# CITY OF EVERETT, MASSACHUSETTS

## Annual Financial Statements

## For the Year Ended June 30, 2006

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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, 2006 (except for the Everett, Massachusetts, Contributory Retirement System which is as of and for the year ended December 31, 2005), 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, 2006 (except the Everett Contributory Retirement System which is as of December 31, 2005), and the respective changes in financial position, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended 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 November 16, 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
November 16, 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, 2006. **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 $ 98,946 (i.e., net assets), a change of $ 25,529 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of $ 1,534, a change of $ 2,824 in comparison with the prior year.

- At the end of the current fiscal year, unreserved fund balance for the general fund was $ 10,396, a change of $ 3,326 in comparison with the prior year.
- Total bonds payable at the close of the current fiscal year was $ 55,246, a change of $ 2,340 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:

| | Governmental Activities | |
|---|---|---|
| | 2006 | 2005 |
| Current and other assets | $ 55,353 | $ 64,530 |
| Capital assets | 148,189 | 125,489 |
| Total assets | 203,542 | 190,019 |
| Long-term liabilities outstanding | 58,875 | 61,165 |
| Other liabilities | 45,721 | 55,437 |
| Total liabilities | 104,596 | 116,602 |
| Net assets: | | |
| Invested in capital assets, net | 71,124 | 48,384 |
| Restricted | 5,574 | 4,942 |
| Unrestricted | 22,248 | 20,091 |
| Total net assets | $ 98,946 | $ 73,417 |

CHANGES IN NET ASSETS

| | Governmental Activities | |
|---|---|---|
| | 2006 | 2005 |
| Revenues: | | |
| Program revenues: | | |
| Charges for services | $ 14,731 | $ 15,266 |
| Operating grants and contributions | 36,761 | 35,974 |
| Capital grants and contributions | 3,907 | 4,043 |
| General revenues: | | |
| Property taxes | 60,669 | 58,280 |
| Excises | 4,031 | 2,487 |
| Penalties and interest on taxes | 1,387 | 1,945 |
| Grants and contributions not restricted to specific programs | 28,733 | 7,765 |
| Investment income | 876 | 545 |
| Other | 1,245 | 1,548 |
| Total revenues | 153,727 | 129,798 |

(continued)

(continued)

| | Governmental Activities | |
|---|---|---|
| | 2006 | 2005 |
| Expenses: | | |
| General government | 5,101 | 5,735 |
| Public safety | 16,978 | 16,950 |
| Education | 54,162 | 51,033 |
| Public works | 7,574 | 9,740 |
| Water operations | 3,721 | 3,231 |
| Sewer operations | 5,617 | 5,585 |
| Health and human services | 1,953 | 1,596 |
| Culture and recreation | 1,061 | 1,122 |
| Employee benefits | 20,309 | 16,991 |
| Interest on long-term debt | 4,079 | 4,202 |
| Intergovernmental | 6,238 | 5,867 |
| Other | 18 | 277 |
| Total expenses | 128,198 | 124,274 |
| Change in net assets | 25,529 | 5,524 |
| Net assets - beginning of year | 73,417 | 67,893 |
| Net assets - end of year | $ 98,946 | $ 73,417 |

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 $ 98,946, a change of $ 25,529 from the prior year.

The largest portion of net assets $ 71,124 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 $ 5,574 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets $ 22,248 may be used to meet the government's ongoing obligations to citizens and creditors.

**Governmental activities.** Governmental activities for the year resulted in a change in net assets of $ 25,529. Key elements of this change are as follows:

| | |
|---|---|
| General fund revenues exceeding expenditures | $ 4,862 |
| Stabilization fund revenues exceeding expenditures | 149 |
| Internal Service fund expenditures exceeding revenues | ( 1,269) |
| Depreciation expense in excess of principal debt service | ( 1,182) |
| MSBA and other current year revenue used for the acquisition of capital assets | 23,253 |
| Other | ( 284) |
| Total | $ 25,529 |

## 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 $ 1,534, a change of $ 2,824 in comparison with the prior year. Key elements of this deficit decrease are as follows:

| | |
|---|---|
| General fund revenues exceeding expenditures | $ 4,862 |
| School Building Project expenditures exceeding revenues | (3,135) |
| Stabilization fund revenues exceeding expenditures | 149 |
| Special revenue fund revenues exceeding expenditures | 770 |
| Non-major capital project fund revenues and other financing sources exceeding expenditures | 164 |
| Other | 14 |
| Total | $ 2,824 |

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was $ 10,395, while total fund balance was $ 11,608. 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 8.9% and 9.9% of total general fund expenditures respectively.

