

CITY OF EVERETT, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2010

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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, 2010, (except for the Everett, Massachusetts Contributory Retirement System which is as of and for the year ended December 31, 2009) 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, 2010, (except the Everett Contributory Retirement System which is as of December 31, 2009), and the respective changes in financial position and cash flows, 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.

Additional Offices:

Greenfield, MA • Ellsworth, ME • Nashua, NH • Manchester, NH

The management's discussion and analysis, appearing on the following pages, and the supplementary information appearing on page 46, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 March 22, 2011 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
March 22, 2011

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, 2010. **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 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. 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 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 accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 131,047 (i.e., net assets), a change of \$ (2,470) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 27,055 a change of \$ (2,291) in comparison with the prior year.

- At the end of the current fiscal year, unreserved fund balance (designated and undesignated) for the general fund was \$ 4,164, a change of \$ (2,312) in comparison with the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 71,462, a change of \$ (4,134) 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>2010</u>	<u>2009</u>
Current and other assets	\$ 58,599	\$ 58,628
Capital assets	186,828	185,567
Total assets	<u>245,427</u>	<u>244,195</u>
Long-term liabilities outstanding	98,385	95,534
Other liabilities	15,995	15,144
Total liabilities	<u>114,380</u>	<u>110,678</u>
Net assets:		
Invested in capital assets, net	118,278	113,306
Restricted	6,898	5,990
Unrestricted	5,871	14,221
Total net assets	<u>\$ 131,047</u>	<u>\$ 133,517</u>

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Revenues:		
Program revenues:		
Charges for services	\$ 14,599	\$ 15,414
Operating grants and contributions	58,515	56,124
Capital grants and contributions	663	356
General revenues:		
Property taxes	77,682	71,752
Excises	2,608	2,643
Penalties and interest on taxes	3,455	3,205
Grants and contributions not restricted to specific programs	8,956	10,923
Investment income	343	577
Other	1,144	5,396
Total revenues	<u>167,965</u>	<u>166,390</u>

(continued)

(continued)

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Expenses:		
General government	6,561	6,782
Public safety	18,719	19,373
Education	75,765	72,712
Public works	8,850	8,817
Water operations	4,540	4,292
Sewer operations	6,959	6,408
Health and human services	1,910	1,948
Culture and recreation	1,351	1,488
Employee benefits	34,400	34,455
Interest on long-term debt	2,321	3,255
Intergovernmental	9,059	8,426
Total expenses	<u>170,435</u>	<u>167,956</u>
Change in net assets	(2,470)	(1,566)
Net assets - beginning of year, as restated	<u>133,517</u>	<u>135,083</u>
Net assets - end of year	<u>\$ 131,047</u>	<u>\$ 133,517</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 \$ 131,047, a change of \$ (2,470) from the prior year.

The largest portion of net assets \$ 118,278 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 \$ 6,898 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 5,871 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 \$ (2,470). Key elements of this change are as follows:

General fund expenditures exceeding revenues	\$ (951)
Stabilization fund revenues exceeding expenditures	166
Internal service fund revenues exceeding expenditures	630
Other special revenue fund revenues exceeding expenditures	923
Increase in OPEB liability	(6,621)
Depreciation exceeding debt service expenditures	(1,263)
Current year revenue used for the acquisition of capital assets	4,409
Other	<u>237</u>
Total	<u>\$ (2,470)</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 balances of \$ 27,055, a change of \$ (2,291) in comparison with the prior year. Key elements of this change are as follows:

General fund expenditures exceeding revenues	\$ (951)
Stabilization fund revenues exceeding expenditures	166
Special revenue fund revenues exceeding expenditures	923
Non-major capital project fund expenditures exceeding revenues and bond proceeds	(2,423)
Trust fund expenditures exceeding revenues	<u>(6)</u>
Total	<u>\$ (2,291)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved and undesignated fund balance of the general fund was \$ 4,164, while total fund balance was \$ 7,221. 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 (including designated for other purposes) and total fund balance represent 2.8 % and 4.8 % of total general fund expenditures, respectively

The fund balance of the general fund changed by \$ (1,843) during the current fiscal year. Key factors in this change are as follows:

Use of free cash for operations	\$ (2,572)
Use of free cash for Parlin School capital expenditures	(900)
Use of free cash for a new fire truck	(499)
Revenues greater than budget	34
Expenditures less than budget	1,832
Tax collections less than budget	(550)
Change in encumbrances	<u>812</u>
Total	<u>\$ (1,843)</u>

Proprietary funds. Unrestricted net assets of the internal service funds at the end of the year amounted to \$ 6,101, a change of \$ 630 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 \$ 2,815. Major reasons for these amendments include:

- \$ 900 transfer to Parlin School capital project fund
- \$ 498 purchase of new fire truck
- \$ 360 increase in unemployment compensation
- \$ 284 increase in teacher salaries
- \$ 200 increase for Beachum street sewer designs
- \$ 573 increase in various other appropriations

