

CITY OF EVERETT, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2005

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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, 2005 (except for the Everett, Massachusetts, Contributory Retirement System which is as of and for the year ended December 31, 2004), 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, 2005 (except the Everett Contributory Retirement System which is as of December 31, 2004), 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 April 25, 2006 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
April 25, 2006

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, 2005. **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 \$ 74,374 (i.e., net assets), an increase of \$ 8,346 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ (1,290), a deficit decrease of \$ 1,524 in comparison with the prior year.

- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 7,069, an increase of \$ 7,060 in comparison with the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 57,586, a decrease of \$ (1,679) 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>2005</u>	<u>2004</u>
Current and other assets	\$ 64,530	\$ 62,215
Capital assets	<u>125,489</u>	<u>121,267</u>
Total assets	190,019	183,482
Long-term liabilities outstanding	60,207	62,155
Other liabilities	<u>55,438</u>	<u>55,299</u>
Total liabilities	115,645	117,454
Net assets:		
Invested in capital assets, net	48,384	50,090
Restricted	2,837	2,958
Unrestricted	<u>23,153</u>	<u>12,980</u>
Total net assets	<u>\$ 74,374</u>	<u>\$ 66,028</u>

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Revenues:		
Program revenues:		
Charges for services	\$ 18,088	\$ 12,259
Operating grants and contributions	37,919	32,653
Capital grants and contributions	4,043	777
General revenues:		
Property taxes	58,280	50,564
Excises	2,487	3,499
Penalties and interest on taxes	1,945	626
Grants and contributions not restricted to specific programs	7,765	7,277
Investment income	545	538
Other	<u>1,548</u>	<u>1,285</u>
Total revenues	132,620	109,478

(continued)

(continued)

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Expenses:		
General government	5,735	5,129
Public safety	16,950	14,593
Education	51,032	46,435
Public works	9,739	7,851
Water operations	3,231	2,722
Sewer operations	5,585	5,361
Health and human services	1,596	1,448
Culture and recreation	1,122	1,423
Employee benefits	18,936	15,472
Interest on long-term debt	4,202	4,363
Intergovernmental	5,867	5,293
Other	279	35
Total expenses	<u>124,274</u>	<u>110,125</u>
Change in net assets	8,346	(647)
Net assets - beginning of year	<u>66,028</u>	<u>66,675</u>
Net assets - end of year	<u>\$ 74,374</u>	<u>\$ 66,028</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 \$ 74,374, an increase of \$ 8,346 from the prior year.

The largest portion of net assets \$ 48,384 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 \$ 2,837 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 23,153 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in an increase in net assets of \$ 8,346. Key elements of this increase are as follows:

General fund revenues and transfers in exceeding expenditures and transfers out	\$ 7,643
Other nonmajor governmental fund revenues and transfers in exceeding expenditures and transfers out	599
Depreciation expense in excess of principal debt service	(1,021)
Recognition of revenues on the accrual basis	1,145
Other	<u>(20)</u>
Total	\$ <u>8,346</u>

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 balance of \$ (1,290), a deficit decrease of \$ 1,524 in comparison with the prior year. Key elements of this deficit decrease are as follows:

General fund revenues and transfers in exceeding expenditures and transfers out	\$ 7,643
Special revenue fund revenues and transfers in exceeding expenditures and transfers out	629
Trust fund expenditures exceeding revenues	(5)
Excess of current year capital project expenditures over current year bond proceeds and transfers in	(6,847)
Other	<u>104</u>
Total	\$ <u>1,524</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 7,069, while total fund balance was \$ 8,077. 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 6.4% and 7.4 % of total general fund expenditures respectively.

The fund balance of the general fund increased by \$ 7,643 during the current fiscal year. Key factors in this change are as follows:

Use of free cash	\$ (266)
Raising of prior year deficits	1,324
Revenues in excess of budget	3,369
Expenditures less than budget	3,743
Expenditures of prior year encumbrances	(514)
Other	(13)
Total	\$ <u>7,643</u>

Proprietary funds. Unrestricted net assets of the internal service funds at the end of the year amounted to \$ 3,552, a decrease of \$ (919) 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 \$ 266. Major reasons for these amendments include:

- \$ 100 increase in transfers out to capital project funds
- \$ 37 increase in transfers out to the Internal Service fund
- \$ 30 increase in the Veterans Benefit Allowance line item
- \$ 20 increase in the Facilities Maintenance utility line item
- \$ 79 increase in various other line items

All of this increase was to be funded through the use of free cash. In addition to the above supplemental increases, the City Council voted numerous departmental transfers within the operating budget throughout the fiscal year.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets at year end amounted to \$ 125,489 (net of accumulated depreciation), an increase of \$ 4,222 from the prior year. This investment in capital assets includes land, buildings and improvements, machinery and equipment, infrastructure, and construction in progress.

