

***CITY OF EVERETT, MASSACHUSETTS***

***REPORT ON EXAMINATION OF  
BASIC FINANCIAL STATEMENTS***

***FISCAL YEAR ENDED JUNE 30, 2013***

CITY OF EVERETT, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

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## Independent Auditor's Report

To the Honorable City Council  
City of Everett, Massachusetts

## Report on the Financial Statements

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 fiscal year ended June 30, 2013 (except for the Everett Contributory Retirement System which is as of and for the year ended December 31, 2012), and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express opinions 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## 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, Massachusetts, as of June 30, 2013 (except for the Everett Contributory Retirement System which is as of December 31, 2012), and the respective changes in financial

position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, 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 sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2014, on our consideration of the City of Everett, Massachusetts' internal control over financial reporting and 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* in considering the City of Everett Massachusetts' internal control over financial reporting and compliance.



March 28, 2014

# ***Management's Discussion and Analysis***

## ***Management's Discussion and Analysis***

As management of the City of Everett, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2013. The City complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB).

The GASB is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

### **Financial Highlights**

- The assets of the City of Everett exceeded its liabilities at the close of the most recent fiscal year by \$137.3 million (net position).
- At the close of the current fiscal year, the City's general fund reported an ending fund balance of \$23.7 million, an increase of \$5.4 million in comparison with the prior year. Total fund balance represents 15% of total general fund expenditures.
- The other postemployment benefit (OPEB) liability increased by \$9.2 million during the current year and the year-end balance totals \$46.2 million.

### ***Overview of the Financial Statements***

This discussion and analysis is intended to serve as an introduction to the City of Everett's basic financial statements. These basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements focus on both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the City as a whole. The fund financial statements focus on the individual parts of the City government, reporting the City's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the City's accountability. An additional part of the basic financial statements are the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

The *statement of net position* presents information on all assets and liabilities with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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, city services and facilities, community development, human services, libraries and recreation and interest. The business-type activities include the activities of the water and sewer fund.

The government-wide financial statements include not only the City of Everett itself (known as the *primary government*), but also a legally separate public employee retirement system for which the City of Everett is financially accountable. Financial information for this *component unit* is reported separately within the fiduciary fund statements.

**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.** The focus of the City of Everett's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Everett's 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.

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*.

The City of Everett adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** The City maintains two types of propriety funds.

*Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer activities.

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to employees' health insurance.

**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 statement 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 propriety funds.

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

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City of Everett's net position exceeded liabilities by \$137.3 million at the close of fiscal 2013.

Net position of \$140.5 million reflects its net investment in capital assets (e.g., land, land improvements, buildings and building improvements, machinery and equipment, vehicles and infrastructure); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its 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 the governmental net position, \$6 million, represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net position* has a year-end deficit of (\$9.2) million. The primary reason for this deficit balance is the recognition of other postemployment benefit liabilities totaling \$46.2 million.

The governmental and business-type activities of the City are presented below.

### Governmental Activities

The City of Everett's assets exceeded liabilities for governmental activities by \$91 million at the close of fiscal 2013.

	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>
<b>Assets:</b>		
Current assets.....	\$ 68,828,661	\$ 55,261,418
Noncurrent assets (excluding capital).....	9,778,543	12,052,592
Capital assets not being depreciated.....	11,076,123	9,135,093
Capital assets, net of accumulated depreciation.....	<u>126,177,920</u>	<u>129,948,668</u>
<b>Total assets.....</b>	<b><u>215,861,247</u></b>	<b><u>206,397,771</u></b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	19,270,207	15,437,796
Noncurrent liabilities (excluding debt).....	49,330,665	42,263,703
Current debt.....	5,297,088	5,264,415
Noncurrent debt.....	<u>50,944,565</u>	<u>52,233,306</u>
<b>Total liabilities.....</b>	<b><u>124,842,525</u></b>	<b><u>115,199,220</u></b>
<b>Net Position:</b>		
Net investment in capital assets.....	98,104,115	95,167,898
Restricted.....	5,999,017	11,308,017
Unrestricted.....	<u>(13,084,410)</u>	<u>(15,277,364)</u>
<b>Total net position.....</b>	<b><u>\$ 91,018,722</u></b>	<b><u>\$ 91,198,551</u></b>



	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>
<b>Program revenues:</b>		
Charges for services.....	\$ 4,988,408	\$ 4,382,035
Operating grants and contributions.....	75,085,851	67,245,728
Capital grants and contributions.....	1,978,776	2,138,596
<b>General Revenues:</b>		
Real estate and personal property taxes, net of tax refunds payable.....	88,633,872	86,244,455
Tax liens.....	1,387,186	956,924
Motor vehicle and other excise taxes.....	2,940,909	2,810,116
Local option meals tax.....	457,561	408,279
Penalties & interest on taxes.....	932,498	320,544
Nonrestricted grants.....	5,958,553	6,066,395
Unrestricted investment income.....	87,761	82,234
Other revenues.....	23,521	435,714
<b>Total revenues.....</b>	<b><u>182,474,896</u></b>	<b><u>171,091,020</u></b>
<b>Expenses:</b>		
General government.....	10,218,563	8,928,140
Public safety.....	37,783,905	34,848,814
Education.....	113,182,318	111,067,814
City services and facilities.....	13,467,451	11,914,710
Community development.....	492,590	772,078
Human services.....	2,986,073	2,582,383
Libraries and recreation.....	2,389,294	2,352,597
Interest.....	2,601,124	2,639,622
<b>Total expenses.....</b>	<b><u>183,121,318</u></b>	<b><u>175,106,158</u></b>
<b>Change in net position before transfers.....</b>	<b>(646,422)</b>	<b>(4,015,138)</b>
<b>Transfers.....</b>	<b><u>466,593</u></b>	<b><u>(108,482)</u></b>
<b>Change in net position.....</b>	<b>(179,829)</b>	<b>(4,123,620)</b>
<b>Net position at beginning of the year, as restated.....</b>	<b><u>91,198,551</u></b>	<b><u>95,322,171</u></b>
<b>Net position at end of the year.....</b>	<b><u>\$ 91,018,722</u></b>	<b><u>\$ 91,198,551</u></b>

The governmental expenses totaled \$183.1 million of which \$82.1 million (45%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$100.4 million, primarily coming from property taxes, motor vehicle excise taxes and non-restricted state aid.

The governmental net position decreased by \$180,000 during the current fiscal year. This was primarily due to an increase of \$9.1 million in the OPEB liability that was offset by the recognition of \$2 million in capital grants, a \$5.5 million budgetary surplus and changes in accruals.

The internal service fund experienced a decrease of \$612,000 that is primarily due to an increase in the estimated liability for employee health claims.

## Business-type Activities

For the City's business-type activities, assets exceeded liabilities by \$46.2 million at the close of fiscal 2013.

	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>
<b>Assets:</b>		
Current assets.....	\$ 5,466,627	\$ 4,394,877
Capital assets not being depreciated.....	4,442,798	2,565,109
Capital assets, net of accumulated depreciation.....	<u>44,951,140</u>	<u>45,835,929</u>
<b>Total assets.....</b>	<b><u>54,860,565</u></b>	<b><u>52,795,915</u></b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	221,972	812,996
Noncurrent liabilities (excluding debt).....	342,068	263,519
Current debt.....	693,384	3,002,235
Noncurrent debt.....	<u>7,353,867</u>	<u>2,425,778</u>
<b>Total liabilities.....</b>	<b><u>8,611,291</u></b>	<b><u>6,504,528</u></b>
<b>Net Position:</b>		
Net investment in capital assets.....	42,401,805	43,501,105
Unrestricted.....	<u>3,847,469</u>	<u>2,790,282</u>
<b>Total net position.....</b>	<b><u>\$ 46,249,274</u></b>	<b><u>\$ 46,291,387</u></b>
<b>Program revenues:</b>		
Charges for services.....	\$ 13,634,484	\$ 11,133,398
Operating grants and contributions.....	6,428	-
Capital grants and contributions.....	<u>2,208</u>	<u>-</u>
<b>Total revenues.....</b>	<b><u>13,643,120</u></b>	<b><u>11,133,398</u></b>
<b>Expenses:</b>		
Water and sewer.....	<u>13,218,640</u>	<u>12,885,454</u>
<b>Change in net position before transfers.....</b>	<b>424,480</b>	<b>(1,752,056)</b>
<b>Transfers.....</b>	<b><u>(466,593)</u></b>	<b><u>108,482</u></b>
<b>Change in net position.....</b>	<b>(42,113)</b>	<b>(1,643,574)</b>
<b>Net position at beginning of the year.....</b>	<b><u>46,291,387</u></b>	<b><u>47,934,961</u></b>
<b>Net position at end of the year.....</b>	<b><u>\$ 46,249,274</u></b>	<b><u>\$ 46,291,387</u></b>

Business-type net position of \$42.4 million (92%) represents the net investment in capital assets while \$3.8 million (8%) is unrestricted. The City's business-type activities net position decreased by \$42,000 in the current fiscal year.

The decrease in net position was due to actual revenues being \$2.5 million less than budgeted revenues. Rates were set to cover a \$1.4 million prior year revenue deficit; which means that there was a current year revenue shortfall totaling \$1.1 million. The current year revenue shortfall was offset by appropriation surpluses totaling \$805,000 that mainly related to repairs and maintenance and infrastructure improvement line-items.