The fund balance of the general fund changed by $ 3,530 during the current fiscal year. Key factors in this change are as follows:

| | |
|---|---|
| Use of free cash | $ (2,934) |
| Raising of prior year deficits | 554 |
| Revenues in excess of budget | 3,186 |
| Expenditures less than budget | 2,286 |
| Excess of tax collection compared to budget | 365 |
| Other | 73 |
| Total | $ 3,530 |

***Proprietary funds***. Unrestricted net assets of the internal service funds at the end of the year amounted to $ 2,283, a change of $ (1,269) 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 change in appropriations of $ 2,983. Major reasons for these amendments include:

- $ 1,000 increase in transfers out to the Stabilization fund
- $ 540 increase in the raising of a prior year overlay deficit
- $ 350 increase in the Lower Broadway Project line item
- $ 1,093 increase in various other line items and transfers to other funds (a)

(a) This amount is made up of 44 individual City Council orders.

All but $ 38 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 $ 148,189 (net of accumulated depreciation), a change of $ 22,700 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:

- $ 24,141 for school building construction
- $ 831 for the Seven Acre park
- $ 709 for the local water pipeline
- $ 152 for Lynde park
- $ 143 for the Everett Square project
- $ 127 for a street sweeper

- $ 100 for port video surveillance equipment
- $ 963 for various other capital assets

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was $ 55,246, 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

The FY'07 General fund operating budget increased 7% from $ 104.7 to $ 112.1 million. This increase allowed the City to fully staff the Police and Fire departments. The budget increase will be funded through increases in state aid, local revenue and property taxes.

The City estimates that the $ 82 million new high school will be completed in early FY 2008, both on time and under budget. The City plans to bond the new high school, as well as three elementary schools in February 2007. The amount to be bonded for the high school will be lower than anticipated as a result of a low interest loan from the Massachusetts School Business Authority.

The City will continue with its policy of adding $ .5 million annually to the stabilization fund, which presently has a balance of $ 6.2 million.

## 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, 2006

| | Governmental Activities |
|---|---|
| **ASSETS** | |
| Current: | |
| Cash and short-term investments | $ 45,879,298 |
| Investments | 807,789 |
| Receivables, net of allowance for uncollectibles: | |
| Property taxes | 2,018,559 |
| Excises | 935,702 |
| Water user charges | 478,719 |
| Sewer user charges | 1,905,110 |
| Intergovernmental | 311,177 |
| Other | 147,864 |
| Other assets | 1,242,895 |
| Deferred assets | 46,000 |
| Noncurrent: | |
| Receivables, net of allowance for uncollectibles: | |
| Property taxes | 360,666 |
| Loans receivable | 391,293 |
| Deferred assets | 828,000 |
| Capital assets, being depreciated, net | 104,709,678 |
| Capital assets, not being depreciated | 43,479,399 |
| **TOTAL ASSETS** | 203,542,149 |
| **LIABILITIES** | |
| Current: | |
| Warrants payable | 2,005,420 |
| Accounts payable | 903,100 |
| Accrued liabilities | 6,043,651 |
| Tax refunds payable | 933,898 |
| Anticipation notes payable | 33,752,906 |
| Health claims payable | 1,978,847 |
| Workers compensation payable | 56,061 |
| Other current liabilities | 46,455 |
| Current portion of long-term liabilities: | |
| Bonds payable | 3,451,067 |
| Compensated absences | 181,463 |
| Noncurrent: | |
| Bonds payable, net of current portion | 51,795,113 |
| Compensated absences, net of current portion | 3,447,794 |
| **TOTAL LIABILITIES** | 104,595,775 |
| **NET ASSETS** | |
| Invested in capital assets, net of related debt | 71,123,993 |
| Restricted for: | |
| Grants and other statutory restrictions | 3,979,699 |
| Permanent funds: | |
| Expendable | 362,599 |
| Nonexpendable | 1,232,401 |
| Unrestricted | 22,247,682 |
| **TOTAL NET ASSETS** | $ 98,946,374 |

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

| | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expenses) Revenues and Changes in Net Assets: Governmental Activities |
|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | |
| General government | $ 5,100,757 | $ 956,940 | $ 278,539 | $ 60,000 | $ (3,805,278) |
| Public safety | 16,977,690 | 2,346,868 | 1,416,784 | 17,000 | (13,197,038) |
| Education | 54,162,104 | 848,844 | 34,555,133 | 3,037,586 | (15,720,541) |
| Public works | 7,574,213 | 197,851 | 80,604 | 792,857 | (6,502,901) |
| Water operations | 3,720,881 | 2,526,309 | - | - | (1,194,572) |
| Sewer operations | 5,616,895 | 7,727,118 | - | - | 2,110,223 |
| Health and human services | 1,952,842 | 75,292 | 223,098 | - | (1,654,452) |
| Culture and recreation | 1,061,563 | 51,703 | 206,763 | - | (803,097) |
| Employee benefits | 20,308,828 | - | - | - | (20,308,828) |
| Interest | 4,079,027 | - | - | - | (4,079,027) |
| Intergovernmental | 6,238,382 | - | - | - | (6,238,382) |
| Other | 17,522 | - | - | - | (17,522) |
| Total Governmental Activities | $ 126,810,704 | $ 14,730,925 | $ 36,760,921 | $ 3,907,443 | (71,411,415) |
| **General Revenues:** | | | | | |
| Property taxes | | | | | 60,669,190 |
| Excises | | | | | 4,030,677 |
| Penalties and interest on taxes | | | | | 1,386,997 |
| Grants and contributions not restricted to specific programs | | | | | 28,733,305 |
| Investment income | | | | | 875,913 |
| Other | | | | | 1,244,600 |
| Total general revenues | | | | | 96,940,682 |
| Change in Net Assets | | | | | 25,529,267 |
| **Net Assets:** | | | | | |
| Beginning of year, as restated | | | | | 73,417,107 |
| End of year | | | | | $ 98,946,374 |