Major capital asset events during the current fiscal year included the following:

- \$ 6,646 invested in school building construction
- \$ 1,869 invested in the local water pipeline
- \$ 236 invested in the GE land park
- \$ 253 invested in various equipment

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 57,586, 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.

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, 2005

	Governmental <u>Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 53,186,432
Investments	857,121
Receivables, net of allowance for uncollectibles:	
Property taxes	2,360,355
Excises	1,249,375
Water user charges	716,238
Sewer user charges	2,100,083
Intergovernmental	1,015,768
Other	364,153
Other assets	1,314,155
Deferred charges	46,000
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Loans receivable	446,601
Deferred charges	874,000
Capital assets, being depreciated, net	105,317,490
Capital assets, not being depreciated	<u>20,171,641</u>
TOTAL ASSETS	190,019,412
LIABILITIES	
Current:	
Warrants payable	2,764,983
Accrued liabilities	3,951,441
Tax refunds payable	2,526,038
Anticipation notes payable	44,552,906
Health claims payable	1,507,219
Workers compensation payable	81,599
Other current liabilities	54,813
Current portion of long-term liabilities:	
Bonds payable	3,283,864
Compensated absences	864,770
Noncurrent:	
Bonds payable, net of current portion	54,302,380
Compensated absences, net of current portion	<u>1,755,745</u>
TOTAL LIABILITIES	115,645,758
NET ASSETS	
Invested in capital assets, net of related debt	48,383,874
Restricted for:	
Grants and other statutory restrictions	1,605,490
Permanent funds:	
Nonexpendable	1,231,485
Unrestricted	<u>23,152,805</u>
TOTAL NET ASSETS	\$ <u><u>74,373,654</u></u>

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2005

ASSETS	<u>General</u>	<u>School Building Projects</u>	<u>Stabilization Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and short-term investments	\$ 13,454,231	\$ 23,716,677	\$ 4,971,998	\$ 6,726,310	\$ 48,869,216
Investments	-	-	-	857,121	857,121
Receivables, net of allowance:					
Property taxes	3,449,437	-	-	-	3,449,437
Excises	2,072,706	-	-	-	2,072,706
Water user charges	795,843	-	-	-	795,843
Sewer user charges	2,333,597	-	-	-	2,333,597
Departmental and other	365,562	-	-	-	365,562
Intergovernmental	135,939	-	-	878,421	1,014,360
Loans	-	-	-	519,303	519,303
Due from other funds	42,734	-	-	2,177	44,911
Other assets	27,853	-	-	-	27,853
TOTAL ASSETS	\$ 22,677,902	\$ 23,716,677	\$ 4,971,998	\$ 8,983,332	\$ 60,349,909
LIABILITIES AND FUND BALANCES					
Liabilities:					
Warrants payable	\$ 1,242,572	\$ 32,132	\$ -	\$ 1,032,340	\$ 2,307,044
Deferred revenues	8,541,799	-	-	653,512	9,195,311
Accrued liabilities	2,165,849	2,558	-	722,501	2,890,908
Tax refunds payable	2,526,038	-	-	-	2,526,038
Anticipation notes payable	-	44,300,000	-	252,906	44,552,906
Due to other funds	69,536	20,356	-	22,682	112,574
Other liabilities	54,814	-	-	-	54,814
TOTAL LIABILITIES	14,600,608	44,355,046	-	2,683,941	61,639,595
Fund Balances:					
Reserved for:					
Encumbrances and continuing appropriations	1,008,683	-	-	-	1,008,683
Perpetual (nonexpendable) permanent funds	-	-	-	1,231,485	1,231,485
Unreserved:					
Undesignated, reported in:					
General fund	7,068,611	-	-	-	7,068,611
Special revenue funds	-	-	4,971,998	3,710,826	8,682,824
Capital project funds	-	(20,638,369)	-	1,357,080	(19,281,289)
TOTAL FUND BALANCES	8,077,294	(20,638,369)	4,971,998	6,299,391	(1,289,686)
TOTAL LIABILITIES AND FUND BALANCES	\$ 22,677,902	\$ 23,716,677	\$ 4,971,998	\$ 8,983,332	\$ 60,349,909