## ***Financial Analysis of the Government's Funds***

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *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 \$35.3 million of which \$23.7 million is for the general fund; \$2.6 million is for the City capital projects fund and \$9 million is for nonmajor governmental funds. Cumulatively there was an increase of \$7.3 million in fund balances from the prior year.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$14.1 million, while total fund balance was \$23.7 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and the total fund balance to total fund expenditures. Unassigned fund balance represents 9% of the total general fund expenditures, while total fund balance represents 15% of that same amount. \$2 million of fund balance is committed for continuing appropriations and \$7.5 million of fund balance is assigned for encumbrances to be carried forward to the next fiscal year.

In fiscal 2013, the City's general fund increased by \$5.4 million. This increase is primarily due to a \$3.7 million budgetary surplus; which primarily relates to \$1.4 million in tax lien collections, \$1.1 million for school Medicaid and Medicare Part D reimbursements and a \$1.1 million surplus in employee health insurance expenditures that is attributable to plan changes. Another \$1.9 million relates to a general fund budgeted transfer to the stabilization fund which is combined with the general fund, in the fund based financial statements, in accordance with GASB Statement #54.

The City capital projects fund is used to account for the City's capital projects as identified in the City's capital plan; which includes yearly expenditures for infrastructure and other project activities. At the end of the current fiscal year, the fund had a positive balance totaling \$2.6 million. The balance is due to timing differences between the expenditure of funds and long-term term financing to permanently fund project costs.

### ***General Fund Budgetary Highlights***

During fiscal year 2013, the Council approved supplemental appropriations totaling \$4.7 million, which primarily which primarily consisted of increases in education, public safety, city services and stabilization fund transfers.

### ***Capital Asset and Debt Administration***

**Capital Assets.** In conjunction with the annual operating budget, the City annually prepares a capital budget for the upcoming fiscal year and a five-year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounts to \$186.6 million (net of accumulated depreciation). This investment in capital assets includes construction in progress, buildings and building improvements, machinery and equipment, and infrastructure.

The total additions to the governmental activities investment in capital assets for the current year were \$5.6 million. Major capital asset events during the current fiscal year consisted of roadway improvements, Glendale park improvements, library construction, and the purchase of vehicles.

The \$2 million in additions to the business-type activities are attributable to infrastructure improvements and the purchase of vehicles.

**Debt Administration.** Outstanding long-term debt of the general government, as of June 30, 2013, totaled \$56.2 million.

The Commonwealth has approved school construction assistance to the City. The assistance program which is administered by the MSBA provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2013, \$1,882,459 of such assistance was received and \$13,177,213 will be received in future fiscal years. Of this amount, \$2,111,380 represents reimbursement of long-term interest costs principal and \$11,065,833 represents reimbursement of approved construction costs. Accordingly, an \$11,065,833 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

In order to take advantage of favorable interest rates, the City issued \$2,445,000 of General Obligation Refunding Bonds on December 20, 2012. \$2,445,000 of general obligation bonds were advance refunded by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$129,779. This advance refunding was undertaken to reduce total debt service payments over the next nine years by \$143,259 and resulted in an economic gain of \$134,353. At June 30, 2012, \$2,335,000 of bonds outstanding from the advance refunding is considered defeased.

At fiscal year end, the water and sewer enterprise fund has \$8 million of outstanding long-term debt, which is fully supported by rates and does not rely on a general fund subsidy.

On December 15, 2013, the City permanently financed \$5,500,000 of short-term debt through the issuance of long-term bonds payable. In accordance with GAAP, the short-term debt has been reclassified and presented as long-term debt.

Please refer to the notes to the financial statements for further discussion of the major capital and debt activity.

### ***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 the City Auditor, City Hall, 484 Broadway, Everett, Massachusetts, 02149.

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# ***Basic Financial Statements***

**STATEMENT OF NET POSITION**

JUNE 30, 2013

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents..... \$	53,663,649	\$ -	\$ 53,663,649
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	3,519,534	-	3,519,534
Tax liens.....	5,817,974	-	5,817,974
Motor vehicle and other excise taxes.....	758,995	-	758,995
User fees.....	-	5,067,572	5,067,572
Intergovernmental.....	3,192,045	846,466	4,038,511
Loans.....	31,053	-	31,053
Internal balances.....	447,411	(447,411)	-
Working capital deposit.....	1,398,000	-	1,398,000
<b>NONCURRENT:</b>			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	9,709,346	-	9,709,346
Loans.....	69,197	-	69,197
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	11,076,123	4,442,798	15,518,921
Depreciable.....	126,177,920	44,951,140	171,129,060
<b>TOTAL ASSETS.....</b>	<b>215,861,247</b>	<b>54,860,565</b>	<b>270,721,812</b>
<b>CURRENT:</b>			
Warrants payable.....	4,240,881	187,615	4,428,496
Accrued payroll.....	8,033,858	7,957	8,041,815
Health claims payable.....	3,301,359	-	3,301,359
Tax refunds payable.....	961,621	-	961,621
Accrued interest.....	506,007	14,695	520,702
Other liabilities.....	329,592	-	329,592
Compensated absences.....	1,761,348	11,705	1,773,053
Workers' compensation.....	135,541	-	135,541
Bonds payable.....	5,297,088	693,384	5,990,472
<b>NONCURRENT:</b>			
Compensated absences.....	3,040,862	37,068	3,077,930
Workers' compensation.....	387,803	-	387,803
Other postemployment benefits.....	45,902,000	305,000	46,207,000
Bonds payable.....	50,944,565	7,353,867	58,298,432
<b>TOTAL LIABILITIES.....</b>	<b>124,842,525</b>	<b>8,611,291</b>	<b>133,453,816</b>
<b>NET POSITION</b>			
Net investment in capital assets.....	98,104,115	42,401,805	140,505,920
Restricted for:			
Loans.....	100,250	-	100,250
Permanent funds:			
Expendable.....	47,796	-	47,796
Nonexpendable.....	1,180,193	-	1,180,193
Gifts and grants.....	4,670,778	-	4,670,778
Unrestricted.....	(13,084,410)	3,847,469	(9,236,941)
<b>TOTAL NET POSITION..... \$</b>	<b>91,018,722</b>	<b>\$ 46,249,274</b>	<b>\$ 137,267,996</b>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 10,218,563	\$ 934,003	\$ 813,706	\$ -	\$ (8,470,854)
Public safety.....	37,783,905	2,850,724	881,640	-	(34,051,541)
Education.....	113,182,318	829,899	72,050,490	-	(40,301,929)
City services and facilities.....	13,467,451	74,844	91,492	1,307,829	(11,993,286)
Community development.....	492,590	-	508,706	-	16,116
Human services.....	2,986,073	205,122	535,185	-	(2,245,766)
Libraries and recreation.....	2,389,294	93,816	204,632	670,947	(1,419,899)
Interest.....	2,601,124	-	-	-	(2,601,124)
Total Governmental Activities.....	<u>183,121,318</u>	<u>4,988,408</u>	<u>75,085,851</u>	<u>1,978,776</u>	<u>(101,068,283)</u>
<i>Business-Type Activities:</i>					
Water & Sewer.....	<u>13,218,640</u>	<u>13,634,484</u>	<u>6,428</u>	<u>2,208</u>	<u>424,480</u>
Total Primary Government.....	<u>\$ 196,339,958</u>	<u>\$ 18,622,892</u>	<u>\$ 75,092,279</u>	<u>\$ 1,980,984</u>	<u>\$ (100,643,803)</u>

See notes to basic financial statements.

(Continued)



**STATEMENT OF ACTIVITIES (Continued)**

FISCAL YEAR ENDED JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net position:</b>			
Net (expense) revenue from previous page.....	\$ <b>(101,068,283)</b>	\$ <b>424,480</b>	\$ <b>(100,643,803)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	88,633,872	-	88,633,872
Tax liens.....	1,387,186	-	1,387,186
Motor vehicle excise taxes.....	2,940,909	-	2,940,909
Local options meals tax.....	457,561	-	457,561
Penalties and interest on taxes.....	932,498	-	932,498
Grants and contributions not restricted to specific programs.....	5,958,553	-	5,958,553
Unrestricted investment income.....	87,761	-	87,761
Miscellaneous.....	23,521	-	23,521
<i>Transfers, net</i> .....	466,593	(466,593)	-
Total general revenues and transfers.....	100,888,454	(466,593)	100,421,861
Change in net position.....	(179,829)	(42,113)	(221,942)
<i>Net Position:</i>			
Beginning of year, as restated.....	91,198,551	46,291,387	137,489,938
End of year.....	\$ <u>91,018,722</u>	\$ <u>46,249,274</u>	\$ <u>137,267,996</u>