All of the supplemental appropriations were funded through the use of free cash and transfers from other funds. 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 \$ 186,828 (net of accumulated depreciation), a change of \$ 1,260 from the prior year. This investment in capital assets includes land, buildings and improvements, machinery and equipment, infrastructure, and construction in progress. Major capital acquisitions included:

- \$ 2,098 Road and sidewalk construction
- \$ 1,433 Water main construction
- \$ 990 Veterans memorial stadium improvements
- \$ 325 Rivers edge project

Change in credit rating. During the fiscal year, the Moody's credit rating did not change.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 71,462, 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'11 general fund operating budget increased from \$ 132.4 M to \$ 139.0 M or 5%. Increases in school, retirement, health and capital improvements were the principal drivers. The budget increase was funded by additional Chapter 70 monies combined with higher property taxes. Local revenues continued their downside in FY'10 and we expect the same for FY'11. We aggressively collected property taxes and will continue this policy into FY'11.

In early FY'10, the City bonded \$ 2M for the rehab of the Parlin elementary school. We anticipate additional borrowing in FY'11 of approximately \$ 5M for a mandated sewer project and another \$ 15M for the City's capital improvement plan. This infusion of capital will make the City of Everett a more vibrant place to live over the next several years.

FY'11 Certified Free Cash is \$ 830K and the stabilization fund has increased to \$ 9.1M. The City of Everett expects FY'11 to be another difficult year and is closely monitoring all spending and revenue.

In FY'08, the City of Everett recognized that its pension system was poorly funded and began to take aggressive action. The City has increased its contribution to its pension fund from \$ 6.6M in FY'07 to \$ 10.7M in FY'11. PERAC has applauded the City of Everett for its actions concerning their pension obligations, and the City is expected to be fully funded by 2030.

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, 2010

	Governmental Activities
ASSETS	
Current:	
Cash and short-term investments	\$ 46,577,484
Receivables, net of allowance for uncollectibles:	
Property taxes	2,260,397
Excises	604,224
Water user charges	780,003
Sewer user charges	2,411,571
Intergovernmental	401,658
Other	849,499
Other assets	1,497,223
Deferred assets	46,000
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	2,313,703
Loans	213,535
Deferred assets	644,000
Capital assets, being depreciated, net	176,223,951
Capital assets, not being depreciated	10,604,081
TOTAL ASSETS	245,427,329
LIABILITIES	
Current:	
Warrants payable	4,040,247
Accounts payable	798,025
Accrued liabilities	8,048,695
Tax refunds payable	1,008,708
Health claims payable	1,725,000
Workers compensation payable	40,900
Other current liabilities	333,343
Current portion of long-term liabilities:	
Bonds payable	5,966,624
Compensated absences	225,747
Noncurrent:	
Bonds payable, net of current portion	65,495,379
Compensated absences, net of current portion	4,289,195
Net OPEB obligations	22,408,386
TOTAL LIABILITIES	114,380,249
NET ASSETS	
Invested in capital assets, net of related debt	118,277,758
Restricted for:	
Grants and other statutory restrictions	5,458,569
Permanent funds:	
Nonexpendable	1,227,921
Expendable	212,089
Unrestricted	5,870,743
TOTAL NET ASSETS	\$ 131,047,080

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2010

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General government	\$ 6,560,589	\$ 893,294	\$ 895,669	\$ -	\$ (4,771,626)
Public safety	18,719,453	2,150,594	1,458,037	9,918	(15,100,904)
Education	75,765,242	952,887	55,811,485	-	(19,000,870)
Public works	8,850,504	226,583	141,980	653,207	(7,828,734)
Water operations	4,539,866	2,819,906	-	-	(1,719,960)
Sewer operations	6,959,101	7,247,614	-	-	288,513
Health and human services	1,909,596	307,737	132,708	-	(1,469,151)
Culture and recreation	1,350,901	-	75,007	-	(1,275,894)
Employee benefits	34,400,055	-	-	-	(34,400,055)
Interest	2,321,225	-	-	-	(2,321,225)
Intergovernmental	9,058,965	-	-	-	(9,058,965)
Total Governmental Activities	\$ <u>170,435,497</u>	\$ <u>14,598,615</u>	\$ <u>58,514,886</u>	\$ <u>663,125</u>	(96,658,871)
			General Revenues:		
			Property taxes		
			Excises		77,682,298
			Penalties and interest on taxes		2,607,898
			Grants and contributions not restricted to specific programs		3,455,534
			Investment income		8,955,937
			Other		342,719
					<u>1,144,086</u>
			Total general revenues		<u>94,188,472</u>
					Change in Net Assets
					(2,470,399)
			Net Assets:		
			Beginning of year, as restated		<u>133,517,479</u>
			End of year		<u>\$ 131,047,080</u>