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, 2005

Total governmental fund balances	\$(1,289,686)
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	125,489,131
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	6,969,779
<ul style="list-style-type: none">• 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.	3,551,721
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(1,060,532)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable (net of deferred asset), are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(<u>59,286,759</u>)
Net assets of governmental activities	\$ <u>74,373,654</u>

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, 2005

	<u>General</u>	<u>School Building Projects</u>	<u>Stabilization Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 60,750,859	\$ -	\$ -	\$ -	\$ 60,750,859
Excises	2,795,562	-	-	-	2,795,562
Penalties and interest on taxes	1,581,606	-	-	-	1,581,606
Charges for services	798,735	-	-	2,166,219	2,964,954
Licenses and permits	784,489	-	-	-	784,489
Fines and forfeits	786,377	-	-	-	786,377
Intergovernmental	37,542,676	-	-	10,528,967	48,071,643
Water	3,081,059	-	-	-	3,081,059
Sewer	7,687,949	-	-	-	7,687,949
Investment income	308,511	-	92,961	107,391	508,863
Other	1,518,433	-	-	-	1,518,433
Total Revenues	<u>117,636,256</u>	<u>-</u>	<u>92,961</u>	<u>12,803,577</u>	<u>130,532,794</u>
Expenditures:					
Current:					
General government	4,026,202	-	-	1,617,072	5,643,274
Public safety	15,143,498	-	-	1,534,937	16,678,435
Education	42,746,645	4,777,278	-	7,285,761	54,809,684
Public works	7,689,905	-	-	914,926	8,604,831
Water operations	3,230,824	-	-	-	3,230,824
Sewer operations	5,584,884	-	-	-	5,584,884
Health and human services	1,166,303	-	-	-	1,166,303
Culture and recreation	872,269	-	-	249,234	1,121,503
Employee benefits	16,388,838	-	-	-	16,388,838
Capital outlay	-	-	-	3,576,550	3,576,550
Other	-	-	-	8,338	8,338
Debt service	6,937,201	-	-	-	6,937,201
Intergovernmental	5,866,809	-	-	-	5,866,809
Total Expenditures	<u>109,653,378</u>	<u>4,777,278</u>	<u>-</u>	<u>15,186,818</u>	<u>129,617,474</u>
Excess (deficiency) of revenues over expenditures	7,982,878	(4,777,278)	92,961	(2,383,241)	915,320
Other Financing Sources (Uses):					
Proceeds of bonds	-	-	-	613,632	613,632
Operating transfers in	20,000	100,000	50,000	907,078	1,077,078
Operating transfers out	(359,946)	-	-	(722,132)	(1,082,078)
Total Other Financing Sources (Uses)	<u>(339,946)</u>	<u>100,000</u>	<u>50,000</u>	<u>798,578</u>	<u>608,632</u>
Changes in fund balances	7,642,932	(4,677,278)	142,961	(1,584,663)	1,523,952
Fund Balance, at Beginning of Year, as reclassified	<u>434,362</u>	<u>(15,961,091)</u>	<u>4,829,037</u>	<u>7,884,054</u>	<u>(2,813,638)</u>
Fund Balance, at End of Year	<u>\$ 8,077,294</u>	<u>\$ (20,638,369)</u>	<u>\$ 4,971,998</u>	<u>\$ 6,299,391</u>	<u>\$ (1,289,686)</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, 2005

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 1,523,952

- 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:

Capital outlay purchases, net	8,456,354
Depreciation	(4,233,752)

- 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.

	1,186,135
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- 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:

Issuance of debt, net	(613,632)
Repayments of debt	3,212,389

- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.

	(477,243)
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- 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.

	210,427
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- 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.