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2013

<b>ASSETS</b>	General	City Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 34,701,240	\$ 2,876,200	\$ 9,374,737	\$ 46,952,177
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	3,519,534	-	-	3,519,534
Tax liens.....	5,817,974	-	-	5,817,974
Motor vehicle and other excise taxes.....	758,995	-	-	758,995
Intergovernmental.....	11,065,833	-	1,835,558	12,901,391
Loans.....	-	-	100,250	100,250
Due from other funds.....	447,411	-	-	447,411
<b>TOTAL ASSETS.....</b>	<b>\$ 56,310,987</b>	<b>\$ 2,876,200</b>	<b>11,310,545</b>	<b>\$ 70,497,732</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Warrants payable.....	\$ 2,480,436	\$ 237,682	981,506	\$ 3,699,624
Accrued payroll.....	7,847,242	-	186,616	8,033,858
Tax refunds payable.....	961,621	-	-	961,621
Other liabilities.....	329,592	-	-	329,592
Deferred revenues.....	21,017,614	-	1,122,225	22,139,839
<b>TOTAL LIABILITIES.....</b>	<b>32,636,505</b>	<b>237,682</b>	<b>2,290,347</b>	<b>35,164,534</b>
<b>FUND BALANCES:</b>				
Nonspendable.....	-	-	1,180,193	1,180,193
Restricted.....	-	2,638,518	8,151,937	10,790,455
Committed.....	2,000,446	-	-	2,000,446
Assigned.....	7,532,724	-	-	7,532,724
Unassigned.....	14,141,312	-	(311,932)	13,829,380
<b>TOTAL FUND BALANCES.....</b>	<b>23,674,482</b>	<b>2,638,518</b>	<b>9,020,198</b>	<b>35,333,198</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 56,310,987</b>	<b>\$ 2,876,200</b>	<b>\$ 11,310,545</b>	<b>\$ 70,497,732</b>

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION**

JUNE 30, 2013

Total governmental fund balances.....	\$	35,333,198
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		137,254,043
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		22,139,839
Internal service funds are used by management to account for retirees' 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 position.....		4,266,856
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(506,007)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds payable.....	(56,241,653)	
Workers' compensation claims.....	(523,344)	
Compensated absences.....	(4,802,210)	
Other postemployment benefits.....	<u>(45,902,000)</u>	
Net effect of reporting long-term liabilities.....		<u>(107,469,207)</u>
Net position of governmental activities.....	\$	<u>91,018,722</u>

See notes to basic financial statements.

**GOVERNMENTAL FUNDS**  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2013

	General	City Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ 85,418,506	\$ -	\$ -	\$ 85,418,506
Tax liens.....	1,387,186	-	-	1,387,186
Motor vehicle excise taxes.....	2,751,894	-	-	2,751,894
Local options meals tax.....	457,561	-	-	457,561
Charges for services.....	1,130,583	-	1,432,411	2,562,994
Penalties and interest on taxes.....	918,386	-	-	918,386
Licenses and permits.....	1,128,765	-	-	1,128,765
Fines and forfeitures.....	1,062,118	-	-	1,062,118
Intergovernmental.....	70,201,786	-	12,810,479	83,012,265
Departmental and other.....	193,277	-	221,396	414,673
Contributions.....	-	-	407,191	407,191
Investment income.....	82,398	-	7,656	90,054
<b>TOTAL REVENUES.....</b>	<b>164,732,460</b>	<b>-</b>	<b>14,879,133</b>	<b>179,611,593</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	4,162,611	-	860,550	5,023,161
Public safety.....	20,854,143	298	765,749	21,620,190
Education.....	61,988,269	180,276	10,249,542	72,418,087
City services and facilities.....	8,834,203	435,715	928,513	10,198,431
Community development.....	-	-	492,590	492,590
Human services.....	1,695,814	-	331,593	2,027,407
Libraries and recreation.....	1,062,057	1,815,193	792,128	3,669,378
Pension benefits.....	22,257,469	-	-	22,257,469
Property and liability insurance.....	1,076,382	-	-	1,076,382
Employee benefits.....	18,987,608	-	-	18,987,608
State and county charges.....	10,211,682	-	-	10,211,682
Capital outlay.....	1,571,816	-	-	1,571,816
Debt service:				
Principal.....	5,279,415	-	-	5,279,415
Interest.....	2,271,706	-	151,786	2,423,492
<b>TOTAL EXPENDITURES.....</b>	<b>160,253,175</b>	<b>2,431,482</b>	<b>14,572,451</b>	<b>177,257,108</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>4,479,285</b>	<b>(2,431,482)</b>	<b>306,682</b>	<b>2,354,485</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from bonds and notes.....	-	4,370,000	-	4,370,000
Proceeds from refunding bonds.....	2,445,000	-	-	2,445,000
Premium from issuance of refunding bonds.....	104,024	-	-	104,024
Payments to refunded bond escrow agent.....	(2,464,779)	-	-	(2,464,779)
Transfers in.....	827,086	-	-	827,086
Transfers out.....	-	-	(360,493)	(360,493)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>911,331</b>	<b>4,370,000</b>	<b>(360,493)</b>	<b>4,920,838</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>5,390,616</b>	<b>1,938,518</b>	<b>(53,811)</b>	<b>7,275,323</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>18,283,866</b>	<b>700,000</b>	<b>9,074,009</b>	<b>28,057,875</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 23,674,482</b>	<b>\$ 2,638,518</b>	<b>\$ 9,020,198</b>	<b>\$ 35,333,198</b>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2013

Net change in fund balances - total governmental funds.....	\$	7,275,323
<p>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.</p>		
Capital outlay.....		5,560,342
Depreciation expense.....		<u>(7,390,060)</u>
Net effect of reporting capital assets.....		(1,829,718)
<p>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.....</p>		
		2,863,303
<p>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. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Issuance of debt.....		(4,370,000)
Issuance of refunding debt.....		(2,445,000)
Premium from issuance of refunding bonds.....		(104,024)
Payments to refunded bond escrow agent.....		2,464,779
Debt service principal payments.....		<u>5,279,415</u>
Net effect of reporting long-term debt.....		825,170
<p>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.</p>		
Net change in compensated absences accrual.....		580,158
Net change in workers' compensation accrual.....		14,473
Net change in other postemployment benefits accrual.....		(9,118,872)
Net change in accrued interest on long-term debt.....		(36,285)
Amortization of deferred charge on refunding.....		<u>(141,347)</u>
Net effect of recording long-term liabilities and amortizing deferred losses.....		(8,701,873)
<p>Internal service funds are used by management to account for health insurance and workers' compensation activities.</p>		
The net activity of internal service funds is reported with Governmental Activities.....		<u>(612,034)</u>
Change in net position of governmental activities.....	\$	<u>(179,829)</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF NET POSITION

JUNE 30, 2013

	Business-type Activities - Enterprise Funds	Governmental Activities - Internal Service Funds
	Water & Sewer Fund	
<b>ASSETS</b>		
CURRENT:		
Cash and cash equivalents.....	\$ -	\$ 6,711,472
Receivables, net of allowance for uncollectibles:		
User fees.....	5,067,572	-
Intergovernmental.....	846,466	-
Working capital deposit.....	-	1,398,000
Total current assets.....	<u>5,914,038</u>	<u>8,109,472</u>
NONCURRENT:		
Capital assets, net of accumulated depreciation:		
Nondepreciable.....	4,442,798	-
Depreciable.....	44,951,140	-
Total noncurrent assets.....	<u>49,393,938</u>	<u>-</u>
TOTAL ASSETS.....	<u>55,307,976</u>	<u>8,109,472</u>
<b>LIABILITIES</b>		
CURRENT:		
Warrants payable.....	187,615	541,257
Accrued payroll.....	7,957	-
Health claims payable.....	-	3,301,359
Accrued interest.....	14,695	-
Due to other funds.....	447,411	-
Compensated absences.....	11,705	-
Bonds payable.....	693,384	-
Total current liabilities.....	<u>1,362,767</u>	<u>3,842,616</u>
NONCURRENT:		
Compensated absences.....	37,068	-
Other postemployment benefits.....	305,000	-
Bonds and notes payable.....	7,353,867	-
Total noncurrent liabilities.....	<u>7,695,935</u>	<u>-</u>
TOTAL LIABILITIES.....	<u>9,058,702</u>	<u>3,842,616</u>
<b>NET POSITION</b>		
Net investment in capital assets.....	42,401,805	-
Unrestricted.....	3,847,469	4,266,856
TOTAL NET POSITION.....	<u>\$ 46,249,274</u>	<u>\$ 4,266,856</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FISCAL YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds		Water & Sewer Fund	Governmental Activities - Internal Service Funds
<u>OPERATING REVENUES:</u>				
Employee contributions.....	\$ -	\$		4,013,040
Employer contributions.....	-			16,588,932
Charges for services - water.....	5,019,960			-
Charges for services - sewer.....	8,620,952			-
 TOTAL OPERATING REVENUES .....	 13,640,912			 20,601,972
<u>OPERATING EXPENSES:</u>				
Cost of services and administration.....	611,369			21,218,634
MWRA assessments.....	11,577,632			-
Depreciation.....	1,007,391			-
 TOTAL OPERATING EXPENSES .....	 13,196,392			 21,218,634
 OPERATING INCOME (LOSS).....	 444,520			 (616,662)
<u>NONOPERATING REVENUES (EXPENSES):</u>				
Investment income.....	2,208			4,628
Interest expense.....	(22,248)			-
 TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	 (20,040)			 4,628
 INCOME (LOSS) BEFORE TRANSFERS.....	 424,480			 (612,034)
<u>TRANSFERS:</u>				
Transfers out.....	(466,593)			-
 CHANGE IN NET POSITION.....	 (42,113)			 (612,034)
 NET POSITION AT BEGINNING OF YEAR.....	 46,291,387			 4,878,890
 NET POSITION AT END OF YEAR.....	 \$ 46,249,274	\$		 \$ 4,266,856