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2010

ASSETS	<u>General</u>	<u>Stabilization Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and short-term investments	\$ 17,457,344	\$ 9,122,082	\$ 12,745,994	\$ 39,325,420
Receivables, net of allowance:				
Property taxes	5,239,639	-	-	5,239,639
Excises	1,421,695	-	-	1,421,695
Water user charges	866,470	-	-	866,470
Sewer user charges	2,679,523	-	-	2,679,523
Departmental and other	1,212,361	-	-	1,212,361
Intergovernmental	-	-	-	-
Loans	-	-	401,658	401,658
Due from other funds	28,916	-	248,296	248,296
Other assets	49,860	-	1,866	30,782
	<u>49,860</u>	<u>-</u>	<u>-</u>	<u>49,860</u>
TOTAL ASSETS	\$ <u>28,955,808</u>	\$ <u>9,122,082</u>	\$ <u>13,397,814</u>	\$ <u>51,475,704</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	\$ 2,145,997	\$ -	\$ 1,894,250	\$ 4,040,247
Deferred revenues	11,273,512	-	248,295	11,521,807
Accrued liabilities	6,972,904	-	513,147	7,486,051
Tax refunds payable	1,008,708	-	-	1,008,708
Due to other funds	454	-	-	31,016
Other liabilities	333,343	-	30,562	333,343
	<u>333,343</u>	<u>-</u>	<u>-</u>	<u>333,343</u>
TOTAL LIABILITIES	21,734,918	-	2,686,254	24,421,172
Fund Balances:				
Reserved for:				
Encumbrances and continuing appropriations	2,452,027	-	-	2,452,027
Expenditures	605,000	-	-	605,000
Perpetual (nonexpendable) permanent funds	-	-	-	-
Unreserved:				
Designated for other purposes	1,000,000	-	-	1,000,000
Undesignated, reported in:				
General fund	3,163,863	-	-	3,163,863
Special revenue funds	-	9,122,082	5,458,569	14,580,651
Capital project funds	-	-	3,812,981	3,812,981
Permanent funds	-	-	212,089	212,089
	<u>7,220,890</u>	<u>9,122,082</u>	<u>10,711,560</u>	<u>27,054,532</u>
TOTAL FUND BALANCES	7,220,890	9,122,082	10,711,560	27,054,532
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>28,955,808</u>	\$ <u>9,122,082</u>	\$ <u>13,397,814</u>	\$ <u>51,475,704</u>

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS

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

JUNE 30, 2010

Total governmental fund balances	\$ 27,054,532
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	186,828,032
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	9,321,516
• 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.	6,100,973
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(562,642)
• Long-term liabilities, (net of deferred asset) including bonds payable, and net OPEB obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(97,695,331)</u>
Net assets of governmental activities	<u>\$ 131,047,080</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, 2010

	<u>General</u>	<u>Stabilization Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 76,516,681	\$ -	\$ -	\$ 76,516,681
Excises	2,561,308	-	-	2,561,308
Penalties and interest on taxes	3,276,698	-	-	3,276,698
Charges for services	1,250,881	-	1,753,099	3,003,980
Licenses and permits	463,831	-	-	463,831
Fines and forfeits	1,099,831	-	-	1,099,831
Intergovernmental	52,684,328	-	-	52,684,328
Water	2,916,260	-	15,286,692	18,202,952
Sewer	7,593,719	-	-	7,593,719
Investment income	98,665	165,621	-	264,286
Other	1,089,865	-	123,530	1,213,395
Total Revenues	<u>149,552,067</u>	<u>165,621</u>	<u>17,630,680</u>	<u>167,348,368</u>
Expenditures:				
Current:				
General government	4,541,543	-	1,619,230	6,160,773
Public safety	18,121,078	-	640,850	18,761,928
Education	60,833,505	-	13,154,180	73,987,685
Public works	7,262,199	-	972,837	8,235,036
Water operations	4,574,320	-	-	4,574,320
Sewer operations	6,530,382	-	-	6,530,382
Health and human services	1,731,895	-	173,703	1,905,598
Culture and recreation	948,668	-	89,150	1,037,818
Employee benefits	28,473,455	-	-	28,473,455
Capital outlay	-	-	4,487,033	4,487,033
Debt service	8,426,786	-	-	8,426,786
Intergovernmental	9,058,965	-	-	9,058,965
Total Expenditures	<u>150,502,796</u>	<u>-</u>	<u>21,136,983</u>	<u>171,639,779</u>
Excess (deficiency) of revenues over expenditures	(950,729)	165,621	(3,506,303)	(4,291,411)
Other Financing Sources (Uses):				
Issuance of bonds	-	-	2,000,000	2,000,000
Transfers in	8,000	-	900,000	908,000
Transfers out	(900,000)	-	(8,000)	(908,000)
Total Other Financing Sources (Uses)	<u>(892,000)</u>	<u>-</u>	<u>2,892,000</u>	<u>2,000,000</u>
Changes in fund balances	(1,842,729)	165,621	(614,303)	(2,291,411)
Fund Balance, at Beginning of Year, as restated	<u>9,063,619</u>	<u>8,956,461</u>	<u>11,325,863</u>	<u>29,345,943</u>
Fund Balance, at End of Year	<u>\$ 7,220,890</u>	<u>\$ 9,122,082</u>	<u>\$ 10,711,560</u>	<u>\$ 27,054,532</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, 2010