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2006

| ASSETS | General | School Building Projects Fund | Stabilization Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| Cash and short-term investments | $ 15,231,642 | $ 13,366,047 | $ 6,170,535 | $ 6,971,173 | $ 41,739,397 |
| Investments | - | - | - | 807,789 | 807,789 |
| Receivables, net of allowance: | | | | | |
| Property taxes | 3,557,867 | - | - | - | 3,557,867 |
| Excises | 1,985,534 | - | - | - | 1,985,534 |
| Water user charges | 591,942 | - | - | - | 591,942 |
| Sewer user charges | 2,116,789 | - | - | - | 2,116,789 |
| Departmental and other | 147,864 | - | - | - | 147,864 |
| Intergovernmental | 10,692 | - | - | 311,177 | 321,869 |
| Loans | - | - | - | 442,559 | 442,559 |
| Due from other funds | 113,680 | - | - | 2,293 | 115,973 |
| Other assets | 98,537 | - | - | - | 98,537 |
| TOTAL ASSETS | $ 23,854,547 | $ 13,366,047 | $ 6,170,535 | $ 8,534,991 | $ 51,926,120 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| Liabilities: | | | | | |
| Warrants payable | $ 1,534,728 | $ - | $ - | $ 470,692 | $ 2,005,420 |
| Deferred revenues | 8,078,989 | - | - | 442,559 | 8,521,548 |
| Accrued liabilities | 1,647,628 | 3,357,620 | - | 12,520 | 5,017,768 |
| Tax refunds payable | 933,898 | - | - | - | 933,898 |
| Anticipation notes payable | - | 33,500,000 | - | 252,906 | 33,752,906 |
| Due to other funds | 5,322 | 23,664 | - | 85,283 | 114,269 |
| Other liabilities | 46,456 | - | - | - | 46,456 |
| TOTAL LIABILITIES | 12,247,021 | 36,881,284 | - | 1,263,960 | 50,392,265 |
| Fund Balances: | | | | | |
| Reserved for: | | | | | |
| Encumbrances and continuing appropriations | 1,151,877 | - | - | - | 1,151,877 |
| Expenditures | 60,000 | - | - | - | 60,000 |
| Perpetual (nonexpendable) permanent funds | - | - | - | 1,232,401 | 1,232,401 |
| Unreserved: | | | | | |
| Undesignated, reported in: | | | | | |
| General fund | 10,395,649 | - | - | - | 10,395,649 |
| Special revenue funds | - | - | 6,170,535 | 3,979,699 | 10,150,234 |
| Capital project funds | - | (23,515,237) | - | 1,696,332 | (21,818,905) |
| Permanent funds | - | - | - | 362,599 | 362,599 |
| TOTAL FUND BALANCES | 11,607,526 | (23,515,237) | 6,170,535 | 7,271,031 | 1,533,855 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 23,854,547 | $ 13,366,047 | $ 6,170,535 | $ 8,534,991 | $ 51,926,120 |

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, 2006

| | | |
|---|---|---|
| **Total governmental fund balances** | $ | 1,533,855 |
| • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | 148,189,077 |
| • Revenues are reported on the accrual basis of accounting and are not deferred until collection. | | 5,968,172 |
| • 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. | | 2,282,589 |
| • Net loss on the refunding of long-term bonds payable reported in the governmental funds, but amortized at the government-wide perspective. | | 874,000 |
| • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. | | (1,025,882) |
| • Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds. | | (58,875,437) |
| **Net assets of governmental activities** | $ | 98,946,374 |

