



CITY OF BOSTON, MASSACHUSETTS

Basic Financial Statements and Required Supplementary Information

June 30, 2008

(With Independent Auditors' Report Thereon)

CITY OF BOSTON, MASSACHUSETTS

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Independent Auditors' Report

The Honorable Mayor and City Council
City of Boston, Massachusetts:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston (the City), Massachusetts, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain entities, which represent 2.5% and 3.4% of the assets and revenues, respectively, of the aggregate remaining fund information and 25.7% and 24.0% of the assets and revenues, respectively, of the discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the financial statements, insofar as it relates to the aggregate remaining fund information and the discretely presented component units and their effects on the governmental and fiduciary activities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. The financial statements of the permanent funds and private-purpose trust funds were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston, Massachusetts, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in notes 12 and 11(h), the City, in 2008, implemented Governmental Accounting Standards Board (GASB) Statements Nos. 45 and 50, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and *Pension Disclosures*, respectively.



In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 15 and the schedules of funding progress and employers' contributions on page 69 are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Boston, Massachusetts
December 15, 2008

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2008

(Unaudited)

The City of Boston (the City) provides this Management's Discussion and Analysis to present additional information to the readers of the City's basic financial statements. This narrative overview and analysis of the financial activities of the City is for the fiscal year ended June 30, 2008. Readers are encouraged to consider this information in conjunction with the additional information that is furnished in the City's Comprehensive Annual Financial Report (CAFR).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's financial statements. The City's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information regarding historical pension and other postemployment benefit plan information. These components are described below:

Basic Financial Statements

The basic financial statements include two types of financial statements that present different views of the City – the *Government-Wide Financial Statements* and the *Fund Financial Statements*. These financial statements also include the *Notes to the Financial Statements* that explain some of the information in the financial statements and provide more detail.

Government-Wide Financial Statements

The *Government-Wide Financial Statements* provide a broad view of the City's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the City's financial position, which assist in assessing the City's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the City.

CITY OF BOSTON, MASSACHUSETTS

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June 30, 2008

(Unaudited)

Both the above financial statements have separate sections for the three different types of city programs or activities. These three types of activities are:

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal and state grants). Most services normally associated with city government fall into this category, including general government, human services, public safety, public works, property and development, parks and recreation, library, schools, county, public health programs, state and district assessments, and debt service.

Business-Type Activities – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the City include the activities related to the City's Convention Center Bond Fund and Hospital Bond Fund.

Discretely Presented Component Units – These are operations for which the City has financial accountability but function independent of the City of Boston. For the most part, these entities operate similar to private-sector businesses and the business-type activities described above.

The City's four discretely presented major component units are:

Boston Public Health Commission

Boston Redevelopment Authority

Economic Development Industrial Corporation

Trustees of the Boston Public Library

Complete financial statements of the individual component units can be obtained from their respective administrative offices. Additional information about the City's component units is presented in the notes to the financial statements.

The government-wide financial statements can be found immediately following this discussion and analysis.

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. The City, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2008

(Unaudited)

The *Fund Financial Statements* focus on individual parts of the city government, reporting the City's operations in more detail than the government-wide statements. All of the funds of the City can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

- 1. Governmental Fund Financial Statements** – Most of the basic services provided by the City are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach, revenues are recorded when cash is received or when susceptible to accrual. Expenditures are recorded when liabilities are incurred and due. These statements provide a detailed short-term view of the City's finances to assist in determining whether there will be adequate financial resources available to meet the current needs of the City.

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 the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The City presents four columns in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The City's three major governmental funds are – the General Fund, the Special Revenue Fund, and the Capital Projects Fund. All nonmajor governmental funds are combined in the "Other Governmental Funds" column on these statements. The governmental fund financial statements can be found immediately following the government-wide statements.

Of the City's governmental funds, the General Fund is the only fund for which a budget is legally adopted. The *Statement of Revenues and Expenditures – Budgetary Basis* is presented on page 24. This Statement provides a comparison of the original and final budget and the actual expenditures for the current and prior year.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2008

(Unaudited)

In accordance with state law and regulations, the City's legally adopted general fund budget is prepared on a "budgetary" basis instead of U.S. generally accepted accounting principles (GAAP). Among the key differences between these two sets of accounting principles are that "budgetary" records property tax as it is levied, while GAAP records it as it becomes susceptible to accrual, "budgetary" records certain activities and transactions in the general fund that GAAP records in separate funds, and "budgetary" records any amount raised that covers a prior year deficit as an expenditure, and any available funds raised from prior year surpluses as a revenue, while GAAP ignores these impacts from prior years. The difference in accounting principles inevitably leads to varying results in excess or deficiency of revenues over expenditures. Additional information and a reconciliation of "budgetary" to GAAP statements is provided in note 4 to the financial statements.

2. **Proprietary Funds Financial Statements** – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. No reconciliation is needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

The basic proprietary funds financial statements can be found immediately following the governmental fund financial statements.

3. **Fiduciary Funds Financial Statements** – These funds are used to account for resources held for the benefit of parties outside the City government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. They use the accrual basis of accounting.

The City's fiduciary funds are the Employee Retirement Fund (the State-Boston Retirement System), which accounts for the transactions, assets, liabilities, and net assets of the City employees' pension plan, and the Private Purpose Trust Funds, which includes money held and administered by the City on behalf of third parties.

The fiduciary funds financial statements can be found immediately following the proprietary fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and the Fund Financial Statements. The Notes to the Financial Statements can be found immediately following the Fiduciary Funds Financial Statements.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information, which includes a schedule of funding progress and a schedule of employer contributions for the State-Boston Retirement System as well as the schedule of funding progress for the City's other post-employment benefit plan.

Government-Wide Financial Analysis

This analysis is based on the statement of net assets and the statement of activities found on pages 17 through 19 of the financial statements.

Government-Wide Highlights

Net Assets – Primary Government – The total assets of the City exceeded its liabilities at fiscal year ending June 30, 2008 by \$924.3 million (presented as net assets). Of this amount, \$354.9 million was reported as “unrestricted net assets”. Unrestricted net assets represent the amount available to be used to meet the City's ongoing obligations to citizens and creditors.

Changes in Net Assets – Primary Government – The City's total net assets decreased by \$164.9 million in fiscal year 2008. Net assets of governmental activities decreased by \$183.9 million, while net assets of the business-type activities increased by \$19.0 million.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets (governmental and business-type activities) totaled \$924.3 million at the end of 2008, compared to \$1.09 billion at the end of the previous year.

The components of net assets are comprised of the following: the investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related debt used to acquire that asset that is still outstanding – this amount is \$334.5 million indicating that the net book value of the City's capital assets exceeds the amount of capital debt outstanding. The City uses these capital assets to provide services to citizens; consequentially, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF BOSTON, MASSACHUSETTS

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(Unaudited)

A portion of the City's governmental activities net assets (25.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets. Part of the unrestricted net assets (approximately \$101.0 million) represents the receivable from the Massachusetts School Building Authority (MSBA) for the reimbursement of bonded school construction costs. The payments to be received from the MSBA coincide with the City's future debt service payments. In fiscal 2009, the amount to be received by the City to pay debt service is approximately \$13.2 million. Although this receivable increases unrestricted net assets, it will not affect the City's free cash position.

At the end of the current fiscal year, the City is reporting a positive balance in net assets for the government as a whole. The negative balance reported for Business-Type activities is offset by the positive balance reported for Governmental activities. The negative balance in Business-Type activities is a result of special obligation bonds outstanding at year-end. This deficit is intended to be covered by user charges, grants and lease receipts from third parties.

Net Assets – Primary Government (In thousands)

	Governmental activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Current assets	\$ 1,445,085	1,339,700	59,398	43,523	1,504,483	1,383,223
Capital assets	1,221,717	1,126,478	—	—	1,221,717	1,126,478
Other assets	146,682	156,261	89,725	96,873	236,407	253,134
Total assets	\$ 2,813,484	2,622,439	149,123	140,396	2,962,607	2,762,835
Noncurrent liabilities	\$ 1,291,528	1,047,440	187,165	197,750	1,478,693	1,245,190
Current liabilities	546,709	415,869	12,955	12,654	559,664	428,523
Total liabilities	\$ 1,838,237	1,463,309	200,120	210,404	2,038,357	1,673,713
Invested in capital assets net of related debt	\$ 334,467	285,756	—	—	334,467	285,756
Restricted	234,902	280,949	—	—	234,902	280,949
Unrestricted	405,878	592,425	(50,997)	(70,008)	354,881	522,417
Total net assets	\$ 975,247	1,159,130	(50,997)	(70,008)	924,250	1,089,122

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2008

(Unaudited)

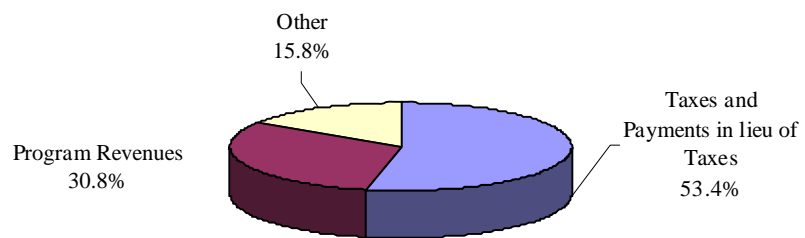
Changes in Net Assets – Primary Government (In thousands)

	Governmental activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 180,069	188,914	—	—	180,069	188,914
Operating grants and contributions	593,767	594,457	1,196	1,152	594,963	595,609
Capital grants and contributions	18,267	19,306	—	—	18,267	19,306
General revenues:						
Taxes:						
Property taxes, levied for general purposes	1,316,165	1,261,159	—	—	1,316,165	1,261,159
Excises	97,262	111,079	40,342	35,092	137,604	146,171
Payment in lieu of taxes	56,668	56,146	—	—	56,668	56,146
Grants and contributions not restricted	259,931	246,538	—	—	259,931	246,538
Investment income	47,072	52,528	9,796	2,180	56,868	54,708
Miscellaneous	1,531	539	—	—	1,531	539
Total revenues	<u>2,570,732</u>	<u>2,530,666</u>	<u>51,334</u>	<u>38,424</u>	<u>2,622,066</u>	<u>2,569,090</u>
Program expenses:						
General government	109,121	82,793	—	—	109,121	82,793
Human services	50,827	41,697	—	—	50,827	41,697
Public safety	908,353	730,627	—	—	908,353	730,627
Public works	148,497	125,228	—	—	148,497	125,228
Property and development	110,272	112,857	—	—	110,272	112,857
Parks and recreation	30,134	20,371	—	—	30,134	20,371
Library	47,340	45,498	—	—	47,340	45,498
Schools	1,272,997	1,187,826	—	—	1,272,997	1,187,826
Public health programs	68,718	65,439	—	—	68,718	65,439
Interest on long-term debt	31,058	28,725	—	—	31,058	28,725
Convention center	—	—	5,122	5,202	5,122	5,202
Hospital	—	—	4,201	4,979	4,201	4,979
Total program expenses	<u>2,777,317</u>	<u>2,441,061</u>	<u>9,323</u>	<u>10,181</u>	<u>2,786,640</u>	<u>2,451,242</u>
Excess (deficiency) before transfers	(206,585)	89,605	42,011	28,243	(164,574)	117,848
Loss on disposal	(298)	(3,820)	—	—	(298)	(3,820)
Transfers	<u>23,000</u>	<u>20,000</u>	<u>(23,000)</u>	<u>(20,000)</u>	<u>—</u>	<u>—</u>
Change in net assets	(183,883)	105,785	19,011	8,243	(164,872)	114,028
Net assets – beginning of year	<u>1,159,130</u>	<u>1,053,345</u>	<u>(70,008)</u>	<u>(78,251)</u>	<u>1,089,122</u>	<u>975,094</u>
Net assets – end of year	<u>\$ 975,247</u>	<u>1,159,130</u>	<u>(50,997)</u>	<u>(70,008)</u>	<u>924,250</u>	<u>1,089,122</u>