	(<u>918,551</u>)
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 8,346,079

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2005

	<u>Governmental Activities</u>
	Internal Service Fund
<u>ASSETS</u>	
Cash and short-term investments	\$ 4,317,216
Due from other funds	67,883
Other assets	<u>1,213,600</u>
TOTAL ASSETS	5,598,699
<u>LIABILITIES</u>	
Current:	
Warrants payable	457,940
Health claims payable	1,507,219
Workers compensation payable	81,599
Due to other funds	<u>220</u>
TOTAL LIABILITIES	2,046,978
<u>NET ASSETS</u>	
Unrestricted	<u>3,551,721</u>
TOTAL NET ASSETS	\$ <u><u>3,551,721</u></u>

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, 2005

	<u>Governmental Activities</u>
	Internal Service Fund
Operating Revenues:	
Charges for services	\$ 9,709,798
Operating Expenses:	
Personnel services	<u>10,694,830</u>
Operating loss	(985,032)
Nonoperating Revenues:	
Investment income	<u>61,481</u>
Income Before Transfers	(923,551)
Transfers:	
Transfers in	<u>5,000</u>
Change in Net Assets	(918,551)
Net Assets at Beginning of Year	<u>4,470,272</u>
Net Assets at End of Year	<u>\$ 3,551,721</u>

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2005

	Pension Trust Fund (as of December 31, 2004)	Agency Funds
<u>ASSETS</u>		
Cash and short term investments	\$ -	\$ 380,180
Investments	45,701,038	-
Other assets	<u>427,242</u>	<u>311,844</u>
Total Assets	46,128,280	692,024
<u>LIABILITIES AND NET ASSETS</u>		
Other liabilities	<u>667</u>	<u>692,024</u>
Total Liabilities	<u>667</u>	<u>692,024</u>
<u>NET ASSETS</u>		
Total Net Assets Held in Trust for Pension Benefits	\$ <u><u>46,127,613</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 DECEMBER 31, 2004

	<u>Pension Trust Fund</u>
Additions:	
Contributions:	
Employers	\$ 6,332,593
Other systems and Commonwealth of Massachusetts	110,745
Plan members	2,099,423
Intergovernmental	587,417
Total contributions	<u>9,130,178</u>
Investment Income:	
Increase in fair value of investments	4,209,470
Less: management fees	(181,933)
Net investment income	<u>4,027,537</u>
Total additions	13,157,715
Deductions:	
Benefit payments to plan members and beneficiaries	11,226,059
Transfers to other systems	325,623
Administrative expenses	219,165
Total deductions	<u>11,770,847</u>
Net increase	1,386,868
Net assets:	
Beginning of year	<u>44,740,745</u>
End of year	<u>\$ 46,127,613</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 2005, 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 *Stabilization fund* accounts for reserves set aside by the City Council to fund unforeseen emergencies and to fund long-term capital projects and equipment purchases.

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.

The *agency fund* is used to account for student activity funds and employee details.

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.

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 2005 tax levy reflected an excess capacity of \$ 4,905.

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).

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	5

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.

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 deficits 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. Deficit Fund Equity

The School Building Projects Fund reported a deficit fund balance of \$ (20,638,369), which will be funded by future bond issuances and MSBA grant payments. The City also reported special revenue and other capital project funds reflecting various individual deficit fund balance accounts, which will be funded by bond issuances and future receipts.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Massachusetts general law Chapter 44, section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The City does not have a deposit policy for custodial credit risk.

As of June 30, 2005, \$ 54,337,875 of the City's bank balance of \$ 57,555,373 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the City's name.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts general law, chapter 44, section 55, limits investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below is the average rating and effective duration as of year end for the City's investments (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Rating</u>	<u>Investment Maturities (in Years)</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
Federal agency securities	\$ <u>857</u>	Aaa	\$ <u>66</u>	\$ <u>619</u>	\$ <u>172</u>
Total	\$ <u>857</u>		\$ <u>66</u>	\$ <u>619</u>	\$ <u>172</u>

Presented below is the average rating and effective duration as of year end for each applicable investment type of the System (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Quality</u>	<u>Duration (in Years)</u>
Corporate bonds	\$ 386	B2	8.02
Corporate equities	6,258	N/A	N/A
Pooled investments	<u>39,057</u>	N/A	N/A
Total investments	\$ <u>45,701</u>		

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a govern-

ment will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

C. Concentration of Credit Risk

The City and the System places no limit on the amount the City and the System may invest in any one issuer. The City and the System has no investments in any one issuer that represent more than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City and the System does not have policies for foreign currency risk.