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, 2006

| | General | School Building Projects Fund | Stabilization Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Revenues:** | | | | | |
| Property taxes | $ 60,826,611 | $ - | $ - | $ - | $ 60,826,611 |
| Excises | 3,713,719 | - | - | - | 3,713,719 |
| Penalties and interest on taxes | 1,585,430 | - | - | - | 1,585,430 |
| Charges for services | 790,164 | - | - | 1,551,323 | 2,341,487 |
| Licenses and permits | 1,081,510 | - | - | - | 1,081,510 |
| Fines and forfeits | 906,097 | - | - | - | 906,097 |
| Intergovernmental | 39,925,936 | 21,005,458 | - | 8,785,560 | 69,716,954 |
| Water | 3,081,212 | - | - | - | 3,081,212 |
| Sewer | 7,923,554 | - | - | - | 7,923,554 |
| Investment income | 589,087 | - | 148,537 | 85,143 | 822,767 |
| Other | 1,213,624 | - | - | 64,947 | 1,278,571 |
| Total Revenues | 121,636,944 | 21,005,458 | 148,537 | 10,486,973 | 153,277,912 |
| **Expenditures:** | | | | | |
| Current: | | | | | |
| General government | 4,300,975 | - | - | 824,482 | 5,125,457 |
| Public safety | 15,924,862 | - | - | 837,644 | 16,762,506 |
| Education | 45,484,801 | | - | 6,862,656 | 52,347,457 |
| Public works | 7,031,278 | - | - | 328,896 | 7,360,174 |
| Water operations | 3,720,881 | - | - | - | 3,720,881 |
| Sewer operations | 5,616,895 | - | - | - | 5,616,895 |
| Health and human services | 1,198,489 | - | - | 301,197 | 1,499,686 |
| Culture and recreation | 916,123 | - | - | 84,863 | 1,000,986 |
| Employee benefits | 18,944,251 | - | - | - | 18,944,251 |
| Capital outlay | - | 24,140,686 | - | 1,233,895 | 25,374,581 |
| Other | - | - | - | 9,374 | 9,374 |
| Debt service | 7,397,541 | - | - | - | 7,397,541 |
| Intergovernmental | 6,238,382 | - | - | - | 6,238,382 |
| Total Expenditures | 116,774,478 | 24,140,686 | - | 10,483,007 | 151,398,171 |
| Excess (deficiency) of revenues over expenditures | 4,862,466 | (3,135,228) | 148,537 | 3,966 | 1,879,741 |
| **Other Financing Sources (Uses):** | | | | | |
| Proceeds of bonds | - | - | - | 943,800 | 943,800 |
| Transfers in | 151,126 | 433,360 | 1,050,000 | 742,717 | 2,377,203 |
| Transfers out | (1,483,360) | - | - | (893,843) | (2,377,203) |
| Total Other Financing Sources (Uses) | (1,332,234) | 433,360 | 1,050,000 | 792,674 | 943,800 |
| Changes in fund balances | 3,530,232 | (2,701,868) | 1,198,537 | 796,640 | 2,823,541 |
| Fund Balance, at Beginning of Year, as restated | 8,077,294 | (20,813,369) | 4,971,998 | 6,474,391 | (1,289,686) |
| Fund Balance, at End of Year | $ 11,607,526 | $ (23,515,237) | $ 6,170,535 | $ 7,271,031 | $ 1,533,855 |

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, 2006

| | | |
|---|---|---|
| **NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** | $ | 2,823,541 |
| • 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 | | 27,165,379 |
| Depreciation | | (4,465,433) |
| • 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. | | (1,047,605) |
| • 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 | | (943,800) |
| Repayments of debt | | 3,283,864 |
| • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. | | 34,650 |
| • 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. | | (52,196) |
| • 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. | | (1,269,133) |
| **CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** | $ | 25,529,267 |

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2006

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| | Original Budget | Final Budget | Actual Amounts | |
| **Revenues and Other Sources:** | | | | |
| Taxes | $ 60,450,182 | $ 60,461,114 | $ 60,461,114 | $ - |
| Excise | 3,022,273 | 3,022,273 | 3,713,719 | 691,446 |
| Penalties, interest, and other taxes | 558,269 | 558,269 | 1,585,430 | 1,027,161 |
| Charges for services | 497,117 | 497,117 | 790,164 | 293,047 |
| Licenses and permits | 563,555 | 563,555 | 1,081,510 | 517,955 |
| Fines and forfeits | 708,459 | 708,459 | 906,097 | 197,638 |
| Intergovernmental | 33,075,766 | 33,075,766 | 32,906,689 | (169,077) |
| Water | 4,471,266 | 4,471,266 | 3,081,212 | (1,390,054) |
| Sewer | 6,273,926 | 6,273,926 | 7,923,554 | 1,649,628 |
| Investment income | 308,511 | 308,511 | 589,087 | 280,576 |
| Other | 1,138,950 | 1,138,950 | 1,226,624 | 87,674 |
| Transfers in | 100,000 | 138,126 | 138,126 | - |
| Other financing sources | - | 2,934,228 | 2,934,228 | - |
| Total Revenues and Other Sources | 111,168,274 | 114,151,560 | 117,337,554 | 3,185,994 |
| **Expenditures and Other Uses:** | | | | |
| General government | 4,430,721 | 4,756,393 | 4,663,329 | 93,064 |
| Public safety | 16,042,416 | 16,374,088 | 15,977,567 | 396,521 |
| Education | 38,651,000 | 38,651,000 | 38,335,602 | 315,398 |
| Public works | 7,525,316 | 8,081,246 | 7,433,648 | 647,598 |
| Water | 3,764,918 | 3,764,918 | 3,720,881 | 44,037 |
| Sewer | 5,698,059 | 5,698,059 | 5,616,895 | 81,164 |
| Health and human services | 1,266,765 | 1,298,670 | 1,198,489 | 100,181 |
| Culture and recreation | 943,357 | 943,357 | 922,929 | 20,428 |
| Employee benefits | 19,017,378 | 19,092,378 | 18,848,301 | 244,077 |
| Debt service | 6,885,101 | 6,985,956 | 6,871,544 | 114,412 |
| Intergovernmental | 6,467,887 | 6,467,887 | 6,238,382 | 229,505 |
| Transfers out | 461,300 | 1,483,360 | 1,483,360 | - |
| Other uses | 14,056 | 554,248 | 554,248 | - |
| Total Expenditures and Other Uses | 111,168,274 | 114,151,560 | 111,865,175 | 2,286,385 |
| Excess of revenues and other sources over expenditures and other uses | $ - | $ - | $ 5,472,379 | $ 5,472,379 |

