

CITY OF EVERETT, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2012

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MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Everett, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Everett, Massachusetts, as of and for the year ended June 30, 2012, (except for the Everett Contributory Retirement System which is as of and for the year ended December 31, 2011) 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Everett as of June 30, 2012, (except the Everett Contributory Retirement System which is as of December 31, 2011), 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2013 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and *Schedule of Funding Progress* information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Melanson, Heath + Company P.C.
February 25, 2013

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, 2012. **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).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include sewer and water activities.

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:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for sewer and water operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer/water operations, which is considered to be a major fund.

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 \$ 138,028 (i.e., net assets), a change of \$ (5,767) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 28,058 a change of \$ 1,667 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 16,464, a change of \$ 880 in comparison to the prior year. Included in the unassigned fund balance for the general fund is the City's stabilization account balance of \$ 9,001, a change of \$ (223) in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 60,370, a change of \$ (5,876) 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		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 67,314	\$ 65,821	\$ 4,395	\$ 4,843	\$ 71,709	\$ 70,664
Capital assets	139,084	142,130	48,401	46,368	187,485	188,498
Total assets	<u>206,398</u>	<u>207,951</u>	<u>52,796</u>	<u>51,211</u>	<u>259,194</u>	<u>259,162</u>
Long-term liabilities outstanding	99,663	96,430	3,137	3,183	102,801	99,613
Other liabilities	14,999	15,561	3,367	193	18,366	15,754
Total liabilities	<u>114,662</u>	<u>111,991</u>	<u>6,504</u>	<u>3,376</u>	<u>121,167</u>	<u>115,367</u>
Net assets:						
Invested in capital assets, net	82,439	81,814	43,501	43,185	125,940	124,999
Restricted	11,308	10,334	-	-	11,308	10,334
Unrestricted	(2,011)	3,712	2,791	4,750	780	8,462
Total net assets	<u>\$ 91,736</u>	<u>\$ 95,860</u>	<u>\$ 46,292</u>	<u>\$ 47,935</u>	<u>\$ 138,028</u>	<u>\$ 143,795</u>

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 4,382	\$ 4,415	\$ 11,134	\$ 8,650	\$ 15,516	\$ 13,065
Operating grants and contributions	65,788	64,272	-	-	65,788	64,272
Capital grants and contributions	2,139	1,742	-	-	2,139	1,742
General revenues:						
Property taxes	81,148	78,396	-	-	81,148	78,396
Excises	2,810	2,741	-	-	2,810	2,741
Penalties, interest, and other taxes	6,783	3,473	-	-	6,783	3,473
Grants and contributions not restricted to specific programs	6,066	8,709	-	-	6,066	8,709
Investment income	82	315	-	-	82	315
Other	1,893	696	-	-	1,893	696
Total revenues	<u>171,091</u>	<u>164,759</u>	<u>11,134</u>	<u>8,650</u>	<u>182,225</u>	<u>173,409</u>
Expenses:						
General government	9,445	8,636	-	-	9,445	8,636
Public safety	26,250	24,752	-	-	26,250	24,752
Education	111,174	103,444	-	-	111,174	103,444
Public works	12,257	13,321	-	-	12,257	13,321
Health and human services	2,094	2,516	-	-	2,094	2,516
Culture and recreation	2,066	1,759	-	-	2,066	1,759
Interest on long-term debt	2,640	2,779	-	-	2,640	2,779
Intergovernmental	9,181	8,852	-	-	9,181	8,852
Water/Sewer services	-	-	12,885	11,327	12,885	11,327
Total expenses	<u>175,107</u>	<u>166,059</u>	<u>12,885</u>	<u>11,327</u>	<u>187,992</u>	<u>177,386</u>
Change in net assets before transfers	(4,016)	(1,300)	(1,751)	(2,677)	(5,767)	(3,977)
Transfers, net	<u>(108)</u>	<u>-</u>	<u>108</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	(4,124)	(1,300)	(1,643)	(2,677)	(5,767)	(3,977)
Net assets - beginning of year (as restated)	<u>95,860</u>	<u>97,160</u>	<u>47,935</u>	<u>50,612</u>	<u>143,795</u>	<u>147,772</u>
Net assets - end of year	<u>\$ 91,736</u>	<u>\$ 95,860</u>	<u>\$ 46,292</u>	<u>\$ 47,935</u>	<u>\$ 138,028</u>	<u>\$ 143,795</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 \$ 138,028, a change of \$ (5,767) from the prior year.

The largest portion of net assets \$ 125,940 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 \$ 11,308 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 780 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 \$ (4,124). Key elements of this change are as follows:

General fund revenues exceeding expenditures	\$ 2,083
Enterprise fund transfers, net	(108)
Special revenue fund revenues exceeding expenditures	282
Shute Library capital grant	671
Internal service fund expenditures exceeding revenues	(217)
Current year revenue used for the acquisition of capital assets	3,076
Increase in net OPEB obligation	(8,240)
Depreciation exceeding debt service principal	(1,755)
Other	<u>84</u>
Total	<u>\$ (4,124)</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ (1,643). Key elements of this change were related to an actual revenue shortfall in relation to the budget.

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, unassigned 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 \$ 28,058, a change of \$ 1,667 in comparison to the prior year. Key elements of this change are as follows:

General fund revenues exceeding expenditures	\$ 2,083
Enterprise fund transfers, net	(108)
Special revenue fund revenues exceeding expenditures	282
Capital project fund expenditures exceeding revenues	(589)
Trust fund revenues exceeding expenditures	<u>(1)</u>
Total	<u>\$ 1,667</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 16,464, while total fund balance was \$ 18,284. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance ⁽¹⁾	\$ 16,464	\$ 15,584 ⁽²⁾	\$ 880	10.8%
Total fund balance	18,284	16,307 ⁽²⁾	1,977	12.0%

⁽¹⁾ Now includes stabilization fund. Prior period balances have been revised to conform to current presentation.