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on 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 taxpayer's 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, 2005 consist of the following (in thousands):

Real Estate		
2005	\$ 1,563	
2004	360	
2003	123	
2002	63	
Prior	<u>14</u>	
		\$ 2,123

(continued)

(continued)

Personal Property		
2005	58	
2004	29	
2003	19	
2002	17	
Prior	<u>654</u>	
		777
Tax Liens		535
Deferred Taxes		<u>14</u>
Total		<u>\$ 3,449</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	\$ 1,089
Excises	823
Water user charges	80
Sewer user charges	234

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2005.

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, 2005 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General fund	\$ 42,734	\$ 69,536
School building project	-	20,356
Nonmajor governmental funds	2,177	22,682
Proprietary funds	<u>67,883</u>	<u>220</u>
Total	<u>\$ 112,794</u>	<u>\$ 112,794</u>

9. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 85,273,118	\$ 414,998	\$ (114,901)	\$ 85,573,215
Machinery, equipment, and furnishings	12,914,566	1,227,824	(440,706)	13,701,684
Infrastructure	<u>49,777,743</u>	<u>2,532,130</u>	<u>-</u>	<u>52,309,873</u>
Total capital assets, being depreciated	147,965,427	4,174,952	(555,607)	151,584,772
Less accumulated depreciation for:				
Buildings and improvements	(16,459,754)	(1,933,275)	-	(18,393,029)
Machinery, equipment, and furnishings	(8,689,268)	(1,478,364)	272,272	(9,895,360)
Infrastructure	<u>(17,156,780)</u>	<u>(822,113)</u>	<u>-</u>	<u>(17,978,893)</u>
Total accumulated depreciation	<u>(42,305,802)</u>	<u>(4,233,752)</u>	<u>272,272</u>	<u>(46,267,282)</u>
Total capital assets, being depreciated, net	105,659,625	(58,800)	(283,335)	105,317,490
Capital assets, not being depreciated:				
Land	9,004,577	-	(11,061)	8,993,516
Construction in progress	<u>6,602,327</u>	<u>5,303,178</u>	<u>(727,380)</u>	<u>11,178,125</u>
Total capital assets, not being depreciated	<u>15,606,904</u>	<u>5,303,178</u>	<u>(738,441)</u>	<u>20,171,641</u>
Governmental activities capital assets, net	\$ <u>121,266,529</u>	\$ <u>5,244,378</u>	\$ <u>(1,021,776)</u>	\$ <u>125,489,131</u>

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

Governmental Activities:	
General government	\$ 182,727
Public safety	365,758
Education	2,050,702
Public works	1,145,066
Culture and recreation	43,060
Health and human services	<u>446,439</u>
Total depreciation expense - governmental activities	\$ <u>4,233,752</u>

10. Warrants and Accounts Payable

Warrants payable represent 2005 expenditures paid by July 15, 2005 as permitted by law. Accounts payable represent additional 2005 expenditures paid after July 15, 2005.

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, 2005 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

12. Accrued Liabilities

This balance represents expenditures incurred, but not yet paid, which include interest on notes and bonds.

13. 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.

14. Anticipation Notes Payable

The City had the following notes outstanding at June 30, 2005:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2005</u>
Bond anticipation notes	3.0%	10/01/04	09/09/05	\$ 9,300,000
Bond anticipation notes	3.0%	09/10/04	09/09/05	35,000,000
Bond anticipation notes	2.6%	03/11/05	09/09/05	<u>252,906</u>
Total				<u>\$ 44,552,906</u>

The following summarizes activity in notes payable during fiscal year 2005:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation notes	\$ <u>44,200,000</u>	\$ <u>44,552,906</u>	\$ <u>(44,200,000)</u>	\$ <u>44,552,906</u>