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2006

| | Governmental Activities |
|---|---|
| | Internal Service Fund |
| **ASSETS** | |
| Cash and short-term investments | $ 4,139,901 |
| Due from other funds | 3,553 |
| Other assets | 1,082,400 |
| **TOTAL ASSETS** | 5,225,854 |
| **LIABILITIES** | |
| Current: | |
| Accounts payable | 903,100 |
| Health claims payable | 1,978,847 |
| Workers compensation payable | 56,061 |
| Due to other funds | 5,257 |
| **TOTAL LIABILITIES** | 2,943,265 |
| **NET ASSETS** | |
| Unrestricted | 2,282,589 |
| **TOTAL NET ASSETS** | $ 2,282,589 |

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, 2006

| | Governmental Activities |
|---|---|
| | Internal Service Fund |
| **Operating Revenues:** | |
| Charges for services | $ 11,447,892 |
| **Operating Expenses:** | |
| Personnel services | 12,819,305 |
| Operating loss | (1,371,413) |
| **Nonoperating Revenues:** | |
| Investment income | 102,281 |
| Change in Net Assets | (1,269,132) |
| Net Assets at Beginning of Year | 3,551,721 |
| Net Assets at End of Year | $ 2,282,589 |

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2006

| | Governmental Activities Internal Service Fund |
|---|---|
| **Cash Flows From Operating Activities:** | |
| Receipts from employees and employer | $ 11,512,222 |
| Payments of employee benefits and expenses | (11,791,818) |
| Net Cash Provided By Operating Activities | (279,596) |
| **Cash Flows From Investing Activities:** | |
| Investment income | 102,281 |
| Net Cash Provided By Investing Activities | 102,281 |
| Net Change in Cash and Short-Term Investments | (177,315) |
| Cash and Short-Term Investments, Beginning of Year | 4,317,216 |
| Cash and Short-Term Investments, End of Year | $ 4,139,901 |
| **Reconciliation of Operating Income to Net Cash Provided By Operating Activities:** | |
| Operating income | $ (1,371,413) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Changes in assets and liabilities: | |
| Due from other funds | 64,330 |
| Other assets | 131,200 |
| Warrants payable | 445,160 |
| Accrued liabilities | 446,090 |
| Due to other funds | 5,037 |
| Net Cash Provided By Operating Activities | $ (279,596) |

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

| | Pension Trust Fund (as of December 31, 2005) | Agency Funds |
|---|---|---|
| **ASSETS** | | |
| Cash and short term investments | $ 420,467 | $ 224,889 |
| Investments | 47,782,844 | - |
| Other assets | 388,627 | 440,042 |
| Total Assets | 48,591,938 | 664,931 |
| **LIABILITIES AND NET ASSETS** | | |
| Other liabilities | 21,028 | 664,931 |
| Total Liabilities | 21,028 | 664,931 |
| **NET ASSETS** | | |
| Total Net Assets Held in Trust for Pension Benefits | $ 48,570,910 | $ - |

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2005

| | Pension Trust Fund |
|---|---|
| **Additions:** | |
| Contributions: | |
| Employers | $ 6,623,439 |
| Other systems and Commonwealth of Massachusetts | 1,171,660 |
| Plan members | 2,388,348 |
| Intergovernmental | 33,102 |
| Total contributions | 10,216,549 |
| Investment Income: | |
| Increase in fair value of investments | 4,132,655 |
| Less: management fees | (210,513) |
| Net investment income | 3,922,142 |
| Total additions | 14,138,691 |
| **Deductions:** | |
| Benefit payments to plan members and beneficiaries | 11,164,475 |
| Refunds to plan members | 208,745 |
| Administrative expenses | 181,876 |
| Other | 140,298 |
| Total deductions | 11,695,394 |
| Net increase | 2,443,297 |
| **Net assets:** | |
| Beginning of year | 46,127,613 |
| End of year | $ 48,570,910 |

See 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 2006, 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 of 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 project 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 2006 tax levy reflected an excess capacity of $ 4,321,000.