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (2,291,411)																				
<ul style="list-style-type: none"> • 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: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases, net of dispositions</td> <td style="text-align: right;">8,657,262</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(7,397,217)</td> </tr> </table> • 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. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">856,759</td> </tr> </table> • 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: <table border="0" style="margin-left: 40px;"> <tr> <td>Issuance of debt</td> <td style="text-align: right;">(2,000,000)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">6,134,162</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(28,601)</td> </tr> </table> • Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table border="0" style="margin-left: 40px;"> <tr> <td>Increase in compensated absences</td> <td style="text-align: right;">(364,283)</td> </tr> <tr> <td>Amortization of refunding</td> <td style="text-align: right;">(46,000)</td> </tr> <tr> <td>Increase in OPEB liability</td> <td style="text-align: right;">(6,620,864)</td> </tr> </table> • 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. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>629,794</u></td> </tr> </table> 		Capital outlay purchases, net of dispositions	8,657,262	Depreciation	(7,397,217)		856,759	Issuance of debt	(2,000,000)	Repayments of debt	6,134,162		(28,601)	Increase in compensated absences	(364,283)	Amortization of refunding	(46,000)	Increase in OPEB liability	(6,620,864)		<u>629,794</u>
Capital outlay purchases, net of dispositions	8,657,262																				
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Increase in compensated absences	(364,283)																				
Amortization of refunding	(46,000)																				
Increase in OPEB liability	(6,620,864)																				
	<u>629,794</u>																				
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>(2,470,399)</u>																				

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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Taxes				
Excise	\$ 77,066,866	\$ 77,066,866	\$ 77,066,866	\$ -
Penalties, interest, and other taxes	2,850,000	2,850,000	2,561,308	(288,692)
Charges for services	2,114,112	2,114,112	3,276,698	1,162,586
Licenses and permits	620,790	620,790	1,250,881	630,091
Fines and forfeits	550,000	550,000	463,831	(86,169)
Intergovernmental	1,300,000	1,300,000	1,099,831	(200,169)
Water	44,192,147	44,192,147	43,500,973	(691,174)
Sewer	3,000,000	3,000,000	2,916,260	(83,740)
Investment income	7,425,000	7,425,000	7,593,719	168,719
Other	250,000	250,000	98,665	(151,335)
Transfers in	1,516,000	1,516,000	1,089,865	(426,135)
Other financing sources	-	8,000	8,000	-
	<u>1,163,381</u>	<u>3,970,635</u>	<u>3,970,635</u>	<u>-</u>
Total Revenues and Other Sources	142,048,296	144,863,550	144,897,532	33,982
Expenditures and Other Uses:				
General government				
Public safety	4,846,513	5,112,013	4,625,594	486,419
Education	17,868,001	18,508,725	18,365,901	142,824
Public works	51,641,311	51,925,311	51,925,311	-
Water	7,283,170	7,448,200	7,448,200	-
Sewer	4,567,881	4,567,881	4,599,320	(31,439)
Health and human services	6,344,229	6,544,229	6,530,382	13,847
Culture and recreation	1,880,488	1,880,488	1,731,895	148,593
Employee benefits	968,040	968,040	945,447	22,593
Debt service	28,562,119	28,922,119	28,473,455	448,664
Intergovernmental	8,690,638	8,690,638	8,426,786	263,852
Transfers out	9,395,906	9,395,906	9,058,965	336,941
	<u>-</u>	<u>900,000</u>	<u>900,000</u>	<u>-</u>
Total Expenditures and Other Uses	142,048,296	144,863,550	143,031,256	1,832,294
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,866,276	\$ 1,866,276
See notes to financial statements.				

CITY OF EVERETT, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2010

	<u>Governmental Activities</u>
	Internal Service Fund
<u>ASSETS</u>	
Cash and short-term investments	\$ 7,252,064
Due from other funds	234
Other assets	<u>1,412,600</u>
TOTAL ASSETS	8,664,898
<u>LIABILITIES</u>	
Current:	
Accounts payable	798,025
Health claims payable	1,725,000
Workers compensation payable	<u>40,900</u>
TOTAL LIABILITIES	2,563,925
<u>NET ASSETS</u>	
Unrestricted	<u>6,100,973</u>
TOTAL NET ASSETS	<u>\$ 6,100,973</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, 2010

	<u>Governmental Activities</u>
	Internal Service Fund
Operating Revenues:	
Charges for services	\$ 18,391,987
Operating Expenses:	
Personnel services	<u>17,763,093</u>
Operating income	628,894
Nonoperating Revenues:	
Investment income	<u>900</u>
Change in Net Assets	629,794
Net Assets at Beginning of Year	<u>5,471,179</u>
Net Assets at End of Year	<u><u>\$ 6,100,973</u></u>