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds	Governmental Activities - Internal Service Funds
	Water & Sewer Fund	
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Receipts from customers and users.....	\$ 12,990,275	\$ -
Receipts from interfund services provided.....	-	20,601,972
Payments to vendors.....	(12,168,706)	-
Payments to employees.....	(547,465)	-
Payments for interfund services used.....	-	(20,547,514)
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>274,104</b>	<b>54,458</b>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>		
Transfers out.....	(466,593)	-
Change in advances to/from other funds.....	(851,356)	-
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....</b>	<b>(1,317,949)</b>	<b>-</b>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>		
Proceeds from the issuance of bonds and notes.....	5,621,474	-
Capital grants.....	245,410	-
Acquisition and construction of capital assets.....	(2,000,292)	-
Principal payments on bonds and notes.....	(3,002,236)	-
Interest expense.....	(7,552)	-
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>856,804</b>	<b>-</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Investment income.....	2,208	4,628
<b>NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....</b>	<b>(184,833)</b>	<b>59,086</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....</b>	<b>184,833</b>	<b>6,652,386</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>	<b>\$ -</b>	<b>\$ 6,711,472</b>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u></b>		
Operating income (loss).....	\$ 444,520	\$ (616,662)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation.....	1,007,391	-
Changes in assets and liabilities:		
User fees.....	(650,637)	-
Warrants payable.....	(345,036)	(455,030)
Accrued liabilities.....	(272,161)	-
Accrued payroll.....	1,950	-
Health claims payable.....	-	1,126,150
Other postemployment benefits.....	82,841	-
Accrued compensated absences.....	5,236	-
Total adjustments.....	(170,416)	671,120
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>\$ 274,104</b>	<b>\$ 54,458</b>

See notes to basic financial statements.



**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2013

	Pension Trust Fund (as of December 31, 2012)	Agency Funds
<b>ASSETS</b>		
Cash and cash equivalents.....	\$ 456,129	\$ 196,355
Investments.....	78,684,383	-
Receivables, net of allowance for uncollectibles:		
Departmental and other.....	16,926	343,334
<b>TOTAL ASSETS.....</b>	<b>79,157,438</b>	<b>539,689</b>
<b>LIABILITIES</b>		
Warrants payable.....	-	10,020
Accrued payroll.....	-	70,157
Liabilities due depositors.....	-	116,178
Deferred revenue.....	-	343,334
<b>TOTAL LIABILITIES.....</b>	<b>-</b>	<b>539,689</b>
<b>NET POSITION</b>		
Held in trust for pension benefits and other purposes.....	\$ <u>79,157,438</u>	\$ <u>-</u>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FISCAL YEAR ENDED JUNE 30, 2013

	Pension Trust Fund (as of December 31, 2012)
<b>ADDITIONS:</b>	
Contributions:	
Employer.....	\$ 12,156,983
Employee.....	3,025,200
Total contributions.....	15,182,183
Net investment income (loss):	
Net change in fair value of investments.....	7,313,626
Interest and dividends.....	2,286,868
Total investment income (loss).....	9,600,494
Less: investment expense.....	(383,369)
Net investment income (loss).....	9,217,125
Intergovernmental.....	450,611
Transfers from other systems.....	441,128
TOTAL ADDITIONS.....	25,291,047
<b>DEDUCTIONS:</b>	
Administration.....	193,645
Transfers to other systems.....	565,407
Retirement benefits and refunds.....	12,333,924
TOTAL DEDUCTIONS.....	13,092,976
CHANGE IN NET ASSETS.....	12,198,071
NET POSITION AT BEGINNING OF YEAR.....	66,959,367
NET POSITION AT END OF YEAR.....	\$ 79,157,438

See notes to basic financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements of the City of Everett, Massachusetts (the City) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

**A. Reporting Entity**

The City is a municipal corporation that is governed by an elected Mayor and an elected City Council.

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and institutions. The City has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the City (the primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

*Component Unit Presented as a Fiduciary Fund* – The following component unit is presented as a Fiduciary Fund of the primary government due to the nature and significance of relationship between the City and the component unit.

The Everett Contributory Retirement System (the System) was established to provide retirement benefits to City employees, the City Housing Authority employees, and their beneficiaries. The System is governed by a five-member board comprised of the City Auditor (ex-officio), two members elected by the System's participants, one member appointed by the Mayor and one member appointed by the Board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 484 Broadway, Everett, MA 02149.

**B. Government-Wide and Fund Financial Statements*****Government-Wide Financial Statements***

The government-wide financial statements (i.e., statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

*Fund Financial Statements*

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds 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. Nonmajor funds are aggregated and displayed in a single column.

*Major Fund Criteria*

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Internal service funds and fiduciary funds are reported by fund type.

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. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal 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.

The statement of activities demonstrates the degree to which the direct expenses of a particular 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 the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions are charges between the general fund and enterprise funds. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

*Fund Financial Statements*

**Governmental** fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *City capital projects fund* is used to account for financial activities associated with City capital acquisitions and improvements that have been authorized and approved by City Council. These projects will be funded through the issuance of long-term bonds and notes, state grants and other available funds.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements.

The following describes the general use of these fund types:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The *permanent fund* is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

**Proprietary** fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principle ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports one major proprietary fund. The *water and sewer enterprise fund* is used to account for water and sewer activities.

Additionally, the following proprietary fund type is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to employees' health insurance.

**Fiduciary** fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *agency fund* is used to account for assets held in a purely custodial capacity and is accounted for using the full accrual method but does not have a measurement focus.

#### *Government-Wide and Fund Financial Statements*

For the government-wide financial statements, and proprietary and fiduciary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

#### D. Cash and Investments

##### *Government-Wide and Fund Financial Statements*

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

#### E. Accounts Receivable

##### *Government-Wide and Fund Financial Statements*

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

***Real Estate, Personal Property Taxes and Tax Liens***

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on August 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> 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 of the levy.

Real estate tax liens are processed during the fourth quarter of every fiscal year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

***Motor Vehicle and Other Excise Taxes***

Motor vehicle excise taxes are assessed annually for each vehicle registered and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

***Water and Sewer User Fees***

User fees are levied monthly and quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period. Water and Sewer liens are processed in December of every year and included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the fiscal year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

***Departmental and Other***

Departmental and other receivables consist primarily of police details, various penalties, fees and fines and are recorded as receivables in the fiscal year accrued. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

***Intergovernmental***

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

**Loans**

The Department of Community Development administers loan programs that provide housing assistance to residents and capital needs assistance for small businesses. Upon issuance, a receivable is recorded for the principal amount of the loan.

Since the loans are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

F. Inventories

*Government-Wide and Fund Financial Statements*

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

G. Capital Assets

*Government-Wide and Proprietary Fund Financial Statements*

Capital assets, which include land, land improvements, buildings, machinery and equipment, vehicles, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$25,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings and building improvements.....	5-40
Machinery and equipment.....	5-10
Infrastructure.....	10-40

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

*Governmental Fund Financial Statements*

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.



#### H. Deferred Outflows/Inflows of Resources

##### *Government-Wide Financial Statements (Net Position)*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The City currently has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City currently has no items that qualify for reporting in this category.

#### I. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

##### *Government-Wide Financial Statements*

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net position as "internal balances."

##### *Fund Financial Statements*

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

#### J. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

##### *Government-Wide Financial Statements*

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net."

##### *Fund Financial Statements*

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

### K. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

### L. Net Position and Fund Equity

#### *Government-Wide Financial Statements (Net Position)*

Net position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net position has been “restricted for” the following:

“Loans” represents community development outstanding loan receivable balances.

“Permanent funds - expendable” represents the amount of realized and unrealized investment earnings on donor restricted trusts. The restrictions and trustee policies only allow the trustees to approve spending of the realized investment earnings.

“Permanent funds - nonexpendable” represents the endowment portion of donor restricted trusts that support governmental programs.

“Gifts and grants” represents assets that have restrictions placed on them from outside parties.

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

#### *Fund Financial Statements (Fund Balances)*

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that is either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal vote by the City Council and Mayor approval.

“Assigned” fund balance includes amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

Sometimes the City will fund outlays for a particular purpose from different components of fund balance. In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balances in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. When different components of fund balance can be used for the same purpose, it is the City’s policy to consider restricted fund balance to have been depleted first, followed by committed fund balance, and assigned fund balance. Unassigned fund balance is applied last.

#### M. Long-term debt

##### *Government-Wide and Proprietary Fund Financial Statements*

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

##### *Governmental Fund Financial Statements*

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

#### N. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL). Investment income from recreation and senior citizens proprietary funds is retained by those funds.

#### O. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

##### *Government-Wide and Proprietary Fund Financial Statements*

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

##### *Governmental Fund Financial Statements*

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

## P. Use of Estimates

### *Government-Wide and Fund Financial Statements*

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

## Q. Total Column

### *Government-Wide Financial Statements*

The total column presented on the government-wide financial statements represents consolidated financial information.