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:

| Assets | Years |
|---|---|
| Buildings and improvements | 5 - 40 |
| Machinery, equipment, and furnishings | 5 |
| Infrastructure | 10 - 40 |

*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.

## 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. *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.

| Financing Uses | Revenues and Other General Fund | Expenditures and Other Financing Sources |
|---|---|---|
| Revenues/Expenditures (GAAP basis) | $ 121,636,944 | $ 116,774,478 |
| Other financing sources/uses (GAAP basis) | 151,126 | 1,483,360 |
| Subtotal (GAAP Basis) | 121,788,070 | 118,257,838 |
| Adjust tax revenue to accrual basis | (365,497) | - |
| Reverse beginning of year appropriation carryforwards from expenditures | - | ( 553,544) |
| Add end of year appropriation carryforwards to expenditures | - | 1,151,877 |
| Raising of prior years deficits | - | 554,248 |
| Recognize use of fund balance as funding source | 2,934,228 | - |
| Reverse the effect of non-budgeted State contributions for Teachers' Retirement | ( 7,019,247) | ( 7,019,247) |
| Other | - | ( 525,997) |
| Budgetary basis | $ 117,337,554 | $ 111,865,175 |

*D. Deficit Fund Equity*

The School Building Projects Fund reported a deficit fund balance of $ (23,515,237), 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

The carrying amount of the City's deposits with financial institutions at June 30, 2006 was $ 46,104,187. The bank balances, which do not include reconciling items such as deposits in transit and outstanding checks, are categorized as follows (in thousands):

| | Town Deposits June 30, 2006 |
|---|---|
| Amount insured by the FDIC and DIF, or collateralized with securities held by the Town in its name | $ 859 |
| Uncollateralized | 45,638 |
| State investment pool | 1,783 |
| Total Bank Balance | $ 48,280 |

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's and the Contributory Retirement System's (the System) deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent 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." Massachusetts General Law Chapter 32, section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The City does not have a deposit policy for custodial credit risk.

As of June 30, 2006 and December 31, 2005, $ 45,637,641 and $ 372,805 of the City's and System's deposits bank balance of $ 48,280,364 and $ 675,970, respectively, 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 actual rating as of year end for each investment of the Town (in thousands):

| | | Years to Maturity | | | Average |
|---|---|---|---|---|---|
| | Total | <1 | 1-5 | 6-10 | Rating |
| U.S. Treasury Obligations | $ 215 | $ 64 | $ 101 | $ 50 | Aaa |
| U.S. Government Agencies | 593 | 80 | 488 | 25 | Aaa |
| Total | $ 808 | $ 144 | $ 589 | $ 75 | |

Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

Presented below is the actual rating as of year end of the System (in thousands):

| Investment Type | Fair Value | Exempt From Disclosure |
|---|---|---|
| Pooled investments | $ 493,095 | $ 493,095 |
| State investment pool* | 47,289,750 | 47,289,750 |
| Total investments | $ 47,782,845 | $ 47,782,845 |

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.*

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 government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City does not have policies for custodial credit risk. The System follows PRIM policies for custodial credit risk.

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.

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund. The System follows PRIM policies for credit risk.

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. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The System follows PRIM policies for interest rate risk.

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 does not have policies for foreign currency risk. The System follows PRIM 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, 2006 consist of the following (in thousands):

| | | |
|---|---|---|
| Real Estate | | |
| 2006 | $ 1,644 | |
| 2005 | 502 | |
| 2004 | 193 | |
| 2003 | 73 | |
| Prior | 48 | |
| | | 2,460 |
| Personal Property | | |
| 2006 | 71 | |
| 2005 | 44 | |
| 2004 | 29 | |
| 2003 | 20 | |
| Prior | 556 | |
| | | 720 |
| Tax Liens | | 361 |
| Deferred Taxes | | 17 |
| Total | | $ 3,558 |

## 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):

| | Governmental |
|---|---|
| Property taxes | $ 1,179 |
| Excises | 1,050 |
| Water user charges | 113 |
| Sewer user charges | 212 |

## 7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2006.

## 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, 2006 balances in interfund receivable and payable accounts:

| Fund | Due From Other Funds | Due To Other Funds |
|---|---|---|
| General fund | $ 113,680 | $ 5,322 |
| School building project | - | 23,664 |
| Nonmajor governmental funds | 2,293 | 85,283 |
| Proprietary fund | 3,553 | 5,257 |
| Total | $ 119,526 | $ 119,526 |