15. 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, 2005</u>
Sept 15, 1996 - Depart Eq.	09/15/11	4.5 - 6.25%	\$ 550,000
Sept 15, 1996 - Comm System	09/15/06	4.5 - 6.25%	70,000
Aug 15, 1998 - Adv Ref of 7/15/90 - Library	07/15/07	4.1 - 4.5%	483,200
Mar 15, 2001 - MWRA Sewer	02/15/06	-	81,903
Sept 5, 2002 - MWRA Sewer	08/15/07	-	229,218
Nov 1, 2003 - MWPTA CW-02-31	08/01/23	Variable	408,206
Mar 1, 2004 - School Remodeling	03/01/22	2.125 - 4.5%	2,265,000
Mar 1, 2004 - Public works Facility	03/01/20	2.125 - 4.5%	3,220,000
Jan 15, 2000 - School	12/15/09	5.0 - 6.125%	12,335,000
Dec 1, 2000 - School	12/01/09	5.0 - 6.0%	13,905,000
Feb 15, 2001 - MWRA Water	02/15/11	-	325,742
Jun 27, 2002 - MWRA	05/15/12	-	380,032
Sep 5, 2002 - MWRA	08/15/12	-	268,691
May 20, 2004 - MWRA	05/15/14	-	98,820
Aug 15, 1998 - Adv Ref of 7/15/90 - School	07/15/07	4.1 - 4.5%	81,800
Aug 19, 2004 - MWRA Water Bonds	08/15/14	-	123,632
Sep 15, 2004 - Advanced refunding	12/15/19	2.6 - 5.315%	22,270,000
Nov 18, 2004 - MWRA - Water	11/15/14	-	<u>490,000</u>
Total Governmental Activities:			\$ <u>57,586,244</u>

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2005 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 3,283,864	\$ 2,674,970	\$ 5,958,834
2007	3,317,307	2,539,186	5,856,493
2008	3,337,664	2,400,709	5,738,373
2009	3,236,387	2,261,110	5,497,497
2010	3,376,781	2,115,703	5,492,484
2011 - 2015	18,524,240	8,056,688	26,580,928
2016 - 2020	22,150,000	3,084,260	25,234,260
Thereafter	<u>360,001</u>	<u>27,125</u>	<u>387,126</u>
Total	\$ <u>57,586,244</u>	\$ <u>23,159,751</u>	\$ <u>80,745,995</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, 2005.

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2005, the following changes occurred in long-term liabilities:

	Total Balance <u>7/1/04</u>	Additions	Reductions	Total Balance <u>6/30/05</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/05</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 59,265,001	\$ 1,533,632	\$ (3,212,389)	\$ 57,586,244	\$ (3,283,864)	\$ 54,302,380
Other:						
Compensated absences	<u>2,830,942</u>	<u>-</u>	<u>(210,427)</u>	<u>2,620,515</u>	<u>(864,770)</u>	<u>1,755,745</u>
Totals	<u>\$ 62,095,943</u>	<u>\$ 1,533,632</u>	<u>\$ (3,422,816)</u>	<u>\$ 60,206,759</u>	<u>\$ (4,148,634)</u>	<u>\$ 56,058,125</u>

D. Advanced Refunding

Current Year

On September 15, 2004, the City issued general obligation bonds in the amount of \$ 22,270,000 with interest rates ranging from 2.000% to 5.375% to advance refund \$ 21,350,000 serial bonds with interest rates ranging from 5.750% to 6.125%. The serial bonds mature December 15, 2012 through December 15, 2019 and are callable on December 15, 2009. The general obligation bonds were issued at a true interest cost of 4.1062%. \$ 24,329,128.54 of the net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the serial bonds are called on December 15, 2009. The advance refunding met the requirements of an in-substance debt defeasance and the serial bonds were removed from the City's financial statements.

As a result of the advance refunding, the City reduced its total debt service cash flow requirements by \$ 1,070,414.98 which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$ 885,155.43.

Defeased debt still outstanding at June 30, 2005 is \$ 21,350,000.

16. 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. 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.

17. 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, 2005:

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 Perpetual 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.