### *Fund Financial Statements*

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

## R. Fund Deficits

Several individual fund deficits exist at June 30, 2013, within the nonmajor governmental funds. These deficits will be funded through grant proceeds and other program revenues in fiscal year 2014.

Actual expenditures exceeded appropriations for snow and ice removal and state and county charges. These over-expenditures will be funded by the subsequent years tax levy and available fund balance.

## S. Restatements

Beginning net position of the governmental activities has been restated to reflect the recognition of the City's liability related to workers' compensation claims. As a result, beginning net position decreased by \$537,817.

## **NOTE 2 - CASH AND INVESTMENTS**

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents." The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

The System participates in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board (PRIM), which

was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

#### Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial risk. At fiscal year-end, the carrying amount of deposits totaled \$50,866,900 and the bank balance totaled \$53,609,608. Of the bank balance, \$1,250,000 was covered by Federal Depository Insurance, \$4,302,544 was covered by Depository Insurance Fund, \$11,183,873 was covered by Share Insurance Fund, \$5,681,099 was collateralized and \$31,192,092 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2012, the carrying amount of deposits for the System totaled \$456,129 and the bank balance totaled \$530,943. The entire bank balance was covered by Federal Depository Insurance. The System does not have a deposit policy for custodial risk.

#### Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the government will not be able to recover the value of its investments or collateral security that are in the possession of an outside party.

At June 30, 2013, the City was not exposed to custodial credit risk of investments because the City did not have investments in securities subject to custodial credit risk. The City does not have an investment policy for custodial credit risk.

At December 31, 2012, the System was not exposed to custodial credit risk of investments because the System did not have investments in securities subject to custodial credit risk. The System follows PRIM policies for custodial credit risk.

#### Interest Rate Risk

The City does not have a formal 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.

The City participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 3 months. As of June 30, 2013, the City had investments in MMDT totaling \$2,993,104.

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .08 to 10.37 years. As of December 31, 2012, the Retirement System had investments in PRIT totaling \$78,684,383

#### Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. The City and the System do not have formal investment policies for credit risk; however investments subject to credit risk are limited by Massachusetts general laws. The City and the System's investments in MMDT and PRIT shares, respectively, were unrated.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. The City did not have any investments that were subject to concentration of credit risk.

The System follows PRIM policies for concentration of credit risk. The System did not have any investments that were subject to concentration of credit risk.

**NOTE 3 - RECEIVABLES**

At June 30, 2013, receivables for the individual major and non-major governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 3,844,610	\$ (325,076)	\$ 3,519,534
Tax liens.....	5,817,974	-	5,817,974
Motor vehicle and other excise taxes.....	1,785,359	(1,026,364)	758,995
Intergovernmental.....	12,901,391	-	12,901,391
Loans.....	100,250	-	100,250
Total.....	<u>\$ 24,449,584</u>	<u>\$ (1,351,440)</u>	<u>\$ 23,098,144</u>

At June 30, 2013, receivables for the water and sewer enterprise fund consist of the following:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
User fees - water & sewer.....	\$ 5,067,572	\$ -	\$ 5,067,572
Intergovernmental.....	846,466	-	846,466
Total.....	<u>\$ 5,914,038</u>	<u>\$ -</u>	<u>\$ 5,914,038</u>

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. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes.....	\$ 3,374,812	\$ -	\$ 3,374,812
Tax liens.....	5,817,974	-	5,817,974
Motor vehicle and other excise taxes.....	758,995	-	758,995
Intergovernmental.....	11,065,833	1,122,225	12,188,058
Total.....	<u>\$ 21,017,614</u>	<u>\$ 1,122,225</u>	<u>\$ 22,139,839</u>

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

**Governmental Activities:**

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 9,077,274	\$ -	\$ -	\$ 9,077,274
Construction in progress.....	57,819	-	(57,819)	-
Total capital assets not being depreciated.....	<u>9,135,093</u>	<u>-</u>	<u>(57,819)</u>	<u>9,077,274</u>
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	116,418,850	2,656,236	-	119,075,086
Machinery and equipment.....	28,211,767	345,620	-	28,557,387
Infrastructure.....	69,492,776	2,616,305	-	72,109,081
Total capital assets being depreciated.....	<u>214,123,393</u>	<u>5,618,161</u>	<u>-</u>	<u>219,741,554</u>
<u>Less accumulated depreciation for:</u>				
Buildings and building improvements.....	(40,002,862)	(3,746,147)	-	(43,749,009)
Machinery and equipment.....	(24,839,439)	(1,630,256)	-	(26,469,695)
Infrastructure.....	(19,332,424)	(2,013,657)	-	(21,346,081)
Total accumulated depreciation.....	<u>(84,174,725)</u>	<u>(7,390,060)</u>	<u>-</u>	<u>(91,564,785)</u>
Total capital assets being depreciated, net.....	<u>129,948,668</u>	<u>(1,771,899)</u>	<u>-</u>	<u>128,176,769</u>
Total governmental activities capital assets, net.....	<u>\$ 139,083,761</u>	<u>\$ (1,771,899)</u>	<u>\$ (57,819)</u>	<u>\$ 137,254,043</u>

**Water and Sewer Activities:**

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Construction in progress.....	\$ 2,565,109	\$ -	\$ (2,565,109)	\$ -
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	123,434	-	-	123,434
Machinery and equipment.....	-	122,603	-	122,603
Infrastructure.....	61,996,149	4,442,798	-	66,438,947
Total capital assets being depreciated.....	<u>62,119,583</u>	<u>4,565,401</u>	<u>-</u>	<u>66,684,984</u>
<u>Less accumulated depreciation for:</u>				
Buildings and building improvements.....	(34,594)	(17,633)	-	(52,227)
Machinery and equipment.....	-	(25,644)	-	(25,644)
Infrastructure.....	(16,249,061)	(964,114)	-	(17,213,175)
Total accumulated depreciation.....	<u>(16,283,655)</u>	<u>(1,007,391)</u>	<u>-</u>	<u>(17,291,046)</u>
Total capital assets being depreciated, net.....	<u>45,835,928</u>	<u>3,558,010</u>	<u>-</u>	<u>49,393,938</u>
Total water and sewer activities capital assets, net....	<u>\$ 48,401,037</u>	<u>\$ 3,558,010</u>	<u>\$ (2,565,109)</u>	<u>\$ 49,393,938</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental Activities:</b>	
General government.....	\$ 268,836
Public safety.....	457,050
Education.....	4,161,083
City services and facilities.....	2,010,862
Libraries and recreation.....	<u>492,229</u>
Total depreciation expense - governmental activities.....	\$ <u>7,390,060</u>
<b>Business-Type Activities:</b>	
Water and sewer.....	\$ <u>1,007,391</u>

**NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund receivables and payables, for the fiscal year ended June 30, 2013, total \$447,411 and represent temporary funding of a cash deficit in the water and sewer enterprise fund.

Interfund transfers for the fiscal year ended June 30, 2013, are summarized as follows:

	<u>Transfers In:</u>
	General Fund
<u>Transfers Out:</u>	
Nonmajor Governmental Funds.....	\$ 360,493 (1)
Water and Sewer Enterprise Fund.....	<u>466,593 (2)</u>
Total.....	\$ <u>827,086</u>

- (1) Transfers from nonmajor governmental funds to the general fund to support the operating budget.
- (2) Transfer from the water and sewer enterprise fund for indirect costs.

**NOTE 6 – SHORT-TERM FINANCING**

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and each applicable enterprise fund.



Details related to the short-term debt activity for the fiscal year ended June 30, 2013, are as follows:

Type	Purpose	Rate (%)	Due Date	Beginning Balance	Renewed/ Issued	Retired/ Redeemed	Ending Balance
<b>Governmental Notes Payable</b>							
BAN	Bond anticipation note...	1.0	3/1/2014	\$ -	\$ 4,370,000	\$ -	\$ 4,370,000
General obligation bonds issued 12/15/13.....							(4,370,000)
Total.....							\$ -
<b>Enterprise Notes Payable</b>							
BAN	Bond anticipation note...	1.5	5/22/2013	\$ 2,556,377	\$ -	\$ 2,556,377	\$ -
BAN	Bond anticipation note...	1.0	3/1/2014	-	1,130,000	-	1,130,000
				\$ 2,556,377	\$ 1,130,000	\$ 2,556,377	1,130,000
General obligation bonds issued 12/15/13.....							(1,130,000)
Total.....							\$ -

On December 15, 2013, the City issued \$9,566,000 of long-term bonds payable of which \$5,500,000 was used to permanently finance bond anticipation that matured on March 13, 2014. In accordance with GAAP, the short-term debt has been reclassified and presented as long-term debt.

**NOTE 7 - LONG-TERM DEBT**

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

In order to take advantage of favorable interest rates, the City issued \$2,445,000 of General Obligation Refunding Bonds on December 20, 2012. \$2,445,000 of general obligation bonds were advance refunded by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$129,779. This advance refunding was undertaken to reduce total debt service payments over the next nine years by \$143,259 and resulted in an economic gain of \$134,353. At June 30, 2012, \$2,335,000 of bonds outstanding from the advance refunding is considered defeased.