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2010

	Governmental Activities Internal Service Fund
<u>Cash Flows From Operating Activities:</u>	
Receipts from employees and employer	\$ 18,391,976
Payments of employee benefits and expenses	<u>(17,541,438)</u>
Net Cash Provided By Operating Activities	850,538
<u>Cash Flows From Investing Activities:</u>	
Investment income	<u>900</u>
Net Cash Provided By Investing Activities	<u>900</u>
Net Change in Cash and Short-Term Investments	851,438
Cash and Short-Term Investments, Beginning of Year	<u>6,400,626</u>
Cash and Short-Term Investments, End of Year	<u>\$ 7,252,064</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating income	\$ 628,894
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Due from other funds	(11)
Other assets	49,200
Accounts payable	41,955
Accrued liabilities	<u>130,500</u>
Net Cash Provided By Operating Activities	<u>\$ 850,538</u>

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2010

<u>ASSETS</u>	<u>Pension Trust Fund (as of December 31, 2009)</u>	<u>Agency Funds</u>
Cash and short term investments	\$ 578,956	\$ 432,719
Investments	53,763,198	-
Accounts receivable	<u>32,598</u>	<u>450,893</u>
Total Assets	54,374,752	883,612
 <u>LIABILITIES AND NET ASSETS</u>		
Other liabilities	<u>72</u>	<u>883,612</u>
Total Liabilities	<u>72</u>	<u>883,612</u>
 <u>NET ASSETS</u>		
Total Net Assets Held in Trust for Pension Benefits	\$ <u><u>54,374,680</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, 2009

	<u>Pension Trust Fund</u>
Additions:	
Contributions:	
Employers	\$ 10,506,000
Plan members	2,978,227
Other Systems and Commonwealth of Massachusetts	651,213
Other	47,272
Total contributions	<u>14,182,712</u>
Investment Income:	
Increase(Decrease) in fair value of investments	8,084,204
Less: management fees	(283,234)
Net investment income	<u>7,800,970</u>
Total additions	21,983,682
Deductions:	
Benefit payments to plan members and beneficiaries	11,093,070
Refunds to plan members	155,503
Transfers to other systems	269,566
Administrative expenses	187,784
Total deductions	<u>11,705,923</u>
Net decrease	10,277,759
Net assets:	
Beginning of year	<u>44,096,921</u>
End of year	<u>\$ 54,374,680</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 2010, 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 func-

tion 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 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 is 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 expendi-

tures, 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 *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 work 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 are 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 ½" has limited 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 is voted. The actual fiscal year 2010 tax levy reflected an excess capacity of \$ 205,397.

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.

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

<u>Assets</u>	<u>Years</u>
Building 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 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 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 fund 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.

	Revenues and Other <u>General Fund</u>	Expenditures and Other <u>General Fund</u>
<u>Financing Uses</u>		
Revenues/Expenditures (GAAP basis)	\$ 149,552,067	\$ 150,502,796
Other financing sources/uses (GAAP basis)	<u>8,000</u>	<u>900,000</u>
Subtotal (GAAP basis)	149,560,067	151,402,796
Adjust tax revenue to accrual basis	550,185	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,640,212)
Add end of year appropriation carry- forwards to expenditures	-	2,452,027

(continued)

(continued)

	Revenues and Other <u>General Fund</u>	Expenditures and Other <u>General Fund</u>
<u>Financing Uses</u>		
Recognize use of fund balance as funding source	3,970,635	-
Reverse the effect of non-budgeted State contributions for Teachers' Retirement	<u>(9,183,355)</u>	<u>(9,183,355)</u>
Budgetary basis	<u>\$ 144,897,532</u>	<u>\$ 143,031,256</u>

D. Excess of Expenditures over Appropriations

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

Water Department \$ 31,439

The above appropriation deficit will need to be raised in subsequent periods.

E. Deficit Fund Equity

The City reported special revenue, trust, agency, and 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 and Contributory Retirement System's (the System) deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the City's 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 and System does not have a deposit policy for custodial credit risk.

As of June 30, 2010 and December 31, 2009, \$ 13,868,570 and \$ 531,691 of the City's and System's bank balances of \$ 48,945,513 and \$ 781,691 respectively, was exposed to custodial credit risk as uninsured, uncollateralized, or collateral held by pledging bank's trust department not in the City's name.

Of the System's \$ 531,691 that was exposed to custodial credit risk, \$ 500,191 was invested in the Pension Reserve Investment Trust (PRIT).

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 the City's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

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. In accordance with Chapter 32 Section 22 of the Massachusetts General Laws, the System has transferred its investments to the Commonwealth's PRIT fund because its funding ratio and rate of return in prior years has not met the standards established by the Public Employee Retirement Administration Commission (PERAC).

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>
Pooled investments	\$ 29	\$ 29
State investment pool*	<u>53,734</u>	<u>53,734</u>
Total investments	<u>\$ 53,763</u>	<u>\$ 53,763</u>

**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.

Of the System's investment in pooled funds, the government has a custodial credit risk exposure of \$ 53,763,198 because the related securities are uninsured, unregistered, and held by the System's brokerage firm, which is also counterparty to these securities. The System manages this risk with SIPC, excess SIPC and because the assets are held in separately identifiable trust accounts. In addition, \$ 53,733,835 of the pooled funds are invested in the State Pension Reserve Investment Trust (PRIT).

C. Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. The City has no investments in any one issuer that represents 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. The System has no investments in any one issuer that represents 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. 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 semiannual basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

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

Taxes receivable at June 30, 2010 consist of the following (in thousands):

Real Estate		
2010	\$ 2,417	
2009	8	
2008	2	
2007 and Prior	<u>3</u>	2,430
Personal Property		
2010	56	
2009	22	
2008	25	
2007 and Prior	<u>136</u>	239
Tax Liens		<u>2,571</u>
Total		<u>\$ 5,240</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	\$ 666
Excises	818
Water user charges	87
Sewer user charges	268
Other receivables	363

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2010.

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, 2010 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General fund	\$ 28,916	\$ 454
Nonmajor governmental funds	1,866	30,562
Proprietary fund	<u>234</u>	<u>-</u>
Total	<u>\$ 31,016</u>	<u>\$ 31,016</u>

9. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance, as restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 107,747,612	\$ 2,480,599	\$ -	\$ 110,228,211
Machinery, equipment and furnishings	24,091,252	2,319,955	(392,339)	26,018,868
Infrastructure	<u>121,055,712</u>	<u>2,801,202</u>	<u>-</u>	<u>123,856,914</u>
Total capital assets, being depreciated	252,894,576	7,601,756	(392,339)	260,103,993
Less accumulated depreciation for:				
Buildings and improvements	(28,405,241)	(3,474,585)	-	(31,879,826)
Machinery, equipment and furnishings	(14,295,065)	(1,570,816)	-	(15,865,881)
Infrastructure	<u>(33,782,519)</u>	<u>(2,351,816)</u>	<u>-</u>	<u>(36,134,335)</u>
Total accumulated depreciation	<u>(76,482,825)</u>	<u>(7,397,217)</u>	<u>-</u>	<u>(83,880,042)</u>
Total capital assets, being depreciated, net	176,411,751	204,539	(392,339)	176,223,951
Capital assets, not being depreciated:				
Land	8,411,274	-	-	8,411,274
Construction in progress	<u>744,962</u>	<u>2,192,807</u>	<u>(744,962)</u>	<u>2,192,807</u>
Total capital assets not being depreciated	<u>9,156,236</u>	<u>2,192,807</u>	<u>(744,962)</u>	<u>10,604,081</u>
Governmental activities capital assets, net	<u>\$ 185,567,987</u>	<u>\$ 2,397,346</u>	<u>\$ (1,137,301)</u>	<u>\$ 186,828,032</u>

Depreciation expense was charged to functions of the City as follows (in thousands):

Governmental Activities:	
General government	\$ 284
Public safety	421
Education	3,585
Public works	1,759
Sewer	429
Water	545
Culture and recreation	<u>374</u>
Total depreciation expense - governmental activities	<u>\$ 7,397</u>

10. Warrants and Accounts Payable

Warrants payable represent 2010 expenditures paid by July 15, 2010. Accounts payable represent additional 2010 expenditures paid after July 15, 2010.

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, 2010 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, including interest on notes and bonds, as well as teacher's summer pay.

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. 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</u> <u>Maturities</u> <u>Through</u>	<u>Interest</u> <u>Rate(s)%</u>	<u>Amount</u> <u>Outstanding</u> <u>as of</u> <u>6/30/10</u>
Feb 1, 2007 - High School Building	02/01/26	3.5 - 5.5%	\$ 11,264,000
Feb 1, 2007 - Prior School Building	02/01/12	3.5 - 5.5%	776,000
Feb 1, 2007 - Lafayette School Remediaton	02/01/17	3.5 - 5.5%	3,350,000
Nov 1, 2003 - MWPTA CW-02-31	08/01/23	Variable	324,874
Mar 1, 2004 - School Remodeling	03/01/22	2.125 - 4.5%	1,590,000
Mar 1, 2004 - Public works Facility	03/01/20	2.125 - 4.5%	2,145,000
May 25, 2006 - MWRA Sewer	05/15/11	-	78,760
Jan 15, 2000 - School	12/15/11	5.0 - 6.125%	4,020,000
Dec 1, 2000 - School	12/01/19	5.0 - 6.0%	815,000
Feb 15, 2001 - MWRA Water	02/15/11	-	54,290
Jun 27, 2002 - MWRA	05/15/12	-	108,580
Sep 5, 2002 - MWRA	08/15/12	-	100,760
May 20, 2004 - MWRA	05/15/14	-	43,920
Aug 19, 2004 - MWRA Water Bonds	08/15/14	-	61,816
Sep 15, 2004 - Advanced refunding	12/15/19	2.6 - 5.315%	21,770,000
Nov 18, 2004 - MWRA - Water	11/15/14	-	245,000
May 18, 2006 - MWRA Water	05/15/16	-	330,000
Oct 25, 2007 - High School Bond	11/01/32	2.00%	10,336,553
May 22, 2008 - MWRA Water Bond	05/15/18	-	243,200
Jun 8, 2008 - HUD Loan	08/01/27	Variable	1,000,000
May 21, 2009 MWRA Water	05/15/19	-	1,393,250
Aug, 1, 2009 - School Remodeling	08/01/29	3.75-5.0%	2,000,000
Oct 15, 2009 Refunding	09/01/11	2.0-3.0%	143,000
Oct 15, 2009 Refunding	09/01/19	2.0-5.0%	9,268,000
Total Governmental Activities:			<u>\$ 71,462,003</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2010 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 5,966,624	\$ 2,820,708	\$ 8,787,332
2012	5,983,099	2,581,868	8,564,967
2013	5,629,587	2,350,029	7,979,616
2014	5,721,811	2,131,984	7,853,795
2015	5,860,984	1,905,375	7,766,359
2016-2020	30,138,503	9,414	30,147,917
2021-2025	7,053,075	1,342,808	8,395,883
2026-2030	3,760,075	373,331	4,133,406
2031-2035	1,348,245	53,930	1,402,175
Total	<u>\$ 71,462,003</u>	<u>\$ 13,569,447</u>	<u>\$ 85,031,450</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, 2010.

