising of court judgments	-	1,046,233
Reverse the effect of non-budgeted State contributions for Teachers' Retirement	( 5,653,079)	( 5,653,079)
Budgetary basis	<u>\$ 100,933,842</u>	<u>\$ 100,453,871</u>