## 9. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Governmental Activities:** | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | $ 85,573,215 | $ 2,375,656 | $ - | $ 87,948,871 |
| Machinery, equipment, and furnishings | 13,701,684 | 772,803 | - | 14,474,487 |
| Infrastructure | 52,309,873 | 709,162 | - | 53,019,035 |
| Total capital assets, being depreciated | 151,584,772 | 3,857,621 | - | 155,442,393 |

(continued)

(continued)

| Governmental Activities: | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | ( 18,393,029) | ( 1,992,666) | - | ( 20,385,695) |
| Machinery, equipment, and furnishings | ( 9,895,360) | ( 1,632,925) | - | ( 11,528,285) |
| Infrastructure | ( 17,978,893) | ( 839,842) | - | ( 18,818,735) |
| Total accumulated depreciation | ( 46,267,282) | ( 4,465,433) | - | ( 50,732,715) |
| Total capital assets, being depreciated, net | 105,317,490 | ( 607,812) | - | 104,709,678 |
| Capital assets, not being depreciated: | | | | |
| Land | 8,993,516 | - | - | 8,993,516 |
| Construction in progress | 11,178,125 | 25,176,644 | (1,868,886) | 34,485,883 |
| Total capital assets, not being depreciated | 20,171,641 | 25,176,644 | (1,868,886) | 43,479,399 |
| Governmental activities capital assets, net | $ 125,489,131 | $ 24,568,832 | $ (1,868,886) | $ 148,189,077 |

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

| Governmental Activities: | |
|---|---|
| General government | $ 187,702 |
| Public safety | 435,508 |
| Education | 2,155,207 |
| Public works | 1,191,689 |
| Culture and recreation | 48,978 |
| Health and human services | 446,349 |
| Total depreciation expense - governmental activities | $ 4,465,433 |

## 10. Warrants and Accounts Payable

Warrants payable represent 2006 expenditures paid by July 15, 2006 as permitted by law. Accounts payable represent additional 2006 expenditures paid after July 15, 2006.

## 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, 2006 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, 2006:

| | Interest Rate | Date of Issue | Date of Maturity | Balance at June 30, 2006 |
|---|---|---|---|---|
| Bond anticipation notes | 4.0% | 09/09/05 | 09/08/06 | $ 33,752,906 |
| Total | | | | $ 33,752,906 |

The following summarizes activity in notes payable during fiscal year 2006:

| | Balance Beginning of Year | New Issues | Maturities | Balance End of Year |
|---|---|---|---|---|
| Bond anticipation notes | $ 44,552,906 | $ 33,752,906 | $ (44,552,906) | $ 33,752,906 |

## 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:

| Governmental Activities: | Serial Maturities Through | Interest Rate(s)% | Amount Outstanding as of June 30, 2006 |
|---|---|---|---|
| Sept 15, 1996 - Depart Eq. | 09/15/11 | 4.5 - 6.25% | $ 460,000 |
| Sept 15, 1996 - Comm System | 09/15/06 | 4.5 - 6.25% | 35,000 |
| Aug 15, 1998 - Adv Ref of 7/15/90 - Library | 07/15/07 | 4.1 - 4.5% | 300,600 |

(continued)

(continued)

| Governmental Activities: | Serial Maturities Through | Interest Rate(s)% | Amount Outstanding as of June 30, 2006 |
|---|---|---|---|
| Sept 5, 2002 - MWRA Sewer | 08/15/07 | - | 152,812 |
| Nov 1,2003 - MWPTA CW-02-31 | 08/01/23 | Variable | 392,161 |
| Mar 1, 2004 - School Remodeling | 03/01/22 | 2.125 - 4.5% | 2,130,000 |
| Mar 1, 2004 - Public works Facility | 03/01/20 | 2.125 - 4.5% | 3,005,000 |
| May 25, 2006 – MWRA Sewer | 05/15/11 | - | 393,800 |
| Jan 15, 2000 - School | 12/15/09 | 5.0 - 6.125% | 10,850,000 |
| Dec 1, 2000 - School | 12/01/09 | 5.0 - 6.0% | 13,280,000 |
| Feb 15, 2001 - MWRA Water | 02/15/11 | - | 271,451 |
| Jun 27, 2002 - MWRA | 05/15/12 | - | 325,741 |
| Sep 5, 2002 - MWRA | 08/15/12 | - | 235,106 |
| May 20, 2004 - MWRA | 05/15/14 | - | 87,840 |
| Aug 15, 1998 - Adv Ref of 7/15/90 - School | 07/15/07 | 4.1 - 4.5% | 54,400 |
| Aug 19, 2004 - MWRA Water Bonds | 08/15/14 | - | 111,269 |
| Sep 15, 2004 - Advanced refunding | 12/15/19 | 2.6 - 5.315% | 22,170,000 |
| Nov 18, 2004 - MWRA - Water | 11/15/14 | - | 441,000 |
| May 18, 2006 – MWRA Water | 05/15/16 | - | 550,000 |
| Total Governmental Activities: | | | $ 55,246,180 |