⁽²⁾ As restated for enterprise fund reclassification.

The total fund balance of the general fund changed by \$ 1,977 during the current fiscal year. Key factors in this change are as follows:

Use of free cash as a funding source	\$ (2,228)
Tax collections less than budget	(148)
Revenues in excess of budget	2,532
Expenditures less than budget	948
Use of stabilization accounts	(223)
Change in encumbrances	<u>1,096</u>
Total	\$ <u>1,977</u>

Included in the total general fund balance is the City's stabilization account with the following balance:

	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>
General stabilization	\$ <u>9,001</u>	\$ <u>9,224</u>	\$ <u>(223)</u>
Total	\$ <u>9,001</u>	\$ <u>9,224</u>	\$ <u>(223)</u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 2,791, a change of \$ (1,960) in comparison to the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$ 2,231. Approximately \$ 2,153 of the change was related to educational salaries.

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 for governmental and business-type activities at year-end amounted to \$ 187,485 (net of accumulated depreciation), a change of \$ (1,013) 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:

- \$ 2,565 Beachem Street sewer improvements
- \$ 1,395 Roadway and sidewalk reconstruction
- \$ 1,040 Air Force road land and improvements
- \$ 901 Veterans memorial stadium improvements
- \$ 469 Commercial meter replacement
- \$ 230 Parlin School improvements
- \$ 137 HVAC equipment replacement

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 \$ 60,370, 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 Notes to Financial Statements.

REQUESTS FOR INFORMATION

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

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

CITY OF EVERETT, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 43,491,804	\$ 184,833	\$ 43,676,637
Receivables, net of allowance for uncollectibles:			
Property taxes	1,368,586	-	1,368,586
Excises	569,702	-	569,702
Water and Sewer user charges	-	4,416,935	4,416,935
Intergovernmental	2,477,187	1,091,876	3,569,063
Due from other assets	1,421,564	-	1,421,564
Deferred assets	46,000	-	46,000
Internal balances	1,298,767	(1,298,767)	-
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	4,587,808	-	4,587,808
Intergovernmental	11,355,842	-	11,355,842
Loans	144,750	-	144,750
Deferred assets	552,000	-	552,000
Capital assets, being depreciated, net	129,948,668	45,835,929	175,784,597
Capital assets, not being depreciated	9,135,093	2,565,109	11,700,202
TOTAL ASSETS	206,397,771	52,795,915	259,193,686
LIABILITIES			
Current:			
Warrants payable	2,716,644	532,651	3,249,295
Accounts payable	996,287	-	996,287
Accrued liabilities	7,994,664	278,168	8,272,832
Tax refunds payable	831,358	-	831,358
Anticipation notes payable	-	2,556,377	2,556,377
Health and workers claims payable	2,175,209	-	2,175,209
Other current liabilities	284,024	-	284,024
Current portion of long-term liabilities:			
Bonds payable	5,264,415	445,858	5,710,273
Compensated absences	269,118	2,177	271,295
Noncurrent:			
Bonds payable, net of current portion	52,233,306	2,425,778	54,659,084
Compensated absences, net of current portion	5,113,250	41,360	5,154,610
Net OPEB obligation	36,783,128	222,159	37,005,287
TOTAL LIABILITIES	114,661,403	6,504,528	121,165,931
NET ASSETS			
Invested in capital assets, net of related debt	82,438,762	43,501,105	125,939,867
Restricted for:			
Grants and other statutory restrictions	9,867,059	-	9,867,059
Permanent funds:			
Nonexpendable	1,227,488	-	1,227,488
Expendable	213,470	-	213,470
Unrestricted	(2,010,411)	2,790,282	779,871
TOTAL NET ASSETS	\$ 91,736,368	\$ 46,291,387	\$ 138,027,755

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
General government	\$ 9,445,386	\$ 1,007,080	\$ -	\$ (7,137,739)	\$ -	\$ (7,137,739)
Public safety	26,249,785	922,474	6,074	(23,668,314)	-	(23,668,314)
Education	111,173,712	63,266,603	-	(46,912,343)	-	(46,912,343)
Public works	12,256,790	154,232	1,461,575	(10,400,036)	-	(10,400,036)
Health and human services	2,093,982	71,363	-	(1,634,369)	-	(1,634,369)
Culture and recreation	2,066,192	388,250	-	(1,224,298)	-	(1,224,298)
Interest	2,639,622	49,478	670,947	(2,639,622)	-	(2,639,622)
Intergovernmental	9,180,689	-	-	(9,180,689)	-	(9,180,689)
Total Governmental Activities	175,106,158	65,788,117	2,138,596	(102,797,410)	-	(102,797,410)
Business-Type Activities:						
Water/Sewer services	12,885,454	-	-	-	(1,752,056)	(1,752,056)
Total Business-Type Activities	12,885,454	-	-	-	(1,752,056)	(1,752,056)
Total	\$ 187,991,612	\$ 65,788,117	\$ 2,138,596	(102,797,410)	(1,752,056)	(104,549,466)
General Revenues:						
Property taxes						
Excises				81,146,891	-	81,146,891
Penalties, interest, and other taxes				2,810,116	-	2,810,116
Grants and contributions not restricted to specific programs				6,783,311	-	6,783,311
Investment income				6,066,395	-	6,066,395
Other				82,234	-	82,234
Transfers, net				1,893,325	-	1,893,325
Total general revenues and transfers				(108,482)	108,482	-
Change in Net Assets				98,673,790	108,482	98,782,272
				(4,123,620)	(1,643,574)	(5,767,194)
Net Assets:						
Beginning of year, as restated				95,859,988	47,934,961	143,794,949
End of year				\$ 91,736,368	\$ 46,291,387	\$ 138,027,755