18. Subsequent Events

Debt

Subsequent to June 30, 2005, 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	\$ 33,752,906	4.00%	09/09/05	09/08/06
Revenue anticipation note	15,000,000	4.00%	12/20/05	02/17/06

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, 2005 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, 2004, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	619
Terminated plan members entitled to but not yet receiving benefits	94
Active plan members	<u>544</u>
Total	<u>1,257</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 2005, the Commonwealth of Massachusetts contributed \$ 6,265,474 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, 2005 are as follows:

	<u>Health Coverage</u>	<u>Workers Compensation</u>
Claims liability, July 1, 2004	\$ 1,313,991	\$ 58,578
Claims incurred/recognized in fiscal year 2005	10,222,336	472,494
Claims paid in fiscal year 2005	<u>(10,029,108)</u>	<u>(449,473)</u>
Claims liability, June 30, 2005	\$ <u>1,507,219</u>	\$ <u>81,599</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 Fund Balance Reclassification

The beginning (July 1, 2004) fund balances of the City have been reclassified as follows:

	Fund Equity June 30, 2004 (as previously reported)	<u>Reclassification</u>	Fund Equity June 30, 2004 (as reclassified)
Nonmajor funds	\$ 12,713,091	\$ (4,829,037)	\$ 7,884,054
Stabilization fund	<u>-</u>	<u>4,829,037</u>	<u>4,829,037</u>
Total	\$ <u>12,713,091</u>	\$ <u>-</u>	\$ <u>12,713,091</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
2005	\$ 6,332,593	100%
2004	\$ 5,557,500	100%
2003	\$ 5,036,064	100%
2002	\$ 4,415,388	100%
2001	\$ 4,244,462	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	Actuarial asset smoothing method
Actuarial assumptions:	
Investment rate of return	8.5
Projected salary increase	5.5

See Independent Auditors' Report.

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, 2005

REQUIRED SUPPLEMENTARY INFORMATION

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Taxes	\$ 60,882,102	\$ 60,882,102	\$ 60,882,102	\$ -
Excise	3,030,851	3,030,851	2,795,562	(235,289)
Penalties, interest, and other taxes	524,972	524,972	1,581,606	1,056,634
Charges for services	573,577	573,577	800,045	226,468
Licenses and permits	583,160	583,160	784,489	201,329
Fines and forfeits	744,535	744,535	786,377	41,842
Intergovernmental	31,065,302	31,065,302	31,277,202	211,900
Water	2,669,426	2,669,426	3,079,907	410,481
Sewer	6,081,254	6,081,254	7,687,235	1,605,981
Investment income	286,125	286,125	308,511	22,386
Other	1,715,660	1,695,660	1,522,730	(172,930)
Transfers in	-	20,000	20,000	-
Other financing sources	-	265,941	265,941	-
Total Revenues and Other Sources	108,156,964	108,422,905	111,791,707	3,368,802
Expenditures and Other Uses:				
General government	5,917,479	4,795,878	4,163,496	632,382
Public safety	15,131,334	15,406,345	14,985,434	420,911
Education	36,100,000	36,910,477	36,811,210	99,267
Public works	7,424,358	7,514,528	7,359,568	154,960
Water	3,240,834	3,240,834	3,230,824	10,010
Sewer	5,585,189	5,585,189	5,584,884	305
Health and human services	1,195,522	1,260,094	1,166,303	93,791
Culture and recreation	870,204	881,481	871,184	10,297
Employee benefits	18,390,783	18,140,783	16,510,082	1,630,701
Debt service	6,782,586	6,782,586	6,445,906	336,680
Intergovernmental	6,144,411	6,144,411	5,866,809	277,602
Other	-	76,089	-	76,089
Transfers out	50,000	359,946	359,946	-
Other uses	1,324,264	1,324,264	1,324,264	-
Total Expenditures and Other Uses	108,156,964	108,422,905	104,679,910	3,742,995
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 7,111,797	\$ 7,111,797

See Independent Auditors' report and notes to Required Supplementary Information.

CITY OF EVERETT, MASSACHUSETTS

Notes to the Required Supplementary Information
June 30, 2005

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)	\$ 117,636,256	\$ 109,653,378
Other financing sources/uses (GAAP basis)	<u>20,000</u>	<u>359,946</u>
Subtotal (GAAP Basis)	117,656,256	110,013,324
Adjust tax revenue to accrual basis	134,984	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(513,798)
Add end of year appropriation carryforwards to expenditures	-	752,619
Raising of prior years deficits	-	1,324,264
Recognize use of fund balance as funding source	265,941	-
Reverse the effect of non-budgeted State contributions for Teachers' Retirement	(6,265,474)	(6,265,474)
Other	<u>-</u>	<u>(631,025)</u>
Budgetary basis	<u>\$ 111,791,707</u>	<u>\$ 104,679,910</u>