B. *Future Debt Service*

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2006 are as follows:

| Governmental | Principal | Interest | Total |
|---|---|---|---|
| 2007 | $ 3,451,067 | $ 2,539,186 | $ 5,990,253 |
| 2008 | 3,471,424 | 2,400,709 | 5,872,133 |
| 2009 | 3,370,147 | 2,261,110 | 5,631,257 |
| 2010 | 3,510,541 | 2,115,703 | 5,626,244 |
| 2011 | 3,666,003 | 1,960,247 | 5,626,250 |
| 2012 - 2016 | 19,291,998 | 7,161,119 | 26,453,117 |
| 2017 - 2021 | 18,275,000 | 2,034,832 | 20,309,832 |
| Thereafter | 210,000 | 11,875 | 221,875 |
| Total | $ 55,246,180 | $ 20,484,781 | $ 75,730,961 |

The General fund has been designated as the sources to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2006.

C. *Changes in General Long-Term Liabilities*

During the year ended June 30, 2006, the following changes occurred in long-term liabilities:

| | Total Balance 7/1/05 | Additions | Reductions | Total Balance 6/30/06 | Less Current Portion | Equals Long-Term Portion 6/30/06 |
|---|---|---|---|---|---|---|
| Governmental Activities | | | | | | |
| Bonds payable | $ 57,586,244 | $ 943,800 | $ (3,283,864) | $ 55,246,180 | $ (3,451,067) | $ 51,795,113 |
| Other: | | | | | | |
| Compensated absences | 3,577,061 | 52,196 | - | 3,629,257 | ( 181,463) | 3,447,794 |
| Totals | $ 61,163,305 | $ 995,996 | $ (3,283,864) | $ 58,875,437 | $ (3,632,530) | $ 55,242,907 |

*D. Advanced Refunding*

Prior 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%. $ 24,329,129 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 $ 1,070,415 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.

Defeased debt still outstanding at June 30, 2006 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, 2006:

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, 2006, the City has incurred the following additional debt:

| | Amount | Interest Rate | Issue Date | Maturity Date |
|---|---|---|---|---|
| Bond anticipation note | $ 27,377,906 | 4.25% | 09/08/06 | 09/09/07 |

## 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, 2006 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, 2005, the date of the latest actuarial valuation:

| | |
|---|---|
| Retirees and beneficiaries receiving benefits | 634 |
| Terminated plan members entitled to but not yet receiving benefits | 92 |
| Active plan members | 547 |
| Total | 1,273 |
| 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.

## 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, 2006 are as follows:

| | Health Coverage | Workers' Compensation |
|---|---|---|
| Claims liability, July 1, 2005 | $ 1,507,219 | $ 81,599 |
| Claims incurred/recognized in fiscal year 2006 | 12,545,321 | 273,984 |
| Claims paid in fiscal year 2006 | (12,073,693) | (299,522) |
| Claims liability, June 30, 2006 | $ 1,978,847 | $ 56,061 |

## 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/Net Assets Restatement

The beginning (July 1, 2005) fund balances of the governmental funds have been restated as follows:

| | School Building Project Fund | Nonmajor Governmental Funds |
|---|---|---|
| As previously reported | $ (20,638,369) | $ 6,299,391 |
| Reclassified prior year revenue | ( 175,000) | 175,000 |
| As restated | $ (20,813,369) | $ 6,474,391 |

The beginning (July 1, 2005) net assets of the governmental activities have been restated as follows:

| | Governmental Activities |
|---|---|
| As previously reported | $ 74,373,654 |
| Record compensated absences not previously identified | ( 956,547) |
| As restated | $ 73,417,107 |

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 Percentage of Covered Payroll [(b - a)/c] |
|---|---|---|---|---|---|---|
| 01/30/2006 | $ 48,092 | $ 143,150 | $95,058 | 33.6% | $ 24,164 | 393.4% |
| 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 |
|---|---|---|
| 2006 | $ 6,623,439 | 100% |
| 2005 | $ 6,332,593 | 100% |
| 2004 | $ 5,557,500 | 100% |
| 2003 | $ 5,036,064 | 100% |
| 2002 | $ 4,415,388 | 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 | 01/01/2006 |
| Actuarial cost method | Individual Entry Age Normal |
| Amortization method | 4.5% increasing |
| Remaining amortization period | 22 |
| Asset valuation method | Actuarial value, 5 year smoothing |
| Actuarial assumptions: | |
| Investment rate of return | 8.5 |
| Projected salary increase | Service based table with ultimate rates of 4.75%, 5.00%, and 5.25% for groups 1, 2, and 4, respectively. |

See Independent Auditors' Report.