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

ASSETS	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Cash and short-term investments	\$ 27,266,083	\$ 9,573,335	\$ 36,839,418
Receivables, net of allowance:			
Property taxes	6,781,828	-	6,781,828
Excises	1,508,978	-	1,508,978
Intergovernmental	-	1,103,893	1,103,893
Loans	-	168,314	168,314
Due from other funds	<u>1,298,767</u>	<u>-</u>	<u>1,298,767</u>
TOTAL ASSETS	\$ <u>36,855,656</u>	\$ <u>10,845,542</u>	\$ <u>47,701,198</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Warrants payable	\$ 1,979,938	\$ 736,706	\$ 2,716,644
Deferred revenues	8,143,797	168,313	8,312,110
Accrued liabilities	7,332,673	166,514	7,499,187
Tax refunds payable	831,358	-	831,358
Other liabilities	<u>284,024</u>	<u>-</u>	<u>284,024</u>
TOTAL LIABILITIES	18,571,790	1,071,533	19,643,323
Fund Balances:			
Nonspendable	-	1,227,488	1,227,488
Restricted	-	8,781,762	8,781,762
Committed	838,622	-	838,622
Assigned	980,880	-	980,880
Unassigned (see Note 17)	<u>16,464,364</u>	<u>(235,241)</u>	<u>16,229,123</u>
TOTAL FUND BALANCES	<u>18,283,866</u>	<u>9,774,009</u>	<u>28,057,875</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>36,855,656</u>	\$ <u>10,845,542</u>	\$ <u>47,701,198</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, 2012

Total governmental fund balances	\$ 28,057,875
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	139,083,761
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	6,547,400
<ul style="list-style-type: none">• Long-term receivables are not reported in governmental funds.	12,729,136
<ul style="list-style-type: none">• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.	4,878,890
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(495,477)
<ul style="list-style-type: none">• 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>(99,065,217)</u>
Net assets of governmental activities	<u><u>\$ 91,736,368</u></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, 2012

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 82,642,350	\$ -	\$ 82,642,350
Excises	2,780,238	-	2,780,238
Penalties and interest on taxes	2,195,506	-	2,195,506
Charges for services	973,597	2,180,656	3,154,253
Licenses and permits	276,832	-	276,832
Fines and forfeits	950,950	-	950,950
Intergovernmental	63,030,248	12,920,225	75,950,473
Investment income	115,296	6,213	121,509
Other	1,881,431	291,279	2,172,710
Total Revenues	<u>154,846,448</u>	<u>15,398,373</u>	<u>170,244,821</u>
Expenditures:			
Current:			
General government	4,523,029	1,395,706	5,918,735
Public safety	18,991,590	527,090	19,518,680
Education	69,865,413	10,412,616	80,278,029
Public works	8,020,776	1,720,104	9,740,880
Health and human services	1,505,732	155,436	1,661,168
Culture and recreation	974,593	82,447	1,057,040
Employee benefits	30,746,642	-	30,746,642
Capital outlay	843,760	1,260,039	2,103,799
Debt service	8,111,577	151,786	8,263,363
Intergovernmental	9,180,689	-	9,180,689
Total Expenditures	<u>152,763,801</u>	<u>15,705,224</u>	<u>168,469,025</u>
Deficiency of revenues over expenditures	2,082,647	(306,851)	1,775,796
Other Financing Sources (Uses):			
Transfers in	200,308	1,725	202,033
Transfers out	(305,810)	(4,705)	(310,515)
Total Other Financing Sources (Uses)	<u>(105,502)</u>	<u>(2,980)</u>	<u>(108,482)</u>
Changes in fund balances	1,977,145	(309,831)	1,667,314
Fund Balance, at Beginning of Year, as restated	<u>16,306,721</u>	<u>10,083,840</u>	<u>26,390,561</u>
Fund Balance, at End of Year	<u>\$ 18,283,866</u>	<u>\$ 9,774,009</u>	<u>\$ 28,057,875</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, 2012

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 1,667,314												
<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;">4,272,870</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(7,319,314)</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. 3,111,652 • MSBA grant revenue previously recognized at the government-wide level. (2,226,175) • 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>Repayments of debt</td> <td style="text-align: right;">5,564,416</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. 59,325 • 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;">(750,805)</td> </tr> <tr> <td>Amortization of refunding</td> <td style="text-align: right;">(46,000)</td> </tr> <tr> <td>Increase in net OPEB obligation</td> <td style="text-align: right;">(8,239,779)</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. <u>(217,124)</u> 		Capital outlay purchases, net of dispositions	4,272,870	Depreciation	(7,319,314)	Repayments of debt	5,564,416	Increase in compensated absences	(750,805)	Amortization of refunding	(46,000)	Increase in net OPEB obligation	(8,239,779)
Capital outlay purchases, net of dispositions	4,272,870												
Depreciation	(7,319,314)												
Repayments of debt	5,564,416												
Increase in compensated absences	(750,805)												
Amortization of refunding	(46,000)												
Increase in net OPEB obligation	(8,239,779)												
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>(4,123,620)</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, 2012