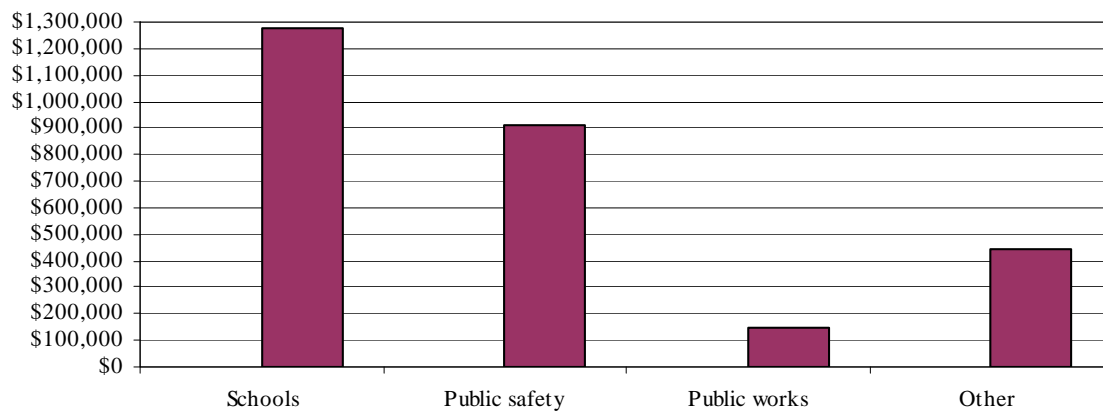
CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information
Management's Discussion and Analysis
June 30, 2008
(Unaudited)

**Revenues – Governmental Activities
Fiscal Year 2008**



**Expenses – Governmental Activities
Fiscal Year 2008
(In thousands)**



CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Governmental Activities

The City's governmental activities net assets decreased by \$183.9 million over the prior fiscal year. The following net changes occurred during the course of operations in fiscal 2008: In the assets accounts, cash and investments increased by \$25.3 million, receivables increased by \$79.8 million, capital assets increased by \$95.2 million. In the liability accounts, there were increases in warrants payable of \$36.8 million, current long-term debt of \$6.9 million, unearned revenue of \$36.3 million and accrued liabilities of \$17.7 million. Additionally, a new liability of \$212.8 million relative to the City's other postemployment obligation was booked in 2008. See page 14 for a more detailed discussion.

During fiscal year 2008, the City's revenues increased by 1.6%. The City's largest sources of revenues were property taxes, excise taxes, and payment in lieu of taxes of \$1.47 billion (57.2% of total revenue) and \$792.1 million of program revenues (30.8% of total revenue). The increase in tax revenue was attributed to a change in property tax commitments and a growth in room occupancy. A rise in state aid was the source for the increase in grants and contributions not restricted. Investment income and other miscellaneous revenues totaled \$48.6 million down \$4.4 million from fiscal year 2007. The primary factor for the decrease in investment income was lower investment returns.

The increase in revenues allowed for an increase in expense categories. The City's expenses cover a range of services. The largest expenses were for schools (\$1.27 billion), public safety (\$908.4 million), public works (\$148.5 million), property and development (\$110.3 million), general government (\$109.1 million), public health programs (\$68.7 million), and human services (\$50.8 million). The primary reason behind the increased expenses for schools was an increase in salaries. Further, all categories of government experienced an increase in expenses due to the recognition of the City's OPEB expense in 2008.

In 2008, governmental activities expenses exceeded program revenues (i.e., user charges, operating grants and capital grants) by \$1.96 billion. This shortfall was covered primarily through taxes (\$1.47 billion) and unrestricted grants and contributions (\$259.9 million).

Comparative data on these revenues and expenses is itemized in the reporting of the *Changes in Net Assets – Primary Government* on page 9.

Business-Type Activities

Net assets from business-type activities increased \$19.0 million during fiscal 2008. This change in net assets resulted primarily from an increase in excise tax revenues and investment income.

Financial Analysis of the City's Fund Statements

This analysis is based on the Governmental and Proprietary Fund Financial Statements on pages 20 through 27.

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

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

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(Unaudited)

Fund Highlights

Governmental Funds – Fund Balances – As of the close of fiscal year 2008, the City's governmental funds reported a combined ending fund balance of \$1.04 billion, an increase of \$23.0 million from the prior year. Of this total amount, \$586.4 million represents the "unreserved and undesignated fund balances" with \$553.1 million of this amount in the general fund. The increase in fund balance is largely due to an increase in tax receipts.

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 the City's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's financial position at the end of the fiscal year.

General Fund – Fund Balance – The general fund is the chief operating fund of the City. The City's General Fund – Fund Balance Policy states in part to maintain a GAAP undesignated fund balance in the general fund that is 10%, or higher, of GAAP general fund operating expenditures for the fiscal year. The GAAP undesignated fund balance at the end of fiscal year 2008 was \$553.1 million, which represents approximately 25.3% of GAAP general fund operating expenditures.

However, because the City is required to follow the statutory basis of accounting rather than GAAP for determining the amount of undesignated fund balance that can be appropriated, it is the statutory (not the GAAP) fund balance that is used to calculate "free cash". Free cash is the amount of statutory fund balance in the general fund, as certified by the Commonwealth of Massachusetts' Department of Revenue, that is available for appropriation and is generated when actual revenues, on a cash basis, exceeded budgeted amounts and encumbrances are less than appropriations, or both.

The City of Boston has established the General Fund-Fund Balance Policy to ensure that the City maintains adequate levels of fund balance to mitigate current and future risks (i.e. revenue shortfalls and unanticipated expenditures). The policy in full states that the City shall maintain a GAAP undesignated fund balance in the general fund that is 10% or higher than the current fiscal year's GAAP general fund operating expenditures; and that the City shall only consider the certification of free cash (as defined by the Commonwealth of Massachusetts' Department of Revenue) in years where the appropriation of free cash shall not cause the fiscal year's GAAP undesignated fund balance to go below 10% of the fiscal year's GAAP general fund expenditures while maintaining a Budgetary Undesignated Fund Balance between 5% and 10% of Budgetary Operating Expenses.

The City shall only consider the appropriation of certified free cash to offset: (1) certain fixed costs such as pension contributions and related post-employment health benefits; and/or (2) to fund extraordinary and nonrecurring events as determined and certified by the City Auditor.

CITY OF BOSTON, MASSACHUSETTS

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(Unaudited)

Special Revenue Fund – Fund Balance – The Special Revenue Fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for predefined purposes. The fiscal year 2008 special revenue fund balance is reported at \$190.1 million, a \$30.3 million decrease from fiscal year 2007.

Capital Projects Fund – Fund Balance – The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds and trust funds. The fiscal year 2008 capital projects fund deficit is \$1.0 million, a \$13.3 million decrease from fiscal year 2007. The deficit in this fund balance is the result of the \$14 million MSBA receivable for the Burke School and will be eliminated upon reimbursement of construction costs from the MSBA.

Other Governmental Funds – Fund Balance – Other Governmental Funds account for assets held by the City in permanent trust funds. The fiscal year 2008 other governmental funds fund balance is \$44.8 million, a \$3.5 million decrease from fiscal year 2007.

Proprietary Funds

The City's Proprietary Funds provide the same type of information found in the Government-Wide Financial Statements for business-type activities. This information is presented on the same basis of accounting, but in more detail.

The City's Proprietary Funds net deficit for fiscal year 2008 was \$51.0 million. The net deficit in the Proprietary Funds is a result of the Convention Center special obligation bonds outstanding at year-end.

Budgetary Highlights

The general fund budgetary highlights include ending fiscal year 2008 with a \$15.8 million dollar surplus. This represents the City's 23rd consecutive year with a balanced budget. Changes to the original budget resulted in an increase of \$9.9 million to the overall budget. These supplemental appropriations were primarily for salaries and wages within the Boston Public Schools Department. Funding for the supplemental appropriations consisted of the Retired Teachers Pension payments of \$4.7 million and building infrastructure improvements and permits of \$4.6 million. During the year, revenues exceeded budgetary estimates, thus eliminating the need to draw from existing fund balance. The departmental and other revenue favorable variance of \$14.4 million was primarily comprised of \$8.0 million in reimbursements for fringe and pension costs from grants and \$2.3 million increase in Municipal Medicaid reimbursement. The \$7.0 million favorable variance in Commonwealth of Massachusetts was driven by an additional \$7.4 million of revenue from the state for Retired Teachers Pension. The "other available funds" fell short of fiscal year 2008 receipts by \$5.0 million due to recording less actual "free cash" than budgeted. Police and Fire Department overtime expense, exceeding the budget by \$16.5 million, was the main factor in Public Safety's overspending.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental activities, as of June 30, 2008, has a net book value of \$1.22 billion, made up of costs totaling \$2.41 billion less accumulated depreciation of \$1.19 billion. This

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2008

(Unaudited)

investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and have value only to the City, such as roads, bridges, streets, sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the City's investment in capital assets for the current fiscal year was approximately 8.5% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$158.5 million for the year. Most of this amount was used for the purpose of constructing or reconstructing buildings and building improvements. Depreciation charges for the year totaled \$62.9 million. Additional information on the City's capital assets can be found in note 8 of the Notes to Basic Financial Statements.

Long-Term Obligations

Debt Administration – The authority of the City to incur debt is governed by federal and state laws that restrict the amounts and purposes for which a municipality can incur debt. At year-end, the City had \$903.2 million in General Obligations Bonds principal outstanding – an increase of \$42.3 million over last year.

The key factor in this increase was the issuance of the March 1, 2008 Series A and B general obligation and refunding bonds totaling \$154.3 million. Of this amount, \$126.2 million (Series A) was new money issued for the purpose of funding various municipal capital projects and \$28.2 million (Series B) was issued for the purpose of refunding certain outstanding general obligations of the City. The Series A and B bonds were rated AA, Aa1 and AA+ by Fitch, Moody's and S&P, respectively.

General Obligation Bonds are backed by the full faith and credit of the City, including the City's power to levy additional taxes to ensure repayment of the debt. Accordingly, all general obligation debt currently outstanding has been approved by a vote of the City Council.

Notes and Leases Payable and Other Long-Term Obligations – The City's general long-term notes and leases and other long-term obligations increased by \$240.3 million, or 77.6% during the current fiscal year. The key factor, for this increase, was the implementation of Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions (OPEB)* of \$212.8 million. This is the first year the City has recorded this obligation. Additionally, leases increased by \$12.4 million due to the issuance of new equipment leases exceeding lease repayments.

Additional information on the City's long-term debt obligations can be found in note 10 of the Notes to Basic Financial Statements.

New Accounting Standards

In 2008, the City implemented Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This standard requires the City to recognize postemployment benefits, mainly health insurance, when earned rather than on a pay-as-you-go basis.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2008

(Unaudited)

In order to comply with this standard, the City hired an actuary to estimate the accrued liability and a required 2008 contribution based on the current level of benefits and an amortization period of 30 years. Based on the results of that review, the City booked an OPEB expense and an OPEB obligation of \$212.8 million.

The City's 2008 Annual Required Contribution (ARC) was \$327.8 million. Contributions against the ARC on a pay-as-you-go basis totaled \$114.9 million and do not include a \$21 million transfer to the Health Stabilization Fund which was created subsequent to year-end. The Health Stabilization Fund was established to manage and account for the City's OPEB liability.

The City also implemented GASB Statement No. 50, *Pension Disclosures*, in 2008. This new standard now requires entities to report the results of the most recent actuarial valuation in the footnotes. This information was previously only required to be reported as required supplementary information.

Future Accounting Pronouncements

GASB has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligation*. This statement is effective date for reporting is June 30, 2009. However, restatement of beginning net assets will be required if an obligation exists, therefore July 1, 2008 is the more accurate effective date for this statement.

This statement explains when a government would be required to report a liability in its financial statements related to cleaning up pollution or contamination. GASB 49 also establishes a probability-weighted method that a government would be required to use to determine the established amount of pollution obligation liabilities to be reported in its financial statements.

Requests for Information

This financial report is designed to provide a general overview of the City of Boston's finances for all of City of Boston's citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: City of Boston, Auditing Department, Boston City Hall, Room M-4, Boston, MA 02201.

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CITY OF BOSTON, MASSACHUSETTS

Statement of Net Assets

June 30, 2008

(In thousands)

	Primary government			Component units
	Governmental activities	Business-type activities	Total	
Assets:				
Current assets:				
Cash and investments	\$ 987,273	80	987,353	104,360
Cash and investments held by trustees	47,452	79,681	127,133	51,104
Receivables, net:				
Property taxes	19,774	—	19,774	—
Intergovernmental	239,489	—	239,489	—
Other	111,955	210	112,165	35,050
Other assets	8,313	2,427	10,740	13,783
Internal balances	23,000	(23,000)	—	—
Due from BMC	—	—	—	493
Due from primary government	—	—	—	250
Due from component units	7,829	—	7,829	—
Total current assets	<u>1,445,085</u>	<u>59,398</u>	<u>1,504,483</u>	<u>205,040</u>
Noncurrent assets:				
Intergovernmental receivables	87,798	—	87,798	—
Notes and other receivables	58,884	—	58,884	74,614
Other assets	—	—	—	119,565
Capital assets:				
Nondepreciable	29,098	—	29,098	34,863
Depreciable, net	1,192,619	—	1,192,619	47,111
Due from component units	—	89,725	89,725	—
Total noncurrent assets	<u>1,368,399</u>	<u>89,725</u>	<u>1,458,124</u>	<u>276,153</u>
Total assets	<u>2,813,484</u>	<u>149,123</u>	<u>2,962,607</u>	<u>481,193</u>
Liabilities:				
Current liabilities:				
Warrants and accounts payable	101,784	—	101,784	21,255
Accrued liabilities – current:				
Tax abatement liability	25,600	—	25,600	—
Compensated absences	45,997	—	45,997	—
Judgments and claims	43,490	—	43,490	—
Payroll and related costs	111,323	—	111,323	—
Deposits and other	60,371	2,595	62,966	2,361
Current portion of long-term debt and leases	101,629	10,360	111,989	1,145
Due to component units	250	—	250	—
Due to BMC	—	—	—	16,137
Due to primary government	—	—	—	9,323
Unearned revenue	56,265	—	56,265	5,192
Total current liabilities	<u>546,709</u>	<u>12,955</u>	<u>559,664</u>	<u>55,413</u>
Noncurrent liabilities:				
Bonds due in more than one year	845,200	187,165	1,032,365	21,214
Notes and leases payable due in more than one year	58,265	—	58,265	—
Other noncurrent liabilities	175,240	—	175,240	138,866
Other postemployment benefits obligation	212,823	—	212,823	16,536
Unearned revenue	—	—	—	40,249
Due to primary government	—	—	—	88,231
Total noncurrent liabilities	<u>1,291,528</u>	<u>187,165</u>	<u>1,478,693</u>	<u>305,096</u>
Total liabilities	<u>1,838,237</u>	<u>200,120</u>	<u>2,038,357</u>	<u>360,509</u>
Net assets:				
Investment in capital assets, net of related debt	334,467	—	334,467	50,767
Restricted for:				
Expendable trust	44,837	—	44,837	59,305
Federal and state grants	190,065	—	190,065	—
Unrestricted	405,878	(50,997)	354,881	10,612
Total net assets	<u>\$ 975,247</u>	<u>(50,997)</u>	<u>924,250</u>	<u>120,684</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Activities

Year ended June 30, 2008

(In thousands)

Functions/programs	Expenses	Program revenues		
		Charges for services	Operating grants and contributions	Capital grants and contributions
Primary government:				
Governmental activities:				
General government	\$ 109,121	27,395	3,219	2,387
Human services	50,827	31	11,694	—
Public safety	908,353	127,460	151,655	260
Public works	148,497	2,564	34	11,167
Property and development	110,272	5,035	62,451	10
Parks and recreation	30,134	321	305	2,643
Library	47,340	353	5,080	496
Schools	1,272,997	16,910	359,329	1,304
Public health programs	68,718	—	—	—
Interest on long-term debt	31,058	—	—	—
Total governmental activities	<u>2,777,317</u>	<u>180,069</u>	<u>593,767</u>	<u>18,267</u>
Business-type activities:				
Convention Center	5,122	—	1,196	—
Hospital Bonds	4,201	—	—	—
Total business-type activities	<u>9,323</u>	<u>—</u>	<u>1,196</u>	<u>—</u>
Total primary government	<u>\$ 2,786,640</u>	<u>180,069</u>	<u>594,963</u>	<u>18,267</u>
Component units:				
Boston Public Health Commission	\$ 142,025	9,335	46,056	3,564
Boston Redevelopment Authority	25,824	7,381	6,155	—
Trustees of the Public Library of the City of Boston	16,811	1,055	13,611	—
Economic Development and Industrial Corporation of Boston	34,476	14,506	15,133	—
Total component units	<u>\$ 219,136</u>	<u>32,277</u>	<u>80,955</u>	<u>3,564</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				
Excises				
Payments in lieu of taxes				
Grants and contributions not restricted				
Investment income				
City appropriation				
Miscellaneous				
Gain (loss) on disposal				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets – beginning of year				
Prior period adjustment				
Net assets – end of year				

See accompanying notes to basic financial statements.

Net (expense) revenue and changes in net assets			
Primary government			
Governmental activities	Business-type activities	Total	Component units
(76,120)	—	(76,120)	—
(39,102)	—	(39,102)	—
(628,978)	—	(628,978)	—
(134,732)	—	(134,732)	—
(42,776)	—	(42,776)	—
(26,865)	—	(26,865)	—
(41,411)	—	(41,411)	—
(895,454)	—	(895,454)	—
(68,718)	—	(68,718)	—
(31,058)	—	(31,058)	—
(1,985,214)	—	(1,985,214)	—
—	(3,926)	(3,926)	—
—	(4,201)	(4,201)	—
—	(8,127)	(8,127)	—
(1,985,214)	(8,127)	(1,993,341)	—
—	—	—	(83,070)
—	—	—	(12,288)
—	—	—	(2,145)
—	—	—	(4,837)
—	—	—	(102,340)
1,316,165	—	1,316,165	—
97,262	40,342	137,604	—
56,668	—	56,668	—
259,931	—	259,931	—
47,072	9,796	56,868	825
—	—	—	67,440
1,531	—	1,531	4,896
(298)	—	(298)	5,734
23,000	(23,000)	—	—
1,801,331	27,138	1,828,469	78,895
(183,883)	19,011	(164,872)	(23,445)
1,159,130	(70,008)	1,089,122	138,126
—	—	—	6,003
\$ 975,247	(50,997)	924,250	120,684

CITY OF BOSTON, MASSACHUSETTS

Balance Sheet – Governmental Funds

June 30, 2008

(In thousands)

Assets	General	Special revenue	Capital projects	Other governmental funds	Total governmental funds
Cash and investments	\$ 756,652	157,774	20,979	229	935,634
Cash and investments held by trustees	—	—	2,346	45,106	47,452
Receivables, net:					
Property taxes	19,774	—	—	—	19,774
Intergovernmental	237,443	95,246	53,482	—	386,171
Departmental and other	52,263	59,167	—	208	111,638
Total receivables	309,480	154,413	53,482	208	517,583
Due from other funds	27,703	2,510	1,379	—	31,592
Due from component units	7,829	—	—	—	7,829
Total assets	\$ 1,101,664	314,697	78,186	45,543	1,540,090
Liabilities and Fund Balances					
Liabilities:					
Warrants and accounts payable	\$ 48,356	22,802	30,001	706	101,865
Accrued liabilities:					
Payroll and related costs	103,737	7,586	—	—	111,323
Deposits and other	15,073	30,757	192	—	46,022
Deferred revenue	127,817	58,884	48,974	—	235,675
Due to other funds	4,382	4,603	—	—	8,985
Due to component unit	250	—	—	—	250
Total liabilities	299,615	124,632	79,167	706	504,120
Fund balances:					
Reserved for:					
Encumbrances	32,519	46,022	79,677	159	158,377
Future appropriations	—	—	30,087	—	30,087
Unreserved:					
Designated for subsequent years' expenditures	216,429	—	—	—	216,429
Undesignated	553,101	144,043	(110,745)	—	586,399
Reported in permanent funds	—	—	—	44,678	44,678
Total fund balances	802,049	190,065	(981)	44,837	1,035,970
Total liabilities and fund balances	\$ 1,101,664	314,697	78,186	45,543	1,540,090

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2008

(In thousands)

Total fund balance – governmental funds	\$ 1,035,970
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:	
Land	25,060
Construction in progress	4,038
Land improvements	141,675
Buildings and improvements	1,632,231
Furniture and equipment	225,564
Infrastructure	407,983
Less accumulated depreciation	<u>(1,214,834)</u>
	<u>1,221,717</u>
Adjust deferred revenues and receivables to record revenues on an accrual basis	174,556
Internal service funds are included in the government-wide statements	49,848
Bond issuance costs are capitalized in the government-wide statements	8,313
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
General obligation bonds and notes	(938,636)
Capital leases	(36,773)
Bond issue premiums	(39,165)
Deferred bond gains (losses)	9,480
Accrued interest on bonds	(14,349)
Compensated absences	(168,316)
Landfill	(9,119)
Judgments and claims	(79,856)
Other postemployment benefits	(212,823)
Tax abatements	<u>(25,600)</u>
	<u>(1,515,157)</u>
Net assets of governmental activities	<u>\$ 975,247</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds
Year ended June 30, 2008
(In thousands)

	General	Special revenue	Capital projects	Other governmental funds	Total governmental funds
Revenues:					
Real and personal property taxes	\$ 1,316,734	—	—	—	1,316,734
Excises	115,809	—	—	—	115,809
Payments in lieu of taxes	56,667	—	—	—	56,667
Fines	67,940	150	—	—	68,090
Investment income	37,822	545	—	187	38,554
Licenses and permits	45,989	60	—	—	46,049
Departmental and other	79,030	29,596	—	3,356	111,982
Intergovernmental	493,227	342,464	14,701	—	850,392
Total revenues	2,213,218	372,815	14,701	3,543	2,604,277
Expenditures:					
Current:					
General government	66,927	10,084	—	4,866	81,877
Human services	29,093	9,482	—	—	38,575
Public safety	509,293	21,086	—	—	530,379
Public works	108,831	13,207	—	—	122,038
Property and development	29,876	72,806	—	—	102,682
Parks and recreation	17,418	510	—	—	17,928
Library	27,089	4,962	—	—	32,051
Schools	782,500	149,069	—	—	931,569
Public health programs	67,694	700	—	—	68,394
County	—	121,180	—	—	121,180
Judgments and claims	1,967	—	—	—	1,967
Other employee benefits	190,167	—	—	—	190,167
Retirement costs	95,193	—	—	—	95,193
State and district assessments	132,792	—	—	—	132,792
Capital outlays	9,417	2,993	170,834	—	183,244
Debt service	115,771	—	—	—	115,771
Total expenditures	2,184,028	406,079	170,834	4,866	2,765,807
Excess (deficiency) of revenues over expenditures	29,190	(33,264)	(156,133)	(1,323)	(161,530)
Other financing sources (uses):					
Long-term debt and capital leases issued	—	5,050	148,460	—	153,510
Refunding bonds issued	—	—	28,155	—	28,155
Payments to escrow agent	—	(455)	(28,110)	—	(28,565)
Premiums on long-term debt issued	—	8,402	—	—	8,402
Transfers in (out)	40,810	(10,000)	(5,669)	(2,141)	23,000
Total other financing sources (uses)	40,810	2,997	142,836	(2,141)	184,502
Net change in fund balances	70,000	(30,267)	(13,297)	(3,464)	22,972
Fund balance – beginning of year	732,049	220,332	12,316	48,301	1,012,998
Fund balance – end of year	\$ 802,049	190,065	(981)	44,837	1,035,970

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities

Year ended June 30, 2008

(In thousands)

Net change in fund balances – total governmental funds	\$ 22,972
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives. Capital outlays (\$158,485) exceeded depreciation expense (\$62,948) and disposals (\$298)	95,239
Tax revenues in the statement of activities that are not reported as revenues in the governmental funds	(11,794)
Proceeds of long-term debt (\$181,665) increase long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Repayment of bond, note and lease principal (\$97,162) and payment to the escrow agent (\$28,565) are expenditures in the governmental funds, but reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceed repayments and escrow payments	(55,938)
Bond premiums net (\$5,290) increase the long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Deferred losses on refunding (\$2,089) decrease long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Bond issuance costs net (\$229) are expenditures in the governmental funds, but are deferred assets in the statement of assets. This is the amount by which premiums and deferred losses on refundings exceeded issuance costs	(7,150)
Intergovernmental revenues decrease receivables on the statement of net assets, but are included in the operating statement of governmental funds	(10,092)
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. This amount represents the increase in liabilities for judgments and claims and workers' compensation(\$8,632), compensated absences (\$4,842) and other postemployment benefits (\$212,823) offset by a decrease in liabilities for interest payable (\$473) and the landfill liability (\$262)	(225,562)
Net income from the internal service fund which is presented in the statement of activities, but not in the governmental funds	8,442
Change in net assets of governmental activities	\$ <u><u>(183,883)</u></u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Revenues and Expenditures – Budgetary Basis
General Fund – Budget and Actual

Year ended June 30, 2008
(with comparative actual amounts for 2007)

(In thousands)

		2008			2007
	Original budget	Final budget	Actual	Variance	Actual
Revenues and other available funds:					
Real and personal property taxes, net	\$ 1,295,152	1,295,152	1,295,460	308	1,224,171
Excises	124,575	124,575	131,558	6,983	120,234
Commonwealth of Massachusetts	587,069	591,739	598,747	7,008	576,372
Departmental and other revenue	52,428	52,987	67,379	14,392	62,676
Fines	67,760	67,760	67,391	(369)	66,975
Payments in lieu of taxes	52,956	52,956	56,667	3,711	56,146
Investment income	37,500	37,500	39,512	2,012	43,471
Licenses and permits	37,685	42,329	47,577	5,248	41,432
Other available funds	43,810	43,810	38,818	(4,992)	10,721
Total revenues and other available funds	2,298,935	2,308,808	2,343,109	34,301	2,202,198
Expenditures:					
General government	104,937	104,150	102,837	1,313	78,366
Human services	28,080	29,118	29,116	2	26,394
Public safety	478,656	478,915	495,425	(16,510)	477,595
Public works	102,491	103,016	107,629	(4,613)	98,748
Property and development	29,173	31,519	31,453	66	33,991
Parks and recreation	16,923	17,461	17,374	87	16,707
Library	29,246	29,603	29,601	2	28,550
Schools	782,784	795,498	795,488	10	747,462
Boston Public Health Commission	66,554	68,195	68,195	—	63,798
Judgments and claims	3,500	3,500	3,500	—	7,107
Other employee benefits	190,952	191,070	191,032	38	177,087
Retirement costs	207,105	207,105	207,049	56	197,574
State and district assessments	135,658	133,353	132,792	561	109,364
Debt requirements	122,876	116,305	115,771	534	124,243
Total expenditures	2,298,935	2,308,808	2,327,262	(18,454)	2,186,986
Excess of revenues and other available funds over expenditures	\$ —	—	15,847	15,847	15,212

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Net Assets – Proprietary Funds

June 30, 2008

(In thousands)

	Enterprise funds			
	Convention center bonds	Hospital revenue bonds	Total	Internal service
Assets:				
Current assets:				
Cash and investments	\$ 80	—	80	51,640
Cash and investments held by trustees	58,845	20,836	79,681	—
Receivables, net	210	—	210	317
Total current assets	59,135	20,836	79,971	51,957
Noncurrent assets:				
Due from other funds	—	—	—	493
Due from component units	—	89,725	89,725	—
Other assets	1,182	1,245	2,427	4,856
Total noncurrent assets	1,182	90,970	92,152	5,349
Total assets	60,317	111,806	172,123	57,306
Liabilities:				
Current liabilities:				
Warrants and accounts payable	—	—	—	22
Accrued liabilities	—	—	—	7,436
Due to other funds	23,000	—	23,000	—
Accrued interest payable	812	1,783	2,595	—
Current portion of long-term debt	3,400	6,960	10,360	—
Total current liabilities	27,212	8,743	35,955	7,458
Noncurrent liabilities:				
Special obligation bonds	97,085	—	97,085	—
Revenue bonds	—	90,080	90,080	—
Total noncurrent liabilities	97,085	90,080	187,165	—
Total liabilities	124,297	98,823	223,120	7,458
Net assets:				
Unrestricted	(63,980)	12,983	(50,997)	49,848
Total net assets	\$ (63,980)	12,983	(50,997)	49,848

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds

Year ended June 30, 2008

(In thousands)

	Enterprise funds			
	Convention center bonds	Hospital revenue bonds	Total	Internal service
Operating revenues:				
Contributions	\$ —	—	—	97,225
State aid – pledged for debt service	40,342	—	40,342	—
Total operating revenues	<u>40,342</u>	<u>—</u>	<u>40,342</u>	<u>97,225</u>
Operating expenses:				
Health benefits	—	—	—	88,783
Total operating expenses	<u>—</u>	<u>—</u>	<u>—</u>	<u>88,783</u>
Operating income	<u>40,342</u>	<u>—</u>	<u>40,342</u>	<u>8,442</u>
Nonoperating revenue (expense):				
Intergovernmental – state grants	1,196	—	1,196	—
Investment earnings – pledged for debt service	—	8,506	8,506	—
Investment earnings – other	1,290	—	1,290	—
Interest expense	<u>(5,122)</u>	<u>(4,201)</u>	<u>(9,323)</u>	<u>—</u>
Total nonoperating expense	<u>(2,636)</u>	<u>4,305</u>	<u>1,669</u>	<u>—</u>
Income before transfers	37,706	4,305	42,011	8,442
Transfer to general fund	<u>(23,000)</u>	<u>—</u>	<u>(23,000)</u>	<u>—</u>
Change in net assets	14,706	4,305	19,011	8,442
Total net assets – beginning of year	<u>(78,686)</u>	<u>8,678</u>	<u>(70,008)</u>	<u>41,406</u>
Total net assets – end of year	\$ <u><u>(63,980)</u></u>	<u><u>12,983</u></u>	<u><u>(50,997)</u></u>	<u><u>49,848</u></u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS
Statement of Cash Flows – Proprietary Fund Types
Year ended June 30, 2008
(In thousands)

	Enterprise funds			
	Convention center bonds	Hospital revenue bonds	Total	Internal service
Cash flows from operating activities:				
Cash received from other governments	\$ 40,132	7,148	47,280	—
Cash received from employees and employee	—	—	—	97,367
Cash paid to vendors	—	—	—	(89,144)
Net cash provided by operations	40,132	7,148	47,280	8,223
Cash flows from noncapital financing activities:				
Grants received from state	1,196	—	1,196	—
Interest paid on debt	(5,088)	(4,413)	(9,501)	—
Transfers to other funds	(20,000)	—	(20,000)	—
Repayment of long-term debt	(3,230)	(6,690)	(9,920)	—
Net cash used in noncapital financing activities	(27,122)	(11,103)	(38,225)	—
Cash flows from investing activities:				
Investment income	1,290	8,506	9,796	—
Net cash provided by investing activities	1,290	8,506	9,796	—
Increase in cash and cash equivalents	14,300	4,551	18,851	8,223
Cash and cash equivalents, beginning of year	44,625	16,285	60,910	43,417
Cash and cash equivalents, end of year	\$ 58,925	20,836	79,761	51,640
Reconciliation of operating income to cash provided by operating activities:				
Operating income	\$ 40,342	—	40,342	8,442
Reconciliation of operating income to net cash provided by operating activities:				
Changes in operating assets and liabilities:				
Accounts receivable	(210)	—	(210)	(34)
Other assets	—	—	—	(946)
Due from component units	—	7,148	7,148	176
Accounts payable and accrued liabilities	—	—	—	585
Net cash provided by operating activities	\$ 40,132	7,148	47,280	8,223

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Fiduciary Net Assets – Fiduciary Funds

June 30, 2008

(Except for Employee Retirement Plan, which is as of December 31, 2007)

(In thousands)

	Employee retirement plan	Private purpose trusts	Agency funds
Assets:			
Cash and cash equivalents	\$ 24,834	86,099	5,834
Receivables:			
Interest and dividends	16,587	—	—
Securities sold	49,756	—	—
Employer contributions	101,386	—	—
Other	16,032	2,279	—
Total receivables	183,761	2,279	—
Investments, at fair value:			
Short-term:			
Domestic	34,882	—	—
International	16,056	—	—
Equity:			
Domestic	1,778,590	—	—
International	933,109	—	—
Fixed-income:			
Domestic	623,902	—	—
International	244,266	—	—
Real estate	398,481	—	—
Venture capital funds	477,191	—	—
Total investments	4,506,477	—	—
Securities lending short-term collateral investment pool	382,515	—	—
Total assets	5,097,587	88,378	5,834
Liabilities:			
Accounts payable	12,372	1,722	—
Securities purchased	74,718	—	—
Collateral held on securities lending	382,515	—	—
Refunds payable and other	194	—	5,834
Total liabilities	469,799	1,722	\$ 5,834
Net assets – held in trust for pension benefits and other purposes	\$ 4,627,788	86,656	

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Changes in Fiduciary Net Assets –
Fiduciary Funds

Year ended June 30, 2008

(Except for Employee Retirement Plan, which is for the year ended December 31, 2007)

(In thousands)

	Employee retirement plan	Private purpose trusts
Additions:		
Contributions:		
Employers	\$ 233,897	—
Employees	118,332	—
Donations and other	—	20,025
Total contributions	<u>352,229</u>	<u>20,025</u>
Investment earnings:		
Net appreciation in the fair value of investments	328,256	—
Interest and dividends	99,481	1,883
Less investment expenses	(18,319)	—
Net investment earnings	<u>409,418</u>	<u>1,883</u>
Securities lending activities:		
Securities lending income	23,975	—
Less borrower rebates and fees	(22,154)	—
Net income from securities lending activities	<u>1,821</u>	<u>—</u>
Total net investment income	411,239	1,883
Intergovernmental	<u>10,608</u>	<u>—</u>
Total additions	<u>774,076</u>	<u>21,908</u>
Deductions:		
Benefits	381,962	—
Reimbursement to other systems	8,443	—
Refunds of contributions	17,132	—
Administrative expenses and other	4,746	22,343
Total deductions	<u>412,283</u>	<u>22,343</u>
Change in net assets	361,793	(435)
Net assets, beginning of year	<u>4,265,995</u>	<u>87,091</u>
Net assets, end of year	\$ <u><u>4,627,788</u></u>	<u><u>86,656</u></u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(1) The Financial Reporting Entity

The accounting policies followed in preparing the accompanying basic financial statements are as follows:

(a) *Primary Government*

The City of Boston (the City), incorporated as a town in 1630 and as a city in 1822, now exists under Chapter 486 of the Act of 1909 and Chapter 452 of the Acts of 1948 of the Commonwealth of Massachusetts (the Commonwealth) which, as amended, constitute the City's Charter. The Mayor is elected to a four-year term and serves as chief executive officer of the City. The Mayor has general supervision of and control over the City's boards, commissions, officers, and departments. The legislative body of the City is the City Council, which consists of thirteen elected members serving two-year terms.

The accompanying basic financial statements present the City of Boston and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

(b) *Retirement System*

The State-Boston Retirement System (SBRS) is a defined benefit contributory retirement system created under state statute. It is administered by a Retirement Board comprised of five members: the City Auditor, who serves *ex officio*; two individuals elected by participants in the system; a fourth member appointed by the Mayor; and a fifth member chosen by the other members. The SBRS provides pension benefits to retired City, Boston Redevelopment Authority, Boston Housing Authority, Boston Water and Sewer Commission, Boston Public Health Commission and the Sheriff of Suffolk County employees. Although legally separate, the SBRS provides services entirely, or almost entirely to the City and thus has been reported as if it were part of the primary government; a method of inclusion known as blending.

A complete set of financial statements for SBRS for the fiscal year ended December 31, 2007 can be obtained through the City Auditor's office, Room M-4, City Hall Plaza, Boston, Massachusetts 02201. The SBRS is included in the City's fiduciary fund financial statements.

(c) *Discretely Presented Component Units Disclosure*

These component units are reported in a separate column to emphasize that they are legally separate from the City but are included because the City is financially accountable for and is able to impose its will on the organizations. Unless otherwise indicated, the notes to the basic financial statements pertain only to the primary government because certain disclosures of the component units are not significant relative to the total component units and to the primary government. A description of the component units, criteria for inclusion, and their relationship with the City are as follows:

Boston Redevelopment Authority (BRA) – The BRA is a public body politic and corporate constituting the City's redevelopment authority and exercising the powers of a planning board for the City. The BRA is governed by a five-member board, four of whom are appointed by the Mayor. Its purpose is to provide planning support for major construction and redevelopment activity in the City.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

Economic Development and Industrial Corporation of Boston (EDIC) – The EDIC is a body politic and corporate and an instrumentality of the Commonwealth. It is governed by the same persons appointed as members of the BRA board. The EDIC has various powers to assist industrial development projects in the City, and together with the BRA, assists the City with its economic development function.

Boston Public Health Commission (PHC) – The PHC is a body politic and corporate and public instrumentality of the Commonwealth, established by Chapter 147 of the Acts of 1995. PHC is governed by a seven-member board, six of whom are appointed by the Mayor and confirmed by the City Council, and one of whom is the chief executive officer of the Boston Medical Center (BMC). The PHC is responsible for the implementation of public health programs in the City.

Trustees of the Public Library of the City of Boston (TPL) – The TPL is a nonprofit organization qualified as a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. Trustees of TPL are appointed by the Mayor. The TPL was established to benefit the public library system of the City.

The financial statements of the discretely presented component units are included for their respective fiscal year ends, which is June 30, 2008.

Complete financial statements of these discretely presented component units can be obtained through the City Auditor's office, Room M-4, City Hall Plaza, Boston, Massachusetts 02201. In addition, condensed financial statements for the discretely presented component units are included in note 17.

(d) *Related Organizations*

The Mayor is also responsible for appointing members of the governing bodies of the Boston Housing Authority, Boston Industrial Development Finance Authority, and Boston Water and Sewer Commission; however, the City's accountability for these organizations does not extend beyond making these appointments.

(2) **Summary of Significant Accounting Policies**

The accounting policies of the City of Boston, Massachusetts, conform to U.S. generally accepted accounting principles as applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies followed by the City:

(a) *Government-Wide and Fund Financial Statements*

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. The agency fund within the fiduciary fund has no measurement to focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as *program revenues*. Likewise, general revenues include all taxes.

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurements focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are “susceptible to accrual” (i.e., both measurable and available.) Revenues not considered to be available are recorded as deferred revenue.

The City applies the susceptible to accrual criteria to property taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, resources must be expended on the specific purpose or project before any amounts will be reimbursed to the City; therefore, revenues are recognized based upon the amount of expenditures incurred. In the other, resources are virtually unrestricted and are usually revocable by the grantor only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

are met. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year end.

Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and judgments and claims, are recorded only when payment is mature and due.

Proprietary Fund, Fiduciary Fund, and Component Unit Financial Statements

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from the collection of revenue pledged to repay debt. The principal operating revenues of the City's enterprise funds are lease receipts and excise taxes. The principal operating revenues of the City's internal service funds are receipts from employer and employee premiums for health insurance premiums. Operating expenses for enterprise funds and internal service funds include the interest, administrative expenses, and vendor payments. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental funds – The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* accounts principally for the activities funded by federal and state grant revenue sources and certain other revenues that are legally restricted to expenditures for specified purposes.

The *capital activities fund* accounts for bond proceeds and grant revenues used for the acquisition or construction of the City capital facilities.

Proprietary funds – The City reports the following major proprietary funds:

The *convention center bond fund* accounts for the City activities related to the financing for the construction of a new state-owned convention center. Revenue debt issued in connection with this fund is payable solely by specified local and state receipts.

The *hospital revenue bond fund* accounts for the activities related to the Boston City Hospital Revenue Bonds. These Bonds are payable solely from the mortgage note payments received from the Public Health Commission. These Bonds are repaid from a pledged revenue source from PHC.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

Fiduciary funds – Additionally, the City reports the following fiduciary fund types:

The *private-purpose trust fund* is used to account for resources legally held in trust for the benefit of individuals, private organizations, or other governments. The City operates four pools used for the improvement of the City's parks and cemeteries, educational scholarships and sporting equipment, creation of public utility and beauty and co-mingled nontestamentary trusts.

The *pension trust fund* accounts principally for the activities of the State-Boston Employees Retirement System, a blended component unit, which accumulates resources for pension benefit payments to retired City employees.

The *agency funds* are used to report funds held by the City in a purely custodial capacity. The City currently operates a drug evidence account for proceeds from property seized from illegal drug related activities. These funds are then used to offset the costs of technical equipment or expertise and investigations.

The City also uses an internal service fund to account for its self-insured health costs. Although the fund is presented in a separate column in the accompanying basic financial statements, it is not considered a major fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

(c) *Cash Equivalents*

For purposes of the statement of cash flows, investments with original maturities of three months or less when purchased are considered to be cash equivalents.

(d) *Basis of Investment Valuation*

Investments are presented in the accompanying basic financial statements at fair value. Where applicable, fair values are based on quotations from national securities exchanges, except for certain investments of SBRS which are described in notes 5 and 11. Further, income from investments is recognized in the same fund as the related investments.

The City invests in the Massachusetts Municipal Depository Trust (MMDT), which is an external investment pool and is not SEC registered. The fund is state regulated and is valued at current share price.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(e) *Interfund Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

(f) *Uncollectible Tax and Other Receivables*

All receivables are shown net of an allowance for uncollectibles. Amounts considered to be uncollectible are based on the type and age of the related receivable.

(g) *Capital Assets*

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$15,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Any significant construction commitments are encumbered at year-end in the City’s Capital Project Fund.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	30
Building improvements	30
Infrastructure	30
Land improvements – major	30
Land improvements – playgrounds	15
Computer upgrades	10
Equipment and machinery	10
Computers and related equipment	3
Furniture and fixtures	3
Motor vehicles	3

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(h) *Compensated Absences*

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination, or death, certain employees are compensated for unused sick and vacation leave (subject to certain limitations) at their then current rates of pay. The portion of the liability related to unused sick and vacation time that has matured or is due as of June 30, 2008 is recorded in the governmental fund financial statements. The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on the amount accumulated at the balance sheet date (vesting method). The liability for both amounts is calculated based on the pay or salary rates in effect at the balance sheet date.

(i) *Long-Term Obligations and Related Costs*

Premiums, Discounts, and Issue Costs – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. The unamortized portion is presented in the government-wide statement of net assets. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(j) *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(k) *Tax Abatement Refunds*

Matured tax abatement refunds that are due and payable at June 30 have been recorded as a liability in the general fund. Other refunds have been recorded in the government-wide statement of net assets.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(l) *Landfill Closure and Postclosure Care Costs*

State and federal regulations require the City to place a final cover on its Gardner Street landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. At June 30, 2008, 100% of the Gardner Street landfill site had been used and had not accepted solid waste for several years. While most of the landfill closure construction was completed in prior years, there still remains 12 acres of the landfill to be capped as of June 30, 2008.

The total current cost of landfill closure and postclosure care is an estimate, subject to changes resulting from inflation, deflation, technology or other changes in applicable laws or regulations. Such costs are recognized as expenditures in the general fund to the extent that they are due or matured and are expected to be paid with expendable available financial resources. The total liability is reported in the government-wide statement of net assets. Expenditures related to the Gardner Street landfill site postclosure care in fiscal year 2008 were approximately \$263,000.

(m) *Use of Estimates*

The preparation of the accompanying basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) *Short-Term Debt*

During fiscal year 2008, the City had no short-term debt issued or outstanding.

(4) *Budgetary Data*

The general fund is the only fund for which a budget is legally adopted. The budgets for all departments included in the general fund of the City, except the School Department, are prepared under the direction of the Mayor and City Council. The School Department budget is prepared under the direction of the School Committee.

Original and supplemental appropriations are submitted by the Mayor, approved by the City Council and lapse at year-end unless encumbered. The legal level of control over appropriations is at the department level. Amendments to the original budget must be approved by the City Council, except for a reallocation of appropriations of up to \$3 million, which the Mayor may approve. Further, the City Auditor, with the approval of the Mayor, may make transfers from any appropriation to any other appropriation for purposes of eliminating deficits before closing the books for the fiscal year. After the close of the fiscal year, the City Auditor may, with the approval of the Mayor, apply any income, taxes, and funds not disposed of and make transfers from any appropriation to any other appropriation for the purpose of closing the accounts for the fiscal year. Supplemental appropriations, other than the aforementioned transfers, were \$9.9 million for the year.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

The City must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2-1/2 (note 6). The tax levy must equal the sum of (a) the aggregate of all annual appropriations for expenditures; plus (b) the reserve accounts described in the following paragraph; plus (c) provision for the prior fiscal years' deficits, if any; less (d) the aggregate of all nonproperty tax revenues projected to be received by the City, including available funds, in amounts certified or approved by the Commonwealth for tax rate purposes.

In accordance with the 1986 amendments to the Funding Loan Act of 1982, the City has established two reserve funds. The first is a budget reserve fund which is required to be funded in stages to a final level of 2-1/2% of the prior year's overall departmental appropriations, except the School Department, by the beginning of fiscal year 1990. It is available to be applied to extraordinary and unforeseen expenditures. The second is a separate reserve fund of 1% to 2-1/2% of the current year appropriation of the School Department to be applied to over expenditures in that department.

The City's general fund budget is prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The "actual" results column in the statement of revenues and expenditures – budgetary basis – general fund is presented on a "budgetary basis" to provide a meaningful comparison of actual results with the budget. The major differences between the budget and GAAP basis, where applicable, are that:

- (a) Revenues are recorded when cash is received, except for real estate and personal property taxes which are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budget), as opposed to a reservation of fund balance (GAAP).
- (c) Certain activities and transactions are presented in separate funds (GAAP), rather than as components of the general fund (budget).
- (d) Amounts raised for the prior years' deficits and available funds from prior years' surpluses are recorded as revenue items (budget), but have no effect on GAAP revenues.

In addition, there are certain differences in classifications between revenues, expenditures, and transfers.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

The following reconciliation summarizes the differences between budgetary and GAAP basis accounting principles for the year ended June 30, 2008 (in thousands):

	Revenue	Expenditures	Other financing sources (uses), net	Excess of revenue and other financing sources
As reported on a budgetary basis	\$ 2,343,109	2,327,262	—	15,847
Adjustments:				
Revenues to modified accrual basis	13,919	—	—	13,919
Expenditures, encumbrances, and accruals, net	—	(37,814)		37,814
Reclassifications:				
State-funded teachers' retirement costs	(103,000)	(105,420)	—	2,420
Convention Center fund revenue	(23,000)	—	23,000	—
Transfers	(17,810)	—	17,810	—
As reported on a GAAP basis	<u>\$ 2,213,218</u>	<u>2,184,028</u>	<u>40,810</u>	<u>70,000</u>

(5) Deposits and Investments

State and local statutes place certain limitations on the nature of deposits and investments available to the City. Deposits, including demand deposits, money markets and certificates of deposit in any one financial institution, may not exceed 60% of the capital and surplus of such institution unless collateralized by the financial institution involved. Investments may be made in unconditionally guaranteed U.S. Government obligations having maturities of a year or less from the date of purchase, or through repurchase agreements with maturities of no greater than 90 days in which the underlying securities consist of such obligations. Other allowable investments include authorized bonds of all states, bankers' acceptances, commercial paper rated within the three highest classifications established by rating agencies, and units in the MMDT. The highest classifications for Moody's, Standard & Poor's (S&P) and Fitch are as follows:

	Commercial paper credit ratings		
	Moody's	S&P	Fitch
Superior	P1	A1 + or A1	F1 + or +F1
Satisfactory	P2	A2	F2
Adequate	P3	A3	F3

The Treasurer of the Commonwealth of Massachusetts oversees the financial management of the MMDT, a local investment pool for cities, towns, and other state and local agencies within the Commonwealth. The City's fair value of its investment in the MMDT represents their value of the pool's shares.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

The City and its blended component unit apply GASB No. 40, *Deposit and Investment Risk Disclosures*. The standard requires that entities disclose essential risk information about deposits and investments.

Primary Government (except the pension trust fund)

(a) *Custodial Credit Risk*

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned. The City carries deposits that are fully insured by FDIC insurance, collateralized and deposits that are not collateralized and are uninsured. As of June 30, 2008, the bank balances of uninsured and uncollateralized deposits totaled approximately \$4.3 million. All of the City's investments are held by third parties in the City's name.

(b) *Investment Policy*

The City's primary concern in connection with its investment activities is a concern shared by all municipal governments: the preservation of capital. The City's investment policy establishes a domain in which all of the City's investment activities may be safely conducted while it strives to use its capital resources as efficiently as possible. The frontiers of that domain are fixed by Massachusetts General Laws M.G.L. c. 44, sec. 55, which prohibits Massachusetts communities from investing in certain categories of high-risk investments; limit the amount of the City's bank deposits in any one financial institution; and which establish qualifying criteria for banking institutions. Further, all investments held by third parties are to be held in the City's name.

(c) *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The following is a listing of the City's fixed income investments (in thousands) and related maturity schedule (in years) as of June 30, 2008:

Investment type	Fair value	Less than 1	1 – 5
External investment pool	\$ 538,949	538,949	—
Mutual funds	127,633	127,633	—
U.S. Treasury notes and bonds	12,382	—	12,382
Domestic corporate	4,654	—	4,654
	<u>\$ 683,618</u>	<u>666,582</u>	<u>17,036</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(d) Credit Risk

The City's fixed income investments as of June 30, 2008 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below (in thousands) using the Standard and Poor's rating scale:

Investment type	Fair value	Rating
External investment pool	\$ 538,949	Not rated
Mutual funds	127,633	AAA
Domestic corporate	4,654	AAA to BBB+
	<u>\$ 671,236</u>	

(e) Concentration Risk

The City adheres to the provisions of M.G.L. c. 44, sec. 55 when managing concentration risk. M.G.L. c. 44, sec. 55 contains several restrictions limiting where and under what circumstances the City may deposit its funds. Pursuant to M.G.L. c. 44, sec. 55, cities and towns in the Commonwealth may deposit available fund balances in banks, trust companies, or banking companies, provided that the amounts deposited do not exceed 60% of the capital and surplus of an institution unless satisfactory security for the amount in excess of 60% is provided by the depository.

State-Boston Retirement System (SBRS or the System)

(a) Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the System's deposits may not be returned. The System carries deposits that are fully insured by FDIC insurance or collateralized with securities held by the System or the System's agent in the System's name. The System also carries deposits that are not collateralized and are uninsured. As of December 31, 2007, all of the System's deposits were insured or collateralized.

(b) Investment Policy

The provisions of M.G.L. c. 32, sec 23(2) govern the System's investment practice.

Diversification is attained through varied investment management styles that comply with Massachusetts state law. This is accomplished through the retention of investment managers that adhere to M.G.L. c. 32, sec. 23(3), the "Prudent Person" rule.

The System has retained an investment consultant to work with the Retirement Board in a fiduciary capacity to assure that strategic investment diversification is attained, to employ investment managers with expertise in their respective asset classes, and to closely monitor the implementation and performance of the respective investment strategies.

The System is currently invested in stocks (domestic and foreign), fixed income securities (domestic and foreign), real estate, private equity, and hedge funds.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(c) *Interest Rate Risk*

The following is a listing of the System's fixed income investments (in thousands) and related maturity schedule (in years) as of December 31, 2007:

Investment type	Fair value	Less than 1	1 – 5	6 – 10	More than 10
U.S. Treasury notes and bonds	\$ 34,092	—	—	6,040	28,052
U.S. agencies	94,584	—	22,091	26,960	45,533
Domestic corporate	340,580	16,325	123,422	151,259	49,574
International corporate	138,411	6,204	51,134	52,584	28,489
International government	105,855	1,525	49,699	32,438	22,193
Short-term investment funds	50,938	50,938	—	—	—
Asset-backed:					
CMOs	35,531	—	—	2,294	33,237
Mortgage-backed	100,356	—	724	9,454	90,178
Other	18,759	—	5,607	8,322	4,830
	<u>\$ 919,106</u>	<u>74,992</u>	<u>252,677</u>	<u>289,351</u>	<u>302,086</u>

The System's guidelines do not specifically address limits on maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The manager of each fixed income portfolio is responsible for determining the maturity and commensurate returns of their portfolio.

The collateralized mortgage obligations (CMOs) held by the System as of December 31, 2007 are highly sensitive to changes in interest rates.

(d) *Credit Risk*

The System allows investment managers to apply discretion under the "Prudent Person" rule. Investments are made, as a prudent person would be expected to act with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

The System's fixed income investments as of December 31, 2007 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below (in thousands) using the Standard and Poor's rating scale:

Investment type	Fair value	AAA	AA	A	BBB	BB	B	CCC	Not rated
U.S. agencies	\$ 94,584	87,479	—	—	—	—	—	—	7,105
Domestic corporate	340,580	9,826	62,428	151,184	22,289	46,396	45,176	846	2,435
International corp.	138,411	53,114	18,276	8,652	25,254	13,161	6,707	—	13,247
International gov't	105,855	67,576	24,924	5,363	2,373	2,552	2,745	—	322
Short-term investment funds	50,938	—	—	—	—	—	—	—	50,938
Asset-backed:									
CMOs	35,531	34,084	1,435	—	—	—	—	—	12
Mortgage-backed	100,356	96,659	—	—	—	—	—	—	3,697
Other	18,759	12,510	1,175	—	—	—	—	—	5,074
	<u>\$ 885,014</u>	<u>361,248</u>	<u>108,238</u>	<u>165,199</u>	<u>49,916</u>	<u>62,109</u>	<u>54,628</u>	<u>846</u>	<u>82,830</u>

In addition to the above schedule, the System has approximately \$34,092,000 invested in U.S. government securities, which are not rated as they are explicitly guaranteed by the U.S. government.

(e) **Concentration Risk**

The System has no investments, at fair value, that exceed 5% of the System's net assets held in trust for pension benefits as of December 31, 2007.

The System adheres to the provisions of M.G.L. c. 32, sec. 23(2) when managing concentration risk.

(f) **Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Similar to the investments in domestic equities, the System employs or encourages its investment advisor to employ diversification, asset allocation, and quality strategies.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

Risk of loss arises from changes in currency exchange rates. The System's exposure to foreign currency risk is presented on the following table (in thousands).

Currency	Short-term	Fixed income	Equity	Alternative	Total
Australian dollar	\$ 244	—	41,296	—	41,540
Brazilian real	(83)	—	11,814	—	11,731
Canadian dollar	119	2,859	10,303	—	13,281
Chilean Pesa	—	—	40	—	40
Columbian Peso	—	1,557	—	—	1,557
Danish krone	2	—	9,716	—	9,718
Egyptian Pound	33	—	295	—	328
Euro currency	10,055	79,866	256,508	6,533	352,962
Hong Kong dollar	49	—	22,481	—	22,530
Indian Rupee	14	—	11,175	—	11,189
Indonesian rupiah	4	1,243	2,270	—	3,517
Japanese yen	1,306	65,108	168,400	—	234,814
Malaysian ringgit	67	5,471	5,198	—	10,736
Mexican peso	59	—	3,975	—	4,034
New Taiwan dollar	593	—	1,002	—	1,595
New Zealand dollar	30	—	—	—	30
Norwegian krone	32	—	11,481	—	11,513
Philippine peso	—	—	322	—	322
Polish Zloty	162	2,613	775	—	3,550
Pound sterling	1,161	13,857	142,580	—	157,598
Singapore dollar	215	8,526	8,886	—	17,627
South African rand	42	—	5,757	—	5,799
South Korean won	2	1,872	8,147	—	10,021
Swedish krona	283	6,281	21,249	—	27,813
Swiss franc	32	—	45,215	—	45,247
Thailand baht	9	—	2,240	—	2,249
International equity pooled funds (various currencies)	—	—	113,147	—	113,147
Total securities subject to foreign currency risk	14,430	189,253	904,272	6,533	1,114,488
United States dollars (securities held by international investment managers)*	14,442	55,013	28,837	—	98,292
Total international investment securities	\$ 28,872	244,266	933,109	6,533	1,212,780

* Short-term investments include cash of approximately (\$1,614).

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(g) *Derivatives*

The System trades financial instruments with off-balance-sheet risk in the normal course of its investing activities to assist in managing exposure to market risks. The System uses forward foreign currency contracts to hedge against the risk of future foreign currency fluctuations. Forward foreign currency contracts open at December 31, 2007 were as follows (in thousands):

	<u>Fair value</u>	<u>Aggregate face value</u>	<u>Delivery date(s)</u>	<u>Unrealized gains</u>	<u>Unrealized losses</u>
Forward foreign currency contracts purchased:					
Australian dollar	\$ 333	333	1/2/08	\$ —	—
Hong Kong dollar	2,140	2,140	1/3/08	—	—
Indian rupee	211	211	12/10/07	—	—
South African rand	17,305	17,166	3/5/08	139	—
Forward foreign currency contracts sold:					
Brazilian real	64	64	1/2/08 – 1/3/08	—	—
Canadian dollar	3	3	1/2/08	—	—
Egyptian pound	33	33	12/31/07	—	—
Hong Kong dollar	60	60	1/2/08 – 1/3/08	—	—
Indian rupee	85	85	1/2/08	—	—
Japanese yen	4	4	1/4/08	—	—
South African rand	2,308	2,502	3/5/08	—	(194)
Total				\$ 139	(194)

(6) **Property Taxes**

Real and personal property taxes are based on values assessed as of each January 1. By law, all taxable property must be assessed at 100% of fair cash value. Also by law, property taxes must be levied at least 30 days prior to their due date. Once levied, these taxes are recorded as receivables, net of estimated uncollectible balances. Property tax revenues have been recorded using the modified accrual basis of accounting, described in note 2.

The City bills and collects its property taxes on a quarterly basis following the January 1 assessment. The due dates for those quarterly tax billings are August 1, November 1, February 1, and May 1. Property taxes that remain unpaid after the respective due dates are subject to penalties and interest charges.

Based on the City's experience, most property taxes are collected during the year in which they are assessed. Liening of properties on which taxes remain unpaid occurs annually. On December 11, 2007, all properties with unpaid fiscal year 2007 property taxes were lienied. The City ultimately has the right to foreclose on all properties where the taxes remain unpaid.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

A statewide property tax limitation known as “Proposition 2-1/2” limits the amount of increase in the property tax levy in any fiscal year. Generally, Proposition 2-1/2 limits the total levy to an amount not greater than 2-1/2% of the total assessed value of all taxable property within the City. Secondly, the tax levy cannot increase by more than 2-1/2% of the prior year’s levy plus the taxes on property newly added to the tax rolls. Certain provisions of Proposition 2-1/2 can be overridden by a City-wide referendum.

(7) Receivables

Receivables as of year-end for the government’s individual major funds, nonmajor funds and internal service fund, including the applicable allowances for uncollectible accounts are as follows (in thousands):

	General	Special revenue	Capital projects	Other nonmajor funds	Internal service	Total
Receivables:						
Property taxes	\$ 19,774	—	—	—	—	19,774
Other taxes	145,143	—	—	—	—	145,143
Intergovernmental	237,443	95,246	53,482	—	—	386,171
Other	66,398	59,167	—	208	317	126,090
Gross receivables	468,758	154,413	53,482	208	317	677,178
Less allowance for uncollectibles	(159,278)	—	—	—	—	(159,278)
Net total receivables	\$ 309,480	154,413	53,482	208	317	517,900

(a) Long-Term Receivable

The City participates in the Commonwealth’s school building assistance program, which is administered by the Massachusetts School Building Authority (MSBA). The MSBA provides financial assistance (up to 90% of total costs) to the City to build and/or renovate schools. As of June 30, 2008, under this program, the City was due funds totaling \$101 million.

In the General Fund, the receivable is offset by deferred revenue because the revenue is not considered available. The following is a schedule of the five-year paydown (in thousands) as of June 30, 2008 through 2013, and in five-year increments thereafter:

Fiscal year(s):	Anticipated revenue
2009	\$ 13,199
2010	12,956
2011	11,158
2012	9,848
2103	8,833
2014 – 2018	37,434
2019 – 2020	7,569
Total	\$ 100,997

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(b) Notes Receivable

Section 108 is the loan guarantee provision of the Community Development Block Grant (CDBG) program. Section 108 provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects. Housing and Urban Development (HUD) provides grants to local governments, which in turn provides loans to developers. As of June 30, 2008, under this program, the City determined that \$58.9 million was collectible.

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. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows (in thousands):

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Delinquent taxes receivable (general fund)	\$ 19,529	—	19,529
Due from component units	—	7,829	7,829
Section 108 receivable	58,884	—	58,884
School building assistance receivable	100,997	35,893	136,890
Chapter 90	—	13,081	13,081
Other	—	(538)	(538)
Total deferred/unearned revenue for governmental funds	\$ <u>179,410</u>	<u>56,265</u>	<u>235,675</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(8) Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows (in thousands):

Primary Government

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 17,825	7,235	—	25,060
Construction in progress	133,396	133,420	(262,778)	4,038
Total capital assets not being depreciated	<u>151,221</u>	<u>140,655</u>	<u>(262,778)</u>	<u>29,098</u>
Capital assets being depreciated:				
Land improvements	112,963	28,712	—	141,675
Buildings and improvements	1,455,724	176,578	(71)	1,632,231
Furniture and equipment	204,737	29,635	(8,808)	225,564
Infrastructure	362,300	45,683	—	407,983
Total capital assets being depreciated	<u>2,135,724</u>	<u>280,608</u>	<u>(8,879)</u>	<u>2,407,453</u>
Less accumulated depreciation for:				
Land improvements	17,809	5,596	—	23,405
Buildings and improvements	855,434	26,281	(2)	881,713
Furniture and equipment	162,157	18,839	(8,579)	172,417
Infrastructure	125,067	12,232	—	137,299
Total accumulated depreciation	<u>1,160,467</u>	<u>62,948</u>	<u>(8,581)</u>	<u>1,214,834</u>
Total capital assets being depreciated, net	<u>975,257</u>	<u>217,660</u>	<u>(298)</u>	<u>1,192,619</u>
Governmental activities capital assets, net	<u>\$ 1,126,478</u>	<u>358,315</u>	<u>(263,076)</u>	<u>1,221,717</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

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

Governmental activities:

General government	\$ 984
Human services	1,045
Public safety	10,320
Public works, including depreciation of general infrastructure assets	13,443
Property and development	2,182
Parks and recreation	4,719
Library	3,062
Schools	26,464
County	510
Public health	219
Total depreciation expense – governmental activities	<u>\$ 62,948</u>

(9) Interfund Receivable and Payable Balances

Individual fund and discrete component unit receivable and payable balances at June 30, 2008, are as follows (in thousands):

Interfund balances	Receivable	Payable
General	\$ 27,603	4,382
Special revenue	2,510	4,603
Capital projects	1,379	—
Convention Center	—	23,000
Internal service	493	—
Balances at June 30, 2008	<u>\$ 31,985</u>	<u>31,985</u>

The purpose of the internal balances is to fund cash flows due to timing differences between receipts and disbursements (in thousands):

Discrete component unit balances	Receivable	Payable
Primary government:		
General	\$ 7,829	250
Hospital revenue bond	89,725	—
	<u>97,554</u>	<u>250</u>
Discretely presented component units:		
TPL	—	466
PHC	250	97,088
	<u>250</u>	<u>97,554</u>
Balances at June 30, 2008	<u>\$ 97,804</u>	<u>97,804</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(10) Long-Term Obligations

(a) Governmental Activity Obligations

Following is a summary of the governmental long-term obligations of the City as of June 30, 2008 (in thousands):

	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
Bonds and notes payable:						
General obligation refunding bonds dated 3/1/08	3.25% – 4.00%	\$ —	28,155	—	28,155	1,040
General obligation bonds dated 3/1/08	5.0	—	126,185	—	126,185	6,360
General obligation refunding bonds dated 3/1/07	0.125 – 5.0	85,425	—	395	85,030	310
General obligation bonds dated 3/1/07	3.0 – 5.0	100,000	—	5,625	94,375	5,585
General obligation bonds dated 1/31/06	4.0 – 5.0	73,765	—	6,235	67,530	6,235
General obligation refunding bonds dated 2/1/05	2.5 – 5.0	117,525	—	5,125	112,400	5,125
General obligation refunding bonds dated 4/1/04	2.0 – 5.0	24,750	—	6,110	18,640	5,995
General obligation refunding bonds dated 2/1/04	3.0 – 5.0	82,635	—	9,715	72,920	9,755
General obligation refunding bonds dated 2/1/03	2.25 – 5.0	107,455	—	9,885	97,570	9,195
General obligation refunding bonds dated 11/15/02	4.0 – 5.0	11,455	—	5,160	6,295	6,295
General obligation refunding bonds dated 8/15/02	2.875 – 5.0	46,965	—	295	46,670	310
General obligation bonds dated 2/1/02	3.0 – 5.0	46,225	—	5,645	40,580	5,645
General obligation refunding bonds dated 4/11/01	3.50 – 5.0	42,450	—	2,900	39,550	6,250
General obligation bonds dated 2/1/01	4.25 – 5.0	46,180	—	6,890	39,290	6,890
General obligation bonds dated 2/1/00	5.0 – 5.75	18,075	—	6,025	12,050	6,025
General obligation bonds dated 10/15/98	3.25 – 5.0	22,660	—	6,685	15,975	6,685
General obligation refunding bonds dated 4/15/98	4.5 – 5.25	30,725	—	30,725	—	—
General obligation bonds dated 1/15/98	4.5	4,625	—	4,625	—	—
Total governmental obligation bonds payable		\$ 860,915	154,340	112,040	903,215	87,700
Add (deduct):						
Unamortized bond premiums					39,165	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(9,480)	
Current portion of long-term debt					(87,700)	
					\$ 845,200	

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(b) Notes and Leases Payable and Other Long-Term Obligations

Following is a summary of the notes payable and other long-term obligations of the City as of June 30, 2008 (in thousands):

	<u>Interest rates</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>	<u>Due within one year</u>
Notes and leases payable:						
MWPAT note payable	4.25% – 5.75%	\$ 6,640	—	454	6,186	444
Notes payable – Section 108	5.44 – 7.18	27,530	5,050	3,345	29,235	2,365
Leases		24,386	22,275	9,888	36,773	11,120
Total notes and leases payable		<u>58,556</u>	<u>27,325</u>	<u>13,687</u>	<u>72,194</u>	<u>13,929</u>
Other long-term obligations:						
Judgments and claims		7,411	561	1,967	6,005	1,245
Workers' compensation		63,813	47,407	37,369	73,851	34,609
Health and life claims		6,827	89,392	88,783	7,436	7,436
Compensated absences		163,474	49,320	44,478	168,316	45,997
Landfill closure and postclosure care costs		9,381	—	262	9,119	200
Other postemployment benefits		—	327,752	114,929	212,823	—
Total other long-term obligations		<u>250,906</u>	<u>514,432</u>	<u>287,788</u>	<u>477,550</u>	<u>89,487</u>
Total notes, leases, and other long-term obligations		<u>\$ 309,462</u>	<u>541,757</u>	<u>301,475</u>	<u>549,744</u>	<u>103,416</u>

The payment of liabilities for judgments and claims, compensated absences, landfill closure and postclosure costs, and other postemployment benefits is primarily the responsibility of the City's general fund.

(c) Business Type Activity Obligations

Following is a summary of the business type long-term obligations of the City as of June 30, 2008 (in thousands):

	<u>Interest rates</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>	<u>Due within one year</u>
Convention Center fund:						
Special Obligation Bonds dated 4/1/02	4.0% – 5.25%	\$ 103,715	—	3,230	100,485	3,400
Hospital Bond fund:						
Special Obligation Refunding Bonds, Boston City Hospital, dated 8/1/02	2.0 – 5.0	<u>101,490</u>	<u>—</u>	<u>6,690</u>	<u>94,800</u>	<u>6,960</u>
Total business type obligations		<u>\$ 205,205</u>	<u>—</u>	<u>9,920</u>	<u>195,285</u>	<u>10,360</u>
Add (deduct):						
Unamortized bond premiums					2,580	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(340)	
Current portion of long-term debt					<u>(10,360)</u>	
					<u>\$ 187,165</u>	

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

A. General Obligation Bonds

The annual debt service requirements of the City's general obligation governmental bonds outstanding as of June 30, 2008, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2009	\$ 87,700	41,162	128,862
2010	84,850	37,184	122,034
2011	80,200	33,372	113,572
2012	76,965	29,667	106,632
2103	71,385	26,145	97,530
2014 – 2018	273,335	86,645	359,980
2019 – 2023	164,835	32,783	197,618
2024 – 2028	63,945	7,481	71,426
	<u>\$ 903,215</u>	<u>294,439</u>	<u>1,197,654</u>

On March 1, 2008, the City issued \$154,340,000 of general obligation and refunding bonds, \$126,185,000 for various municipal capital projects, and \$28,155,000 for the purpose of refunding certain outstanding general obligation bonds of the City totaling \$28.6 million. Interest on the bonds are payable semiannually each March 1, and September 1, until maturity in fiscal years 2028 and 2015, respectively. The cash flow difference and economic gain (the difference between the present values of the debt service payments on old and new debt) obtained from the refunding were \$2,586,375 and \$2,229,798, respectively.

No Obligation Debt

The City has outstanding industrial, commercial, and housing development bonds payable solely from revenues of the respective enterprises that do not constitute an indebtedness of the City and are not a charge against its general credit. This aggregate amount is immaterial to the financial statements.

The City is subject to a dual general debt limit: the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively, of the valuation of taxable property in the City as last equalized by the State Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's Emergency Finance Board. Additionally, there are many categories of general obligation debt which are exempt from the debt limit but are subject to other limitations.

As of June 30, 2008, the City may issue \$3.2 billion of additional general obligation debt under the debt limit. General obligation debt of \$477.3 million, subject to the debt limit, and \$88.1 million, exempt from the debt limit, are authorized but unissued as of June 30, 2008.

B. Notes and Leases Payable

At June 30, 2008, the City had various notes outstanding totaling \$35.4 million.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

The annual debt of the City's notes payable as of June 30, 2008, is as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2009	\$ 2,809	1,602	4,411
2010	3,686	1,539	5,225
2011	3,683	1,368	5,051
2012	3,206	1,209	4,415
2103	3,720	1,019	4,739
2014 – 2018	14,496	2,844	17,340
2019 – 2023	3,821	563	4,384
	<u>\$ 35,421</u>	<u>10,144</u>	<u>45,565</u>

In the prior year, the Massachusetts Water Pollution Abatement Trust (MWPAT) refinanced its outstanding debt, which resulted in debt service savings passed through to the City via the MWPAT note. The loan provides funding for the closure and postclosure care costs relating to the City's Gardner Street Landfill. Proceeds are received on a reimbursement basis from MWPAT as expenditures are incurred by the City.

C. Proprietary Fund Obligations

The annual debt service requirements of the City's special obligation bonds and Boston City Hospital, Series B, revenue bonds, outstanding as of June 30, 2008 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2009	\$ 10,360	9,008	19,368
2010	10,815	8,546	19,361
2011	11,250	8,108	19,358
2012	11,700	7,652	19,352
2013	12,170	7,173	19,343
2014 – 2018	69,510	26,895	96,405
2019 – 2023	40,155	12,161	52,316
2024 – 2027	29,325	3,755	33,080
	<u>\$ 195,285</u>	<u>83,298</u>	<u>278,583</u>

The revenue refunding bonds of the Boston City Hospital (BCH) do not constitute general obligations of the City and the annual debt service of these bonds has been assumed by the Boston Public Health Commission. The Boston Public Health Commission expects to meet its obligation on the bonds through application of a portion of the rent payable to the Boston Public Health Commission by the Boston Medical Center Corporation (BMC) for its lease of the former Boston City Hospital. Under certain circumstances, including a default by BMC under the lease, City revenues may be required to satisfy the debt service requirements on the Series B bonds.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

The Boston Public Health Commission has assumed responsibility for paying to the City, an amount equal to current debt service on all outstanding general obligation bonds of the City issued for public health and hospital purposes, which amounted to \$7.0 million at June 30, 2008.

Defeased Debt

The following transactions met the requirements of an in-substance defeasance:

- On April 11, 2001, the City issued \$52.0 million in general obligation refunding bonds to advance refund \$49.9 million of 1991, 1994, and 1995 Series Bonds.
- In August 2002, \$127.8 million of bonds were issued to refund the Boston City Hospital, Series B Bonds dated June 1, 1993.
- On November 15, 2002, the City issued \$43.1 million of general obligation refunding bonds for the purpose of refunding \$45.1 million of outstanding general obligation bonds of the City, 2002 Series C.
- In February 2004, the City issued \$35.9 million of general obligation refunding bonds to advance refund \$37.7 million of 1994, 1995, 1996, and 1998 Series Bonds.
- In February 2005, the City issued \$52.8 of general obligation refunding bonds to advance refund \$56.9 million of 1996, 1998, and 2000 Series Bonds.
- In March 2007, the City issued \$85.4 million of general obligation refunding bonds to advance refund \$81.4 million of 1998A, 1998C, 2001A, 2002A, and 2003A Series Bonds.
- In March 2008, the City issued \$28.2 million of general obligation refunding bonds to advance refund \$28.6 million of 1998B Series Bonds.

The principal amount of debt refunded through in-substance defeasance transactions and still outstanding at June 30, 2008 was approximately \$148.3 million.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

D. Lease Obligations

The City has entered into various capital lease agreements for equipment acquisition. Payments under these agreements are subject to annual appropriation and, by statute, are not included in the City's debt limit calculations. Activity in capital lease agreements during fiscal year 2008 was as follows (in thousands):

<u>Date of issuance</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>
December 20, 2003	\$ 209	—	209	—
April 21, 2004	623	—	398	225
November 5, 2004	2,508	—	1,232	1,276
March 11, 2005	458	—	312	146
November 10, 2005	4,731	—	1,276	3,455
April 13, 2006	2,365	—	993	1,372
November 22, 2006	13,492	—	3,045	10,447
October 25, 2007	—	22,274	2,422	19,852
	<u>\$ 24,386</u>	<u>22,274</u>	<u>9,887</u>	<u>36,773</u>

Assets acquired under capital leases are included in equipment under capital assets.

Future minimum payments under capital leases and installment sales as of June 30, 2008 are as follows (in thousands):

2009	\$ 12,292
2010	9,628
2011	7,481
2012	4,917
2013	3,006
2014 – 2015	<u>2,444</u>
Total minimum lease payments	39,768
Less amount representing interest	<u>2,995</u>
Total minimum principal lease payments	36,773
Less current portion	<u>11,120</u>
Long-term portion	<u>\$ 25,653</u>

The City's commitment under operating leases is not significant.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(11) Retirement Plans

(a) *Plan Description*

The City contributes to the SBRS, a cost-sharing multiple-employer defined benefit pension plan. The System provides retirement, disability and death benefits to plan members and beneficiaries of the following government units:

- (1) City of Boston
- (2) Boston Redevelopment Authority
- (3) Boston Housing Authority
- (4) Boston Water and Sewer Commission
- (5) Boston Public Health Commission
- (6) Suffolk County Sheriff's Department

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan to the state legislature.

The System is administered by a five-person Board of Retirement consisting of the City Auditor, who serves as a member *ex officio*, two members who are elected by the participants, in or retired from the service of the System, a fourth member appointed by the Mayor, and a fifth member chosen by the other members.

(b) *Basis of Accounting*

The System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investments of the System are stated as follows:

- (a) Bonds are stated at quoted market value.
- (b) Equity securities are stated at quoted market value.
- (c) Real estate funds are stated at appraised value or partner's account value, whichever is more readily determinable.
- (d) Venture capital funds are stated at contributed cost or fair market value, whichever is more readily determinable.
- (e) International investments are stated at quoted market value and are included in equities and fixed income categories.
- (f) Cash is stated at carrying amount which is reconciled book balance.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(c) **Membership**

Membership in the System consisted of the following at December 31, 2007, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	13,849
Terminated plan members entitled to but not receiving benefits	9,512
Active plan members	21,638
Total membership	44,999
Total number of participating employers	6

(d) **Contributions**

Plan members are required to contribute to the System. Depending on their employment date, active members must contribute a range of 5% – 9% of their regular gross compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. Participating employers are required to pay into the System their share of the remaining system-wide actuarially determined contribution, which is apportioned among the employers based on active covered payroll. The Commonwealth of Massachusetts (the Commonwealth) reimburses the City for benefits paid to school teachers. The Commonwealth also reimbursed the System for a portion of benefit payments for cost of living increases granted before July 1, 1998. The contributions of plan members and the participating employers are governed by Chapter 32 of the MGL. The City's required and actual contributions to the System for the years ended June 30, 2008, 2007 and 2006 were \$203 million, \$193 million, \$186 million, or \$105 million, or \$99 million, and \$101 million, net of teachers' retirement, respectively.

During the fall of 1997, the System's Retirement Board, the City Council, and the Mayor approved the option for local funding of cost of living adjustments. As a result, a locally funded cost of living adjustment of 3.0% on the first \$12,000 of a retiree's annual payment was awarded in fiscal year 2001 and each year following. These cost of living adjustments will be awarded by the Retirement Board each year, except in years in which the Retirement Board determines that such an adjustment would substantially impair the funding schedule.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(e) ***Legally Required Reserve Accounts***

The balance in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2007 are as follows (in thousands):

Description	Amount	Purpose
Annuity savings fund	\$ 1,263,247	Active members' contribution balance
Annuity reserve fund	405,683	Retired members' contribution account
Military service credit	49	Members' contribution account while on military leave
Pension reserve fund	2,549,910	Amounts appropriated to fund future retirement benefits
Pension fund	408,899	Remaining net assets
	<u>\$ 4,627,788</u>	

All reserve accounts are funded at levels required by State statute.

(f) ***Securities Lending***

The Public Employment Retirement Administration Commission of Massachusetts (PERAC) has issued supplemental regulations that permit the System to engage in securities lending transactions. These transactions are conducted by the System's custodian, which lends certain securities owned by the System to other broker-dealers and banks pursuant to a form of loan agreement. The System and the borrowers maintain the right to terminate all securities lending transactions on demand.

At the System's direction, the custodian lends the System's securities and receives cash (including both United States and foreign currency), United States government securities, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. The custodian does not have the ability to pledge or sell collateral unless the borrower defaults. Borrowers are required to deliver cash collateral in amounts equal to not less than 100% of the market value of the loaned securities.

The System does not impose any restrictions on the amount of securities lent on its behalf by the custodian. There were no failures by any borrowers to return loaned securities or pay distributions thereon, and there were no losses from a default of the borrowers or the custodian for the year ended December 31, 2007. The cash collateral received by the custodian on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The relationship between the average maturities of the investment pool and loans was affected by the maturities of the loans made by other plans that invested cash collateral in the collective investment pool, which the System could not determine. At December 31, 2007, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts owed to the System. Borrower rebates and fees paid to the custodian during the year ended December 31, 2007 was \$1.3 million.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

At December 31, 2007, the fair value of securities loaned by the System amounted to \$426.3 million, against which was held collateral of \$440.3 million, as follows (in thousands):

Short-term collateral investment pool	\$	382,515
Noncash collateral		<u>57,797</u>
Total	\$	<u><u>440,312</u></u>

(g) *Commitments*

At December 31, 2007, the System had contractual commitments to provide approximately \$77 million of additional funding to venture capital funds.

(h) *Funded Status and Funding Progress*

In 2007 and 2008, the System and the City, respectively, adopted GASB Statement No. 50, *Pension Disclosures*. This new standard now requires entities to report the results of the most recent actuarial valuation in the footnotes. This information was previously only required to be reported as required supplementary information.

The funded status of the System as of January 1, 2007, the most recent actuarial valuation date, is as follows (in thousands):

Actuarially accrued liability (AAL)	\$	6,223,154
Actuarial value of plan assets		<u>4,138,146</u>
Unfunded actuarial accrued liability (UAAL)	\$	<u><u>2,085,008</u></u>
Funded ratio (actuarial value of plan assets/AAL)		66.5%
Covered payroll (active plan members)	\$	1,221,404
UAAL as a percentage of covered payroll		170.7%

In the January 1, 2007 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions included an 8.0% investment rate of return, projected salary increases of 5.0%, and cost-of-living adjustments of 3% up to \$360 annually. The actuarial value of assets was determined using the fair value of investments. The System's unfunded actuarial accrued liability is being amortized as a level percentage of pay on an open basis. The remaining amortization period at January 1, 2007 was 16 years.

(12) *Other Postemployment Benefits (OPEB)*

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, is required to be implemented by governments with annual revenues greater than \$100 million for financial statement periods beginning after December 15, 2006. Statement No. 45 requires governments to account for other postemployment benefits, primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the government-wide statement of activities when a future retiree earns their postemployment

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the government-wide statement of net assets over time.

In addition to the pension benefits described in note 11, the City provides postemployment health care and life insurance benefits, in accordance with state statute and City ordinance, to participating retirees and their beneficiaries. Participating retirees are City of Boston retirees. As of June 30, 2007, the valuation date, approximately 14,000 retirees and 16,000 active members meet the eligibility requirements as put forth in Chapter 32B of MGL. The City sponsors and participates in an agent multi-employer defined benefit OPEB plan. The OPEB plan is administered by the City and does not issue a stand-alone financial report. GASB Statement No. 43 requires the City to report their OPEB plan as an agency fund in their fiduciary financial statements. However, the City has determined that activity in this fund is immaterial to the City's financial statements and does not present the fund within the fiduciary financial statements.

Medical and prescription drug benefits are provided to all eligible retirees not enrolled in Medicare through a variety of plans offered by Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim HealthCare, and Neighborhood Health Plan. Medical and prescription drug benefits are provided to retirees enrolled in Medicare through supplemental and Medicare Advantage plans offered by Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim HealthCare, and Tufts Health Plan.

Groups 1 and 2 retirees, including teachers, with at least 10 years or 20 years of creditable service are eligible at age 55 or any age, respectively. Group 4 retirees with at least 10 years or 20 years of creditable service are eligible at age 45 or any age, respectively. Retirees on accidental disability retirement are eligible at any age while ordinary disability requires 10 years of creditable service. The surviving spouse is eligible to receive both pre- and post-retirement death benefits, as well as medical and prescription drug coverage.

(a) *Funding Policy*

Employer and employee contribution rates are governed by the respective collective bargaining agreements. The City currently funds the plan on a pay-as-you-go basis. The City and plan members share the cost of benefits. As of June 30, 2007, the valuation date, the plan members contribute 10% to 25% of the monthly premium cost, depending on the plan in which they are enrolled. The City contributes the balance of the premium cost.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(b) Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2008, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of June 30, 2007 (in thousands):

Annual Required Contribution (ARC)	\$ 327,752
Interest on net OPEB obligation	—
Adjustment to ARC	—
Annual OPEB cost	<u>327,752</u>
Contributions made	<u>(114,929)</u>
Change in net OPEB obligation	212,823
Net OPEB obligation – beginning of year	—
Net OPEB obligation – end of year	<u><u>\$ 212,823</u></u>

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

Fiscal year ended	Annual OPEB cost	Percentage of OPEB cost contributed	Net OPEB obligation
2008	\$ 327,752	35%	212,823

(c) Funded Status and Funding Progress

The funded status of the plan as of June 30, 2008, based on an actuarial valuation as of June 30, 2007, was as follows (in thousands):

Actuarially accrued liability (AAL)	\$ 5,490,836
Actuarial value of plan assets	—
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 5,490,836</u></u>
Funded ratio (actuarial value of plan assets/AAL)	—%
Covered payroll (active plan members)	\$ 669,802
UAAL as a percentage of covered payroll	820%

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

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

(d) Actuarial Methods and Assumptions

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

In the June 30, 2007 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.5% investment rate of return and an annual health care cost trend rate of 10% – 11% initially, reduced by decrements to an ultimate rate of 5% after 5 – 6 years. The health care cost trend rate differs between the master medical and other healthcare plans. The actuarial value of assets was determined using the market value of investments. The City's unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at July 1, 2007 was thirty years.

(13) Transfers

Transfers and their purposes during the year ended June 30, 2008 were as follows (in thousands):

	Governmental funds				Proprietary fund
	General	Special revenue	Capital projects	Other governmental	Convention center
Primary government:					
Excess hotel/motel excise taxes	\$ 23,000	—	—	—	(23,000)
Cemetery fees/fund appropriation	2,141	—	—	(2,141)	—
Parking meter fees/fund appropriation	10,000	(10,000)	—	—	—
payment	5,669	—	(5,669)	—	—
Sale of surplus property					
Total