Details related to the outstanding indebtedness at June 30, 2013, and the debt service requirements are as follows:

**Bonds and Notes Payable Schedule – Governmental Funds**

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Beginning Balance	Issued	Redeemed	Ending Balance
General Obligation Bonds of 2004.....	2014	\$ 5,835,000	3.60	\$ 3,035,000	\$ -	\$ 2,685,000	\$ 350,000
General Obligation Refunding Bonds of 2005...	2020	22,270,000	4.11	21,555,000	-	2,290,000	19,265,000
General Obligation Bonds of 2007.....	2026	18,187,000	4.13	12,260,000	-	1,185,000	11,075,000
General Obligation Bonds of 2008.....	2033	11,235,383	1.99	9,437,721	-	449,415	8,988,306
Section 108 HUD Loan.....	2028	1,000,000	0.00	1,000,000	-	-	1,000,000
General Obligation Bonds of 2010.....	2030	11,268,000	3.91	10,210,000	-	990,000	9,220,000
General Obligation Refunding Bonds of 2013...	2022	2,445,000	1.43	-	2,445,000	15,000	2,430,000
General Obligation Bonds of 2013.....	2034	5,500,000	2.81	-	4,370,000	-	4,370,000
Sub-total.....				57,497,721	6,815,000	7,614,415	56,698,306
Less: deferred loss on refunding.....				(598,000)	-	(141,347)	(456,653)
Total outstanding bonds payable reported in governmental activities.....				\$ 56,899,721	\$ 6,815,000	\$ 7,473,068	56,241,653
General obligation bonds issued in fiscal year 2014.....							3,266,000
Add: deferred loss on refunding.....							456,653
Total future fiscal year payments of bonds reported in governmental activities.....							\$ 59,964,306

Debt service requirements for principal and interest for governmental bonds payable include the debt issuance subsequent to year end in which all except \$3,266,000 of new funds were used to redeem bond anticipation notes (BANs). The future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2014.....	\$ 5,414,415	\$ 2,144,775	\$ 7,559,190
2015.....	5,905,415	2,017,025	7,922,440
2016.....	6,039,415	1,753,935	7,793,350
2017.....	6,282,415	1,484,813	7,767,228
2018.....	6,430,415	1,201,342	7,631,757
2019.....	6,633,415	923,782	7,557,197
2020.....	6,817,415	637,292	7,454,707
2021.....	2,190,415	458,522	2,648,937
2022.....	2,129,422	395,523	2,524,945
2023.....	2,013,415	330,804	2,344,219
2024.....	1,967,415	269,234	2,236,649
2025.....	1,617,415	213,271	1,830,686
2026.....	1,601,415	162,496	1,763,911
2027.....	901,415	112,051	1,013,466
2028.....	908,415	90,625	999,040
2029.....	664,415	71,364	735,779
2030.....	659,415	54,413	713,828
2031.....	559,415	39,670	599,085
2032.....	559,415	27,052	586,467
2033.....	559,414	14,433	573,847
2034.....	110,000	1,815	111,815
Total.....	\$ 59,964,306	\$ 12,404,237	\$ 72,368,543

**Bonds and Notes Payable Schedule – Water and Sewer Enterprise Fund**

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Beginning Balance	Issued	Redeemed	Ending Balance
MWRA Bonds.....	2023	\$ 5,843,221	0.00	\$ 2,404,098	\$ 1,653,441	\$ 418,978	\$ 3,638,561
MWPAT Bonds.....	2033	3,392,458	2.00	467,538	2,838,033	26,881	3,278,690
General Obligation Bonds of 2013.....	2034	5,500,000	2.81	-	1,130,000	-	1,130,000
Total enterprise bonds payable.....				\$ 2,871,636	\$ 5,621,474	\$ 445,859	8,047,251
General obligation bonds issued in fiscal year 2014.....							800,000
Total future fiscal year payments of bonds reported in business activities.....							\$ 8,847,251

Debt service requirements for principal and interest for the water and sewer enterprise fund bonds payable include the debt issuance subsequent to year end in which all except \$800,000 of new funds were used to redeem bond anticipation notes (BANs). The future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2014.....	\$ 693,384	\$ 74,420	\$ 767,804
2015.....	895,208	111,800	1,007,008
2016.....	841,556	103,940	945,496
2017.....	789,323	95,918	885,241
2018.....	797,153	87,505	884,658
2019.....	744,642	79,371	824,013
2020.....	597,787	71,788	669,575
2021.....	600,804	63,305	664,109
2022.....	563,884	53,756	617,640
2023.....	549,188	43,325	592,513
2024.....	272,060	34,339	306,399
2025.....	155,345	29,945	185,290
2026.....	158,701	26,837	185,538
2027.....	162,129	23,661	185,790
2028.....	165,631	20,417	186,048
2029.....	169,210	17,103	186,313
2030.....	172,864	13,716	186,580
2031.....	176,600	10,255	186,855
2032.....	169,054	6,836	175,890
2033.....	172,728	3,454	176,182
Total.....	\$ 8,847,251	\$ 971,691	\$ 9,818,942

The City is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for principal in the amount of \$4,754 and interest costs for \$43,024. Net MWPAT loan repayments, including interest, are schedule to be \$294,656. Since the City is legally obligated for the total amount of the debt, such amounts have been recorded in the accompanying basic financial statements. The first principal subsidy is scheduled to be received in fiscal 2021. The fiscal year 2013 interest subsidy totaled \$6,185.

The Commonwealth has approved school construction assistance to the City. The assistance program which is administered by the MSBA provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2013, \$1,882,459 of such assistance was received and \$13,177,213 will be received in future fiscal years. Of this amount, \$2,111,380 represents reimbursement of long-term interest costs principal and \$11,065,833 represents reimbursement of approved construction costs. Accordingly, an

\$11,065,833 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2013, the City had the following authorized and unissued debt:

Purpose	Amount
School Building.....	\$ 42,970,523
Public Works Facility.....	816
Sewer.....	1,010,028
Schute Library Construction.....	3,329,053
Glendale Park Improvements.....	2,100,000
Parlin School Masonry Repairs.....	500,000
Roadway & Sidewalk Reconstruction.....	2,892,825
Fire Department Repairs and Design.....	250,000
Police Station Renovations.....	130,000
Residential Water Meters.....	3,000,000
Water Vehicles.....	130,000
Water System Improvements.....	4,368,559
<b>Total.....</b>	<b>\$ 60,681,804</b>

**Changes in Long-term Liabilities**

During the fiscal year ended June 30, 2013, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
<b>Governmental Activities:</b>					
Long-term bonds and notes.....	\$ 57,497,721	\$ 6,815,000	\$ (7,614,415)	\$ 56,698,306	\$ 5,414,415
Less: deferred loss on refunding...	(598,000)	-	141,347	(456,653)	(117,327)
Total bonds payable.....	56,899,721	6,815,000	(7,473,068)	56,241,653	5,297,088
Compensated absences.....	5,382,368	1,411,318	(1,991,476)	4,802,210	1,761,348
Workers' compensation.....	537,817	156,019	(170,492)	523,344	135,541
Other postemployment benefits.....	36,783,000	15,451,000	(6,332,000)	45,902,000	-
Total governmental activity long-term liabilities.....	<u>\$ 99,602,906</u>	<u>\$ 23,833,337</u>	<u>\$ (15,967,036)</u>	<u>\$ 107,469,207</u>	<u>\$ 7,193,977</u>
<b>Business-Type Activities:</b>					
Long-term bonds and notes.....	\$ 2,871,636	\$ 5,621,474	\$ (445,859)	\$ 8,047,251	\$ 693,384
Other postemployment benefits.....	222,000	101,000	(18,000)	305,000	-
Compensated absences.....	43,537	15,685	(10,449)	48,773	11,705
Total business type activity long-term liabilities.....	<u>\$ 3,137,173</u>	<u>\$ 5,738,159</u>	<u>\$ (474,308)</u>	<u>\$ 8,401,024</u>	<u>\$ 705,089</u>

**NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

The City's spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body.

At year end, the balance of the Stabilization Fund totaled \$10,941,602 and is reported as unassigned fund balance within the General Fund.

The City has classified its fund balances with the following hierarchy:

	GOVERNMENTAL FUNDS			
	General	City Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>FUND BALANCES</b>				
Nonspendable:				
Permanent fund principal.....	\$ -	\$ -	\$ 1,180,193	\$ 1,180,193
Restricted for:				
City capital projects fund.....	-	2,638,518	-	2,638,518
City federal and state grant funds.....	-	-	1,112,756	1,112,756
City gifts and other grants.....	-	-	589,798	589,798
School revolving funds.....	-	-	85,054	85,054
School federal and state grant funds.....	-	-	55,670	55,670
School lunch fund.....	-	-	1,790,329	1,790,329
Receipts reserved for appropriations.....	-	-	1,587,227	1,587,227
Special revenue trust funds.....	-	-	218,334	218,334
Other special revenue revolving funds.....	-	-	1,335,330	1,335,330
Other special revenue.....	-	-	63,431	63,431
City capital projects.....	-	-	25,696	25,696
School capital projects.....	-	-	86,931	86,931
Library renovations.....	-	-	1,153,585	1,153,585
Permanent trust funds.....	-	-	47,796	47,796
Committed to:				
General government.....	180,425	-	-	180,425
Public safety.....	148,000	-	-	148,000
Education.....	13,125	-	-	13,125
City services and facilities.....	679,312	-	-	679,312
Culture and recreation.....	50,000	-	-	50,000
Capital outlay.....	929,584	-	-	929,584
Assigned to:				
General government.....	397,013	-	-	397,013
Public safety.....	146,192	-	-	146,192
Education.....	5,982,533	-	-	5,982,533
City services and facilities.....	865,302	-	-	865,302
Human services.....	15,715	-	-	15,715
Property and liability insurance.....	9,618	-	-	9,618
Employee benefits.....	116,351	-	-	116,351
Unassigned.....	14,141,312	-	(311,932)	13,829,380
<b>TOTAL FUND BALANCES (DEFICIT).....</b>	<b>\$ 23,674,482</b>	<b>\$ 2,638,518</b>	<b>\$ 9,020,198</b>	<b>\$ 35,333,198</b>

**NOTE 9 - RISK FINANCING**

The City is self-insured for its workers' compensation and its health insurance activities. The health insurance activities are accounted for in the internal service fund and the workers' compensation activities are accounted for in the general fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). The result of the process to estimate the claims liability is not an exact amount as it depends on many factors. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claims settlement trends, and other economic and social factors.