	Budgeted Amounts		Actual	Variance with
	Original Budget	Final Budget	Amounts	Final Budget Positive (Negative)
Revenues and Other Sources:				
Taxes	\$ 82,790,477	\$ 82,790,477	\$ 82,790,477	\$ -
Excise	2,850,000	2,850,000	2,780,238	(69,762)
Penalties, interest, and other taxes	609,112	609,112	2,195,506	1,586,394
Charges for services	751,250	751,250	973,597	222,347
Licenses and permits	654,000	654,000	276,832	(377,168)
Fines and forfeits	1,000,000	1,000,000	950,950	(49,050)
Intergovernmental	52,600,363	52,600,363	52,768,712	168,349
Investment income	35,000	35,000	38,095	3,095
Other	1,030,506	1,030,506	1,881,430	850,924
Transfers in	-	2,980	200,309	197,329
Other financing sources	-	2,228,329	2,228,329	-
Total Revenues and Other Sources	142,320,708	144,552,017	147,084,475	2,532,458
Expenditures and Other Uses:				
General government	5,331,444	4,551,475	4,488,928	62,547
Public safety	18,437,401	19,053,067	18,964,097	88,970
Education	57,386,360	59,624,689	59,614,571	10,118
Public works	8,569,608	8,422,498	8,333,132	89,366
Health and human services	1,576,860	1,558,885	1,505,732	53,153
Culture and recreation	971,644	986,202	974,593	11,609
Employee benefits	31,005,674	31,080,674	31,025,328	55,346
Debt service	8,111,579	8,111,579	8,111,579	-
Intergovernmental	9,357,809	9,357,809	9,180,689	177,120
Capital outlay	1,375,000	1,602,000	1,400,000	202,000
Transfers out	-	5,810	5,810	-
Other uses	197,329	197,329	-	197,329
Total Expenditures and Other Uses	142,320,708	144,552,017	143,604,459	947,558
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 3,480,016	\$ 3,480,016

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	Water/Sewer Fund	Internal Service Fund
<u>ASSETS</u>		
Current:		
Cash and short-term investments	\$ 184,833	\$ 6,652,386
User fees, net of allowance for uncollectibles	4,416,935	-
Intergovernmental receivables	1,091,876	-
Other assets	-	1,398,000
	<hr/>	<hr/>
Total current assets	5,693,644	8,050,386
Noncurrent:		
Capital assets being depreciated, net	45,835,929	-
Capital assets not being depreciated	2,565,109	-
	<hr/>	<hr/>
Total noncurrent assets	48,401,038	-
	<hr/>	<hr/>
TOTAL ASSETS	54,094,682	8,050,386
<u>LIABILITIES</u>		
Current:		
Accounts payable	532,651	996,287
Accrued liabilities	278,168	-
Due to other funds	1,298,767	-
Notes payable	2,556,377	-
Health claims payable	-	2,175,209
Current portion of long-term liabilities:		
Bonds and loans payable	445,858	-
Accrued employee benefits	2,177	-
	<hr/>	<hr/>
Total current liabilities	5,113,998	3,171,496
Noncurrent:		
Bonds and loans payable	2,425,778	-
Accrued employee benefits	41,360	-
Net OPEB obligation	222,159	-
	<hr/>	<hr/>
Total noncurrent liabilities	2,689,297	-
	<hr/>	<hr/>
TOTAL LIABILITIES	7,803,295	3,171,496
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	43,501,105	-
Unrestricted	2,790,282	4,878,890
	<hr/>	<hr/>
TOTAL NET ASSETS	\$ 46,291,387	\$ 4,878,890
	<hr/>	<hr/>

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, 2012

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	Water/Sewer Fund	Internal Service Fund
Operating Revenues:		
Charges for services	\$ 11,128,707	\$ -
Employee and employer contributions	-	20,301,695
Other	4,691	-
Total Operating Revenues	<u>11,133,398</u>	<u>20,301,695</u>
Operating Expenses:		
Personnel expenses	458,433	-
Non-personnel expenses	323,380	-
Intergovernmental	11,065,440	-
Depreciation	1,001,225	-
Employee benefits	-	20,525,543
Total Operating Expenses	<u>12,848,478</u>	<u>20,525,543</u>
Operating (Loss)	(1,715,080)	(223,848)
Nonoperating Revenues (Expenses):		
Investment income	-	6,724
Interest expense	(36,976)	-
Total Nonoperating Revenues (Expenses), Net	<u>(36,976)</u>	<u>6,724</u>
Income (Loss) Before Transfers	(1,752,056)	(217,124)
Transfers:		
Transfers in	305,810	-
Transfers out	(197,328)	-
Change in Net Assets	<u>(1,643,574)</u>	<u>(217,124)</u>
Net Assets at Beginning of Year, as restated	<u>47,934,961</u>	<u>5,096,014</u>
Net Assets at End of Year	<u>\$ 46,291,387</u>	<u>\$ 4,878,890</u>

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities Water/Sewer Fund	Governmental Activities Internal Service Fund
<u>Cash Flows From Operating Activities:</u>		
Receipts from employees and employer	\$ -	\$ 20,492,390
Receipts from customers and users	11,048,829	-
Payments of employee benefits and expenses	-	(20,352,770)
Payments to vendors and employees	(989,546)	-
Payments to other governments	<u>(11,065,440)</u>	-
Net Cash Provided By (Used For) Operating Activities	(1,006,157)	<u>139,620</u>
<u>Cash Flows From Noncapital Financing Activities:</u>		
Transfers in	305,810	-
Transfers out	(197,328)	-
Loan from other funds	<u>1,298,767</u>	-
Net Cash Provided By Noncapital Financing Activities	1,407,249	-
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Acquisition and construction of capital assets	(3,034,439)	-
Proceeds from issuance of bonds and notes	2,784,799	-
Principal payments on bonds and notes	(540,028)	-
Interest expense	<u>(36,976)</u>	-
Net Cash (Used For) Capital and Related Financing Activities	(826,644)	-
<u>Cash Flows From Investing Activities:</u>		
Investment income	-	6,724
Net Cash Provided By Investing Activities	<u>-</u>	<u>6,724</u>
Net Change in Cash and Short-Term Investments	(425,552)	146,344
Cash and Short-Term Investments, Beginning of Year, as restated	<u>610,385</u>	<u>6,506,042</u>
Cash and Short-Term Investments, End of Year	<u>\$ 184,833</u>	<u>\$ 6,652,386</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>		
Operating loss	\$ (1,715,080)	\$ (223,848)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,001,225	-
Changes in assets and liabilities:		
User fees	(84,569)	-
Due from other funds	-	190,695
Intergovernmental receivables	(1,091,876)	(33,300)
Accounts payable	532,651	16,074
Accrued liabilities	275,538	189,999
Net OPEB obligation	<u>75,954</u>	-
Net Cash Provided By (Used For) Operating Activities	<u>\$ (1,006,157)</u>	<u>\$ 139,620</u>

See notes to financial statements.

CITY OF EVERETT, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2012

<u>ASSETS</u>	Pension Trust Fund (as of December 31, 2011)	<u>Agency Funds</u>
Cash and short term investments	\$ 395,354	\$ 96,025
Investments	66,324,544	-
Accounts receivable	<u>239,699</u>	<u>382,763</u>
Total Assets	66,959,597	478,788
<u>LIABILITIES AND NET ASSETS</u>		
Other liabilities	<u>230</u>	<u>478,788</u>
Total Liabilities	<u>230</u>	<u>478,788</u>
<u>NET ASSETS</u>		
Total Net Assets Held in Trust for Pension Benefits	\$ <u><u>66,959,367</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, 2011

	<u>Pension Trust Fund</u>
Additions:	
Contributions:	
Employers	\$ 11,687,835
Plan members	2,939,716
Other Systems and Commonwealth of Massachusetts	632,328
Other	40,451
Total contributions	<u>15,300,330</u>
Investment Income:	
Increase (Decrease) in fair value of investments	(286,026)
Less: management fees	<u>(326,866)</u>
Net investment income	<u>(612,892)</u>
Total additions	14,687,438
Deductions:	
Benefit payments to plan members and beneficiaries	12,083,725
Refunds to plan members	384,937
Transfers to other systems	256,591
Administrative expenses	209,392
Total deductions	<u>12,934,645</u>
Net increase	1,752,793
Net assets:	
Beginning of year	<u>65,206,574</u>
End of year	<u>\$ 66,959,367</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 account-able. In fiscal year 2012, it was determined that no entities met the required GASB 39 criteria of component units. The Everett Contributory Retirement System was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at 484 Broadway, Everett, Massachusetts 02149.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Fund Financial Statements

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

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

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as 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 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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

- The *water/sewer fund* is used to report the City's water/sewer enterprise fund operations.

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.

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

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

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

F. Property Tax Limitations

Legislation known as "Proposition 2½" 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 2012 tax levy reflected an excess capacity of \$ 1,762,583.

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 applicable governmental or business-type activities columns 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 applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets.

K. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net assets".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The City reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The City's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).

- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the Board of Aldermen and Common Council).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned and Unassigned.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

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 and Proprietary Funds. 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 and proprietary funds 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 to budgetary data.

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 154,846,448	\$ 152,763,801
Other financing sources/uses (GAAP Basis)	<u>200,308</u>	<u>305,810</u>
Subtotal (GAAP Basis)	155,046,756	153,069,611
Adjust tax revenue to accrual basis	148,127	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(723,121)
Add end-of-year appropriation carry- forwards from expenditures	-	1,819,505
Recognize use of fund balance as funding source	2,228,329	-
To reverse the effect of non-budgeted State contributions for teachers retirement	(10,261,536)	(10,261,536)
To reverse the effect of non-budgeted activity (stabilization accounts)	<u>(77,201)</u>	<u>(300,000)</u>
Budgetary Basis	<u>\$ 147,084,475</u>	<u>\$ 143,604,459</u>

D. 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, 2012 and December 31, 2011, \$ 27,948,114 and \$ 230,909 of the City's and System's bank balances of \$ 45,885,534 and \$ 480,909 respectively, was exposed to custodial credit risk as uninsured or uncollateralized.

Of the System's \$ 230,909 that was exposed to custodial credit risk, \$ 200,099 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>
State Investment Pool*	\$ 66,325	\$ 66,325
Total investments	\$ 66,325	\$ 66,325

**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 \$ 66,324,544 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, \$ 66,324,544 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, 2012 consist of the following (in thousands):

Real Estate		
2012	\$ 1,463	
2011	(52)	
2010 and prior	<u>(27)</u>	
		1,384
Personal Property		
2012	54	
2011	46	
2010 and prior	<u>200</u>	
		300
Tax Liens		<u>5,098</u>
Total		<u>\$ 6,782</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>	<u>Business-Type</u>
Property taxes	\$ 825	\$ -
Excises	939	-
Water/sewer user charges	-	528

7. **Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2012.

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, 2012 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General fund	\$ 1,299	\$ -
Water/Sewer fund	-	1,299
Total	<u>\$ 1,299</u>	<u>\$ 1,299</u>

The interfund balance from the general fund to the water/sewer enterprise fund was to improve cash flow due to actual revenues being less than budgeted. No interest rate has been assigned to the advance.

The City reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2012.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 200	\$ 306
Nonmajor governmental funds:		
Special revenue funds	-	5
Expendable trust funds	2	-
Water/Sewer fund	306	197
Total	<u>\$ 508</u>	<u>\$ 508</u>

The transfers from the water/sewer fund to the general fund are made to cover indirect costs of the water/sewer fund incurred by the general fund. Other transfers are used to (1) move revenues from the fund that statute or budget required to expend them, (2) use restricted revenues collected in the general fund to finance various programs and accounted for in other funds in accordance with budgetary authorizations.

9. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance, <u>as restated</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 115,046	\$ 1,372	\$ -	\$ 116,418
Machinery, equipment, and furnishings	27,784	428	-	28,212
Infrastructure	<u>66,145</u>	<u>3,348</u>	-	<u>69,493</u>
Total capital assets, being depreciated	208,975	5,148	-	214,123
Less accumulated depreciation for:				
Buildings and improvements	(36,365)	(3,638)	-	(40,003)
Machinery, equipment, and furnishings	(17,165)	(2,167)	-	(19,332)
Infrastructure	<u>(23,325)</u>	<u>(1,514)</u>	-	<u>(24,839)</u>
Total accumulated depreciation	<u>(76,855)</u>	<u>(7,319)</u>	-	<u>(84,174)</u>
Total capital assets, being depreciated, net	132,120	(2,171)	-	129,949
Capital assets, not being depreciated:				
Land	9,077	-	-	9,077
Construction in progress	<u>933</u>	<u>55</u>	<u>(930)</u>	<u>58</u>
Total capital assets, not being depreciated	<u>10,010</u>	<u>55</u>	<u>(930)</u>	<u>9,135</u>
Governmental activities capital assets, net	<u>\$ 142,130</u>	<u>\$ (2,116)</u>	<u>\$ (930)</u>	<u>\$ 139,084</u>
	Beginning Balance, <u>as restated</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 124	\$ -	\$ -	\$ 124
Infrastructure	<u>61,378</u>	<u>618</u>	-	<u>61,996</u>
Total capital assets, being depreciated	61,502	618	-	62,120
Less accumulated depreciation for:				
Buildings and improvements	(17)	(18)	-	(35)
Infrastructure	<u>(15,265)</u>	<u>(984)</u>	-	<u>(16,249)</u>
Total accumulated depreciation	<u>(15,282)</u>	<u>(1,002)</u>	-	<u>(16,284)</u>
Total capital assets, being depreciated, net	46,220	(384)	-	45,836
Capital assets, not being depreciated:				
Construction in progress	<u>148</u>	<u>2,565</u>	<u>(148)</u>	<u>2,565</u>
Total capital assets, not being depreciated	<u>148</u>	<u>2,565</u>	<u>(148)</u>	<u>2,565</u>
Business-type activities capital assets, net	<u>\$ 46,368</u>	<u>\$ 2,181</u>	<u>\$ (148)</u>	<u>\$ 48,401</u>

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

Governmental Activities:	
General government	\$ 270
Public safety	447
Education	4,306
Public works	1,858
Culture and recreation	438
Total depreciation expense - governmental activities	<u>\$ 7,319</u>
Business-Type Activities:	
Water	\$ 555
Sewer	447
Total depreciation expense - business-type activities	<u>\$ 1,002</u>

10. Warrants and Accounts Payable

Warrants payable represent 2012 expenditures paid by July 15, 2012. Accounts payable represent additional 2012 expenditures paid after July 15, 2012.

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, 2012 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. Anticipation Notes Payable

The City had the following notes outstanding at June 30, 2012:

<u>Bond anticipation notes</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/12</u>
Water/Sewer notes	1.50%	12/28/11	Upon Completion	\$ 2,556,377
Total				<u>\$ 2,556,377</u>

The following summarizes activity in notes payable during fiscal year 2012 (in thousands):

<u>Bond anticipation notes</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End-of-Year</u>
Water/Sewer notes	\$ -	\$ 2,556	\$ -	\$ 2,556

15. Long-Term Debt

A. General Obligation Bonds

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

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/12</u>
Feb 1, 2007 - High School Building	02/01/26	3.5 - 5.5%	\$ 9,856,000
Feb 1, 2007 - Prior School Building	02/01/12	3.5 - 5.5%	14,000
Feb 1, 2007 - Lafayette School Remediation	02/01/17	3.5 - 5.5%	2,390,000
Mar 1, 2004 - School Remodeling	03/01/22	2.125 - 4.5%	1,320,000
Mar 1, 2004 - Public Works Facility	03/01/20	2.125 - 4.5%	1,715,000
Sep 15, 2004 - Advanced refunding	12/15/19	2.6 - 5.315%	21,555,000
Oct 25, 2007 - High School Bond	11/01/32	2.00%	9,437,721
Jun 8, 2008 - HUD Loan	08/01/27	Variable	1,000,000
Aug, 1, 2009 - School Remodeling	08/01/29	3.75-5.0%	1,800,000
Oct 15, 2009 Refunding	09/01/19	2.0-5.0%	8,410,000
Total Governmental Activities:			<u>\$ 57,497,721</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/12</u>
Nov 1, 2003 - MWPTA CW-02-31	08/01/23	Variable	\$ 288,883
Sep 5, 2002 - MWRA	08/15/12	-	33,586
May 20, 2004 - MWRA	05/15/14	-	21,960
Aug 19, 2004 - MWRA Water Bonds	08/15/14	-	37,090
Nov 18, 2004 - MWRA Water	11/15/14	-	147,000
May 18, 2006 - MWRA Water	05/15/16	-	220,000
May 22, 2008 - MWRA Water Bond	05/15/18	-	182,400
May 21, 2009 MWRA Water	05/15/19	-	1,083,640
July 8, 2010 MWPAT	02/15/31	2.00%	178,655
March 15, 2011 MWRA	02/15/21	-	450,000
August 22, 2011 - MWRA Water	08/22/21	-	228,422
Total Business-Type Activities:			\$ <u>2,871,636</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2012 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 5,264,415	\$ 2,306,449	\$ 7,570,864
2014	5,389,415	2,089,474	7,478,889
2015	5,539,415	1,863,860	7,403,275
2016	5,689,415	1,602,729	7,292,144
2017	5,937,415	1,334,958	7,272,373
2018 - 2022	20,541,075	2,989,493	23,530,568
2023 - 2027	6,031,075	810,349	6,841,424
2028 - 2032	2,656,075	198,892	2,854,967
2033	449,421	8,988	458,409
Total	\$ <u>57,497,721</u>	\$ <u>13,205,192</u>	\$ <u>70,702,913</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 445,858	\$ 17,723	\$ 463,581
2014	413,238	16,016	429,254
2015	402,569	14,860	417,429
2016	341,366	13,595	354,961
2017	291,529	12,219	303,748
2018 - 2022	824,202	35,344	859,546
2023 - 2027	109,581	8,429	118,010
2028 - 2031	43,293	1,752	45,045
Total	\$ 2,871,636	\$ 119,938	\$ 2,991,574

The General fund has been designated as the sources to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2012.

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2012, the following changes occurred in long-term liabilities:

	<u>Total Balance 7/1/11 as restated</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/12</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion 6/30/12</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 63,063	\$ -	\$ (5,565)	\$ 57,498	\$ (5,264)	\$ 52,234
Other:						
Compensated absences	4,632	982	(232)	5,382	(269)	5,113
Net OPEB obligation	28,543	14,155	(5,915)	36,783	-	36,783
Totals	\$ 96,238	\$ 15,137	\$ (11,712)	\$ 99,663	\$ (5,533)	\$ 94,130
	<u>Total Balance 7/1/11 as restated</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/12</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion 6/30/12</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 3,183	\$ 229	\$ (540)	\$ 2,872	\$ (446)	\$ 2,426
Other:						
Compensated absences	46	3	(6)	43	(2)	41
Net OPEB obligation	146	130	(54)	222	-	222
Totals	\$ 3,375	\$ 362	\$ (600)	\$ 3,137	\$ (448)	\$ 2,689

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 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.

17. **Governmental Funds - Balances**

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The City implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2012:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved by the Board of Alderman and Common Council, stabilization accounts set aside by the Board of Alderman and Common Council vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and various special revenue funds.

Assigned - Represents amounts that are constrained by the City's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various City departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period. The City follows an informal policy that permits management to assign fund balance amounts to a specific purpose although fund balance to be applied against a subsequent year's budget is voted by the City Council.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the City's fund balances at June 30, 2012:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable			
Nonexpendable permanent funds	\$ -	\$ 1,227,488	\$ 1,227,488
Total Nonspendable	-	1,227,488	1,227,488
Restricted			
Receipts Reserved for Appropriation	-	1,481,114	1,481,114
Community Development	-	628,011	628,011
Circuit Breaker	-	82,040	82,040
School Lunch	-	1,235,059	1,235,059
Highway Improvement	-	5,500	5,500
School state grants	-	43,566	43,566
School federal grants	-	49,709	49,709
City state grants	-	468,387	468,387
City federal grants	-	834,102	834,102
Other grants and gifts	-	628,726	628,726
Insurance recoveries	-	50,993	50,993
Recreation	-	57,355	57,355
Cable Access	-	634,318	634,318
School Athletics	-	67,330	67,330
Arts Lottery	-	17,986	17,986
Other revolving funds	-	760,385	760,385
Shute Library capital project	-	670,989	670,989
School Building capital project	-	701,206	701,206
Other capital projects	-	151,516	151,516
Expendable permanent funds	-	213,470	213,470
Total Restricted	-	8,781,762	8,781,762

(continued)

(continued)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Committed			
For continued appropriations:			
General government	145,572	-	145,572
Capital outlay	693,050	-	693,050
Total Committed	838,622	-	838,622
Assigned			
For encumbrances:			
General government	95,821	-	95,821
Public safety	2,710	-	2,710
Education	213,721	-	213,721
Public works	389,941	-	389,941
Employee benefits	278,687	-	278,687
Total Assigned	980,880	-	980,880
Unassigned	16,464,364 ⁽¹⁾	(235,241)	16,229,123
Total Unassigned	16,464,364	(235,241)	16,229,123
Total Fund Balance	\$ 18,283,866	\$ 9,774,009	\$ 28,057,875

⁽¹⁾ Includes the City's Stabilization Fund of \$ 9,001,217.

18. Commitments and Contingencies

Outstanding Legal Issues - There are several pending legal issues 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.

19. Post-Employment Healthcare 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 Activities 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 healthcare 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 July 1, 2011, the actuarial valuation date, approximately 723 retirees and 1,356 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 between 2% and 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 2012 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, 2012, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of July 1, 2011.

Annual Required Contribution (ARC)	\$ 13,601,649
Interest on net OPEB obligation	1,147,581
Adjustment to ARC	(2,481,125)
Amortization of Actuarial (Gains)/Losses	<u>2,017,043</u>
Annual OPEB cost	14,285,148
Contributions made	<u>(5,969,416)</u>
Increase in net OPEB obligation	8,315,732
Net OPEB obligation - beginning of year	<u>28,689,555</u>
Net OPEB obligation - end of year	<u><u>\$ 37,005,287</u></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>
2012	\$ 14,285,148	41.8%	\$ 37,005,287
2011	\$ 12,622,307	44.0%	\$ 28,689,555
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

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2011, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 150,920,638
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 150,920,638</u></u>
Funded ratio (actuarial value of plan assets/AAL)	<u><u>0%</u></u>
Covered payroll (active plan members)	<u><u>\$ 33,233,319</u></u>
UAAL as a percentage of covered payroll	<u><u>454.1%</u></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 July 1, 2011 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advance funded 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%.

20. 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.

Estimated membership of each plan consisted of the following at December 31, 2011:

Retirees and beneficiaries receiving benefits	541
Terminated plan members entitled to but not yet receiving benefits	105
Active plan members	<u>639</u>
Total	<u>1,285</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 June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2012	\$ 11,687,835	100%
2011	\$ 11,166,466	100%
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 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%
01/01/10	\$ 63,848	\$ 169,041	\$ 105,193	37.8%	\$ 31,213	337.0%
01/01/12	\$ 72,235	\$ 187,928	\$ 115,693	38.4%	\$ 31,557	366.6%

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 \$ 116 million was calculated. The actuarial assumptions included (a) 8% 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 \$ 13,000 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%) 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, 2011, the unfunded actuarially accrued liability is being amortized over 18 years (16 years for ERIs) using a 3.7% increasing payment method.

E. Teachers

As required by State statutes, teachers of the City are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is

funded by contributions from covered employees and the Commonwealth of Massachusetts. The City is not required to contribute.

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

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

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

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

The City's current year covered payroll for teachers was approximately \$ 32,149,390.

In fiscal year 2012, the Commonwealth of Massachusetts contributed \$ 10,261,536 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

21. 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 \$ 2,150,000 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, 2012 are as follows:

	<u>Health and Workers Compensation Coverage</u>
Claims liability, beginning of year	\$ 1,985,210
Claims incurred/recognized in fiscal year 2012	20,525,543
Claims paid in fiscal year 2012	<u>(20,335,544)</u>
Claims liability, end of year	<u>\$ 2,175,209</u>

22. 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.

23. Beginning Net Assets Restatement

The beginning (July 1, 2011) net assets of the governmental and business-type activities have been restated as follows:

Government-Wide Financial Statements

	Governmental Activities	Business-Type Activities	
		Water/Sewer Fund	Total
As previously reported	\$ 127,070,251	\$ -	\$ 127,070,251
To reclassify Water/Sewer capital assets	(61,650,253)	61,650,253	-
To reclassify Water/Sewer depreciation	15,282,429	(15,282,429)	-
To reclassify Water receivables	(477,825)	477,825	-
To reclassify Sewer receivables	(1,543,353)	1,543,353	-
To reclassify Water/Sewer liens	(1,323,018)	1,323,018	-
To reclassify Water/Sewer debt	3,183,242	(3,183,242)	-
To reclassify Water/Sewer Net OPEB obligation	146,205	(146,205)	-
To reclassify Water/Sewer capital projects	(610,385)	610,385	-
To recognize the MSBA receivable	14,955,311	-	14,955,311
To reclassify Water/Sewer Compensated absences	46,167	(46,167)	-
To recognize Water/Sewer unbilled receivables	-	1,587,193	1,587,193
To reclassify various agency funds	182,194	-	182,194
To reclassify Water/Sewer allowance for uncollectibles	599,023	(599,023)	-
Net assets, as restated	<u>\$ 95,859,988</u>	<u>\$ 47,934,961</u>	<u>\$ 143,794,949</u>

Fund Basis Financial Statements:

	General Fund	Nonmajor Funds	Total
To reclassify general fund revenue recognized in special revenue funds	27,220	(27,220)	-
To reclassify various agency funds	-	182,194	182,194
To reclassify MWRA activity related to Water/Sewer fund	(296,215)	-	(296,215)
To reclassify Chapter 90 activity recognized in MWRA funds	-	(124,482)	(124,482)
To reclassify Medicare revenue reported in the internal service fund	323,696	-	323,696
To reclassify Water/Sewer capital projects	-	(189,688)	(189,688)
Governmental funds, as restated	<u>\$ 16,306,721</u>	<u>\$ 10,083,840</u>	<u>\$ 26,390,561</u>

24. Implementation of New GASB Standards

- The GASB has issued Statement 63, *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will have a significant impact on the City's basic financial statements by eliminating the deferred charges. The City anticipates that by eliminating the deferred charges, its net assets will be reduced accordingly.
- The GASB has issued Statement 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the City's basic financial statements by recognizing as a liability and expense, the City's applicable portion of Everett's actuarially accrued liability.

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

June 30, 2012

(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)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
01/01/12	\$ 72,235	\$ 187,928	\$ 115,693	38.4%	\$ 31,557	366.6%
01/01/10	\$ 63,848	\$ 169,041	\$ 105,193	37.8%	\$ 31,213	337.0%
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)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/09	\$ -	\$ 145,636	\$ 145,636	0.0%	NA	NA
07/01/11	\$ -	\$ 150,921	\$ 150,921	0.0%	\$ 33,233	454.1%

See Independent Auditors' Report.