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2010, the following changes occurred in long-term liabilities:

	Total Balance <u>7/1/09</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/10</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/10</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 75,596,165	\$ 2,000,000	\$ (6,134,162)	\$ 71,462,003	\$ (5,966,624)	\$ 65,495,379
Other:						
Compensated absences	4,150,659	571,816	(207,533)	4,514,942	(225,747)	4,289,195
Net OPEB obligations	<u>15,787,522</u>	<u>12,763,822</u>	<u>(6,142,958)</u>	<u>22,408,386</u>	-	<u>22,408,386</u>
Totals	<u>\$ 95,534,346</u>	<u>\$ 15,335,638</u>	<u>\$ (12,484,653)</u>	<u>\$ 98,385,331</u>	<u>\$ (6,192,371)</u>	<u>\$ 92,192,960</u>

D. Advanced Refundings

Prior Year

On September 15, 2004, the City issued general obligation bonds in the amount of \$ 22,270,000 with a variable interest rate 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 16, 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, 2010 is \$ 21,250,000.

Current Year

On October 15, 2009, the City issued general obligation bonds in the amount of \$ 9,411,000 with interest rates ranging from 2.0% to 5.0% to current refund \$ 145,000 of the September 15, 1996 bonds, comprised of serial bonds with interest rates ranging 5.375% to 5.4% and to advance refund \$ 9,610,000 of the December 1, 2000 bonds, comprised of serial bonds with interest rates ranging from 5.0% to 5.25%. The 1996 serial bonds mature on September 15, 2010 and September 15, 2011 and were callable on November 16, 2009. The 2000 serial bonds mature on December 1, 2011 through December 1, 2019 and are callable on December 1, 2010.

The general obligation bonds were issued at a true interest cost of 2.4705%. \$ 10,550,574 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 into an irrevocable trust with an escrow agent to provide debt service payments until the serial bonds are called on November 16, 2009 and December 1, 2010, respectively. The 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 current refunding, the City reduced its total debt service cash flow requirements by \$ 6,303, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$ 6,039.

As a result of the advance refunding, the City reduced its total debt service cash flow requirements by \$ 977,395, which resulted in an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$ 814,215.

Defeased debt for the 1996 issue still outstanding at June 30, 2010 is \$ 0.

Defeased debt for the 2000 issue still outstanding at June 30, 2010 is \$ 9,610,000.

15. **Restricted Net Assets**

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

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

16. **Reserves of Fund Equity**

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

The following types of reserves are reported at June 30, 2010:

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 Expenditures - Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

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.

Designated for Other Purposes - Represents management’s estimate of a shortfall of contributions to the self-insured (Internal Service) fund compared with contributions determined based on plan participation. Management expects to analyze this issue in the future.

17. **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.

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

GASB Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

A. Plan Description

In addition to providing the pension benefits described, the City provides post-employment health care and life insurance benefits for retired employees through the City's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of January 1, 2009, the actuarial valuation date, approximately 656 retirees and 1,288 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The City provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the City and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 15% of the cost of the health plan, as determined by the City. The City contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The City's fiscal 2010 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2010, the amount actually contributed to the plan, and the

change in the City's net OPEB obligation based on an actuarial valuation as of January 1, 2009.

Annual Required Contribution (ARC)	\$ 13,043,338
Interest on net OPEB obligation	631,500
Adjustment to ARC	<u>(911,016)</u>
Annual OPEB cost	12,763,822
Contributions made	<u>(6,142,958)</u>
Increase in net OPEB obligation	6,620,864
Net OPEB obligation - beginning of year	<u>15,787,522</u>
Net OPEB obligation - end of year	<u>\$ 22,408,386</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 12,763,822	48.1%	\$ 22,408,386
2009	\$ 13,076,956	39.6%	\$ 15,787,522
2008	\$ 13,076,956	39.6%	\$ 7,893,761

The City's net OPEB obligation as of June 30, 2010 is recorded as a component of the "other long-term liabilities" line item.

E. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2009, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 145,636,000
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 145,636,000</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>N/A</u>
UAAL as a percentage of covered payroll	<u>N/A</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future

employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the City and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2009 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advanced its obligation. The actuarial assumptions included a 4.00% investment rate of return and an initial annual healthcare cost trend rate of 6.98% which decreases to a 5.00% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.50%.

19. Contributory Retirement System

The City follows the provisions of GASB Statement No. 27, *Accounting for Pensions for State and Local Government Employees*, (as amended by GASB 50) with respect to the employees' retirement funds.

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, 2009:

Retirees and beneficiaries receiving benefits	552
Terminated plan members entitled to but not yet receiving benefits	95
Active plan members	<u>666</u>
Total	<u>1,313</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). The City's Schedule of Employer Contributions is as follows:

Schedule of Employer Contributions:

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2010	\$ 10,506,000	100%
2009	\$ 9,550,000	100%
2008	\$ 8,694,000	100%
2007	\$ 6,927,668	100%
2006	\$ 6,623,439	100%
2005	\$ 6,332,593	100%
2004	\$ 5,557,500	100%
2003	\$ 5,036,064	100%

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 at fair value in accordance with PERAC requirements.

C. Funded Status and Funding Progress

The information presented below is from the Everett Contributory Retirement System's most recent valuation (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]
01/01/08	\$ 57,880	\$ 156,991	\$ 99,111	36.9%	\$ 31,005	319.7%

The Schedule of Funding Progress following the notes to the financial statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$ 99.1 million was calculated. The actuarial assumptions included (a) 8.25% investment rate of return and (b) a projected salary increase of 4.75% - 5.25%. Liabilities for cost of living increases have been assumed at an annual increase of 3.00%, on the first \$ 12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.25%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of December 31, 2009, the unfunded actuarially accrued liability is being amortized over 17 years (18 years for ERIs) using a 4.5% increasing payment method.

20. 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 Coverage

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 \$ 110,000 per individual.

The \$ 1,725,000 estimated liability for claims incurred but not reported includes only an estimate for known loss events expected to later be presented as claims. The City is unable to estimate the amount of unknown loss events expected to become claims and expected future developments on claims already reported.

Changes in the aggregate liability for claims for the year ended June 30, 2010 are as follows:

	<u>Health Coverage</u>	<u>Workers Compensation</u>
Claims liability, beginning of year	\$ 1,595,000	\$ 40,400
Claims incurred/recognized in fiscal year 2010	17,423,328	339,765
Claims paid in fiscal year 2010	<u>(17,293,328)</u>	<u>(339,265)</u>
Claims liability, end of year	<u>\$ 1,725,000</u>	<u>\$ 40,900</u>

21. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the 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.

22. Beginning Fund Balance Reclassification

The City's major governmental funds for fiscal year 2010, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/09 (as previously reported)	Reclassification	Fund Equity 6/30/09 (as restated)
Nonmajor funds	\$ 10,513,800	\$ 812,063	\$ 11,325,863
School building projects fund	812,063	(812,063)	-
Total	\$ <u>11,325,863</u>	\$ <u>-</u>	\$ <u>11,325,863</u>

23. Beginning Net Asset Restatement

The City implemented a new capital asset software package for reporting capital assets. As a result, the city identified a duplication of certain assets. Accordingly, the beginning net assets of the Governmental Activities has been restated as follows (in thousands):

Government-Wide Financial Statements:

	Governmental Activities
As previously reported	\$ 137,485
Capital asset adjustment	<u>(3,968)</u>
As restated	\$ <u>133,517</u>

**CITY OF EVERETT, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2010

(Unaudited)

(Amounts Expressed in thousands)

Employees' Retirement System						
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)	UAAAL as a Percent- age of Covered Payroll [(b-a)/c]
01/01/08	\$ 57,880	\$ 156,991	\$ 99,111	36.9%	\$ 31,005	319.7%
01/01/07	\$ 50,378	\$ 151,136	\$ 100,758	33.3%	\$ 27,430	367.3%
01/01/06	\$ 48,092	\$ 143,150	\$ 95,058	33.6%	\$ 24,164	393.4%
01/01/04	\$ 50,498	\$ 128,181	\$ 77,683	39.4%	\$ 20,907	371.6%
01/01/01	\$ 51,660	\$ 113,565	\$ 61,905	45.5%	\$ 21,179	292.3%
01/01/99	\$ 55,875	\$ 108,557	\$ 52,682	51.5%	\$ 18,994	277.4%
01/01/98	\$ 53,566	\$ 100,338	\$ 46,772	53.4%	\$ 16,895	276.8%

Other Post-Employment Benefits						
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)	UAAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/09	\$ -	\$ 145,636	\$ 145,636	0.0%	NA	NA

See Independent Auditors' Report.