*Health Insurance*

The estimate of IBNR claims is based on a historical trend analysis and recent trends. The City purchases individual stop loss insurance for claims in excess of the \$110,000 coverage. Settled claims have not exceeded this third party insurance coverage in any of the previous past three fiscal years. Changes in the reported liability since July 1, 2011, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2012.....	\$ 1,985,210	\$ 20,525,543	\$ (20,335,544)	\$ 2,175,209
Fiscal Year 2013.....	2,175,209	21,243,844	(20,117,694)	3,301,359

*Workers' Compensation*

Workers' compensation claims are administered by the City's Personnel Department and is funded on a pay-as-you-go basis from annual appropriations. The estimated future workers' compensation liability is based on history and injury type. Changes in the reported liability since July 1, 2011, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2012.....	\$ 552,690	\$ 160,334	\$ (175,207)	\$ 537,817
Fiscal Year 2013.....	537,817	156,019	(170,492)	523,344

**NOTE 10 - PENSION PLAN**

*Plan Description* - The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Everett Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$10,519,000 for the fiscal year ended June 30, 2013, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Everett Contributory Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 484 Broadway, Everett, Massachusetts, 02149.

At December 31, 2012, the System's membership consists of the following:

Active members.....	662
Inactive members.....	111
Disabled members.....	87
Retirees and beneficiaries currently receiving benefits.....	<u>453</u>
Total.....	<u><u>1,313</u></u>

*Funding Policy* - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The apportionment of the annual pension cost between the two employers required the City to contribute 96%, 96% and 96% for the current and previous two years, respectively. Chapter 32 of the MGL governs the contributions of plan members and the City.

*Annual Pension Cost* - The City's contributions to the System for the fiscal years ended June 30, 2013, 2012, and 2011 were \$11,647,309, \$11,687,835, and \$11,166,466, respectively, which equaled its required contribution for each fiscal year. At June 30, 2013, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2012, actuarial valuation using the individual entry age normal actuarial cost method. The actuarial assumptions included an 8% investment rate of return and projected salary increases of 4.75% to 5.25% per year. The actuarial value of the System's assets was determined using the actuarial value (5-year smoothing) of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls. The remaining amortization period at January 1, 2012, was 18 years.

#### Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/12	\$ 72,235,000	\$ 187,928,000	\$ 115,693,000	38.4%	\$ 31,557,000	366.6%
1/1/10	63,848,000	169,041,000	105,193,000	37.8%	31,213,000	337.0%
1/1/08	57,880,000	156,991,000	99,111,000	36.9%	31,005,000	319.7%
1/1/07	50,378,000	151,136,000	100,758,000	33.3%	27,430,000	367.3%
1/1/06	48,092,000	143,150,000	95,058,000	33.6%	24,164,000	393.4%
1/1/04	50,498,000	128,181,000	77,683,000	39.4%	20,907,000	371.6%

Funding progress is reported based on the biennial actuarial valuation performed by the System, and is being accumulated on a biennial basis. The City is responsible for approximately 96% of the unfunded liability.

#### NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

*Plan Description* – The City of Everett administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the City's group health insurance plan, which covers both 1,356 active and 723 retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the City and the unions representing City employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.



*Funding Policy* – Contribution requirements are also negotiated between the City and union representatives. The required contribution is based on a pay-as-you-go financing requirement. Depending on the healthcare plan, the City contributes between 85 to 98 percent of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 10 to 15 percent of their premium costs. For life insurance, the City contributes 85 to 90 percent of the cost of current year premiums and plan members contribute the remaining 10 to 15 percent. For fiscal year 2013, the City contributed \$6.4 million to the plan.

*Annual OPEB Cost and Net OPEB Obligation* – The City’s annual other postemployment benefit (OPEB) cost (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 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation are summarized in the table shown on the following page.

Annual required contribution.....	\$ 14,536,000
Interest on net OPEB obligation.....	1,480,000
Adjustments to annual required contribution.....	<u>(464,000)</u>
Annual OPEB cost (expense).....	15,552,000
Contributions made.....	<u>(6,350,000)</u>
Increase in net OPEB obligation.....	9,202,000
Net OPEB obligation--beginning of year.....	<u>37,005,000</u>
Net OPEB obligation--end of year.....	<u>\$ 46,207,000</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2013 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2011	\$ 12,622,307	44%	\$ 28,689,555
6/30/2012	14,285,000	42%	37,005,287
6/30/2013	15,552,000	41%	46,207,000

*Funded Status and Funding Progress* – As of July 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$150.9 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$33.2 million, and the ratio of the UAAL to the covered payroll was 454.1 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include 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 multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions* – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer 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 employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of 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, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 4% investment return assumption, which is based on the expected yield on the assets of the City, calculated based on the funded level of the plan at the valuation date, an annual medical care inflation rate of 11% initially, graded to 5% over 7 years, and an annual dental care inflation rate of 8.5% initially, graded to 5% over 7 years. The UAAL is being amortized over a 26 year period, with amortization payments increasing at 4% per year. The remaining amortization period at June 30, 2013 is 24 years.

#### **NOTE 12 – COMMITMENTS AND CONTINGENCIES**

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2013, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2013, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2013.

The City has entered into, or is planning to enter into, contracts totaling approximately \$52.2 million for school construction and renovation, library construction, park improvements, and road and sidewalk improvements.

The City has entered into, or is planning to enter into, contracts totaling approximately \$8.5 million for residential water meters, water vehicles and other water and sewer infrastructure improvements.

**NOTE 13 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During fiscal year 2013, the following GASB pronouncements were implemented:

- GASB Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #61, *The Financial Reporting Entity: Omnibus*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Financial statement changes include net assets changing to net position and invested in capital assets, net of related debt changing to net investment in capital assets. Notes to the basic financial statements were changed to provide additional disclosure on deferred outflows of resources and deferred inflows of resources.
- GASB Statement #66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future fiscal years:

- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which is required to be implemented simultaneously with Statement #68.

Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements.

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# ***Required Supplementary Information***

**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**

FISCAL YEAR ENDED JUNE 30, 2013

	Budgeted Amounts			
	Amounts Carried Forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 85,235,618	\$ 85,235,618	\$ 85,235,618
Tax liens.....	-	-	-	-
Motor vehicle excise taxes.....	-	2,900,000	2,900,000	2,900,000
Local options meals tax.....	-	-	-	-
Charges for services.....	-	362,000	362,000	362,000
Penalties and interest on taxes.....	-	700,000	700,000	700,000
Licenses and permits.....	-	500,000	500,000	500,000
Fines and forfeitures.....	-	1,000,000	1,000,000	1,000,000
Intergovernmental.....	-	58,427,019	58,427,019	58,427,019
Departmental and other.....	-	665,000	665,000	665,000
Investment income.....	-	35,000	35,000	35,000
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>149,824,637</b>	<b>149,824,637</b>	<b>149,824,637</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	183,753	4,882,145	5,065,898	4,867,423
Public safety.....	2,710	20,330,428	20,333,138	21,283,359
Education.....	5,413,526	61,119,102	66,532,628	67,903,729
City services and facilities.....	423,839	8,704,779	9,128,618	10,014,153
Human services.....	-	1,782,005	1,782,005	1,782,005
Libraries and recreation.....	-	1,148,115	1,148,115	1,204,145
Pension benefits.....	-	11,759,809	11,759,809	11,759,809
Property and liability insurance.....	-	1,032,000	1,032,000	1,086,000
Employee benefits.....	278,688	19,669,344	19,948,032	20,216,174
State and county charges.....	-	10,012,636	10,012,636	10,012,636
Capital outlay.....	762,454	1,200,000	1,962,454	2,501,400
Debt service:				
Principal.....	-	5,264,416	5,264,416	5,279,415
Interest.....	-	2,316,451	2,316,451	2,316,452
<b>TOTAL EXPENDITURES.....</b>	<b>7,064,970</b>	<b>149,221,230</b>	<b>156,286,200</b>	<b>160,226,700</b>
<b>EXCESS (DEFICIENCY) OF REVENUES.....</b>				
<b>OVER EXPENDITURES.....</b>	<b>(7,064,970)</b>	<b>603,407</b>	<b>(6,461,563)</b>	<b>(10,402,063)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in.....	-	496,593	496,593	676,593
Transfers out.....	-	(1,100,000)	(1,100,000)	(1,889,099)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>(603,407)</b>	<b>(603,407)</b>	<b>(1,212,506)</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(7,064,970)</b>	<b>-</b>	<b>(7,064,970)</b>	<b>(11,614,569)</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>-</b>	<b>15,165,685</b>	<b>15,165,685</b>	<b>15,165,685</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ (7,064,970)</b>	<b>\$ 15,165,685</b>	<b>\$ 8,100,715</b>	<b>\$ 3,551,116</b>

See notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
\$	85,552,476	\$ -	\$ 316,858
	1,387,186	-	1,387,186
	2,751,894	-	(148,106)
	457,561	-	457,561
	1,130,583	-	768,583
	918,386	-	218,386
	1,128,765	-	628,765
	1,062,118	-	62,118
	59,682,786	-	1,255,767
	193,277	-	(471,723)
	31,112	-	(3,888)
	<u>154,296,144</u>	<u>-</u>	<u>4,471,507</u>
	4,078,366	577,438	211,619
	20,854,143	294,192	135,024
	61,907,773	5,995,658	298
	8,834,203	1,544,614	(364,664)
	1,695,814	15,715	70,476
	1,062,057	50,000	92,088
	11,738,469	-	21,340
	1,076,382	9,618	-
	18,987,608	116,351	1,112,215
	10,211,682	-	(199,046)
	1,571,816	929,584	-
	5,279,415	-	-
	<u>2,271,706</u>	<u>-</u>	<u>44,746</u>
	<u>149,569,434</u>	<u>9,533,170</u>	<u>1,124,096</u>
	<u>4,726,710</u>	<u>(9,533,170)</u>	<u>5,595,603</u>
	827,086	-	150,493
	<u>(1,889,099)</u>	<u>-</u>	<u>-</u>
	<u>(1,062,013)</u>	<u>-</u>	<u>150,493</u>
	3,664,697	(9,533,170)	5,746,096
	<u>15,165,685</u>	<u>-</u>	<u>-</u>
\$	<u>18,830,382</u>	<u>(9,533,170)</u>	<u>5,746,096</u>

# ***Retirement System Schedules of Funding Progress and Employer Contributions***

The Retirement System Schedule of Funding Progress presents multiyear trend information relating to the cost-sharing plan as a whole, of which the City is one participating employer, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Retirement System Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the City is one participating employer, as well as the City's proportionate share of the plan's annual contributions.



**EVERETT CONTRIBUTORY RETIREMENT SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/12	\$ 72,235,000	\$ 187,928,000	\$ 115,693,000	38.4%	\$ 31,557,000	366.6%
1/1/10	63,848,000	169,041,000	105,193,000	37.8%	31,213,000	337.0%
1/1/08	57,880,000	156,991,000	99,111,000	36.9%	31,005,000	319.7%
1/1/07	50,378,000	151,136,000	100,758,000	33.3%	27,430,000	367.3%
1/1/06	48,092,000	143,150,000	95,058,000	33.6%	24,164,000	393.4%
1/1/04	50,498,000	128,181,000	77,683,000	39.4%	20,907,000	371.6%
1/1/01	51,660,000	113,565,000	61,905,000	45.5%	21,179,000	292.3%
1/1/99	55,875,000	108,557,000	52,682,000	51.5%	18,994,000	277.4%
1/1/98	53,566,000	100,338,000	46,772,000	53.4%	16,895,000	276.8%

See notes to required supplementary information.

**EVERETT CONTRIBUTORY RETIREMENT SYSTEM**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Fiscal Year Ended June 30	System Wide			City of Everett	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) City's Percentage of System Wide Actual Contributions
2013	\$ 12,151,278	\$ 12,151,278	100%	\$ 11,647,000	95.85%
2012	12,193,010	12,193,010	100%	11,687,000	96.07%
2011	11,649,452	11,649,452	100%	11,166,000	96.16%
2010	10,960,876	10,960,876	100%	10,506,000	96.45%

The City's Actual Contributions equaled 100% of its Required Contributions for each year presented.

See notes to required supplementary information.

# ***Other Postemployment Benefit Plan Schedules***

The Schedule of Funding progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents, over time, the ratio of the actual annual employer contributions to the annual required contribution.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2011	\$ -	\$ 150,920,638	\$ 150,920,638	0%	\$ 33,233,319	454.12%
7/1/2009	\$ -	\$ 145,636,000	\$ 145,636,000	0%	N/A	N/A
7/1/2007	\$ -	\$ 137,107,329	\$ 137,107,329	0%	\$ 74,848,000	183.18%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
2013	\$ 15,551,985	\$ 6,349,879	41%
2012	13,601,649	5,969,416	44%
2011	12,901,823	6,341,138	49%
2010	13,043,338	6,142,958	47%
2009	12,573,996	5,183,195	41%

See notes to required supplementary information.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**ACTUARIAL METHODS AND ASSUMPTIONS**

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Actuarial Methods:

Valuation date.....	July 1, 2011
Actuarial cost method.....	Projected unit credit
Amortization method.....	Level dollar amortization over 30 years at transition
Remaining amortization period.....	26 years at July 1, 2011

Actuarial Assumptions:

Investment rate of return.....	4.0%
Medical care inflation rate.....	11% decreasing to 5% over 7 years
Dental Care Inflation Rate.....	8.5% decreasing to 5% over 7 years

Plan Membership:

Current retirees, beneficiaries, and dependents.....	723
Current active members.....	<u>1,356</u>
Total.....	<u><u>2,079</u></u>

See notes to required supplementary information.

**NOTE A - BUDGETARY BASIS OF ACCOUNTING**1. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by the Mayor and the City Council (the Council). The Mayor presents an annual budget to the Council, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Expenditures are budgeted by categories that are broken down by personal services, expenses, debt service and capital outlay, which are mandated by Municipal Law. The Council, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between departments subsequent to the approval of the annual budget, requires majority Council approval via a supplemental appropriation or Council order.

The majority of the City's appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal year's original budget.

Generally, expenditures may not exceed the legal level of spending authorized (functional level). However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of the Council.

The City adopts an annual budget for the General Fund in conformity with the guidelines described above. The original fiscal year 2013 budget authorized \$157.4 million in appropriations and other amounts to be raised; which includes \$7.1 million of amounts carried forward from the prior year. During fiscal year 2013, the Council also approved supplemental appropriations totaling \$4.7 million, which primarily consisted of increases in education, public safety, city services and stabilization fund transfers. The Office of the City Auditor has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation basis. Budgetary control is exercised through the City's accounting system.

2. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2013, is presented on the subsequent page:

Net change in fund balance - budgetary basis.....	\$	3,664,697
<u>Perspective differences:</u>		
Activity of the stabilization fund recorded in the general fund for GAAP.....		1,940,385
<u>Basis of accounting differences:</u>		
Net change in recording accrued payroll.....		(80,496)
Net change in recording tax refunds payable.....		3,358
Net change in recording 60 day receipts.....		(137,328)
Recognition of revenue for on-behalf payments.....		10,519,000
Recognition of expenditures for on-behalf payments.....		<u>(10,519,000)</u>
Net change in fund balance - GAAP basis.....	\$	<u>5,390,616</u>

### 3. Appropriation Deficits

During fiscal 2013, actual expenditures and encumbrances exceeded budgeted appropriations for state and county charges and city services and facilities. State and county charges are assessments from the Commonwealth which are directly deducted from local receipts from the state. The over-expenditure in state county charges relates to charter school sending tuition. The over-expenditure in city services and facilities relates to snow and ice removal costs; which are allowed to be overspent per Massachusetts general law and will be raised in fiscal 2014.

### **NOTE B – PENSION PLAN**

The City contributes to the System, a cost-sharing, multiple-employer defined benefit pension plan ("Plan") administered by the Everett Contributory Retirement Board. The System provides retirement, disability, and death benefits to members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the Plan. The City is required to pay into the Retirement System its share of the system-wide actuarially determined contribution which is apportioned among the employers based on active covered payroll.

The schedule of funding progress, presented as required supplementary information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information presents multi-year trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the City is one participating employer, as well as the City's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the City.

The following actuarial methods and assumptions were used in the Retirement System’s most recent actuarial valuation:

Actuarial Methods and Assumptions:

Valuation Date.....	January 1, 2012
Actuarial Cost Method.....	Individual entry age normal cost method
Amortization Method.....	Increasing at 3.7% per year
Remaining Amortization Period.....	18 years remaining as of January 1, 2012
Asset Valuation Method.....	Actuarial value, 5-year smoothing

Actuarial Assumptions:

Investment rate of return.....	8.00%
Projected salary increases.....	4.75 - 5.25%
Cost of living adjustments.....	3.00% for the first \$13,000 of retirement income

**NOTE C – OTHER POSTEMPLOYMENT BENEFITS**

The City administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the City’s health insurance plan, which covers both active and retired members, including teachers.

The City currently finances its other postemployment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the City has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents, over time, the ratio of the actual annual employer contributions to the annual required contribution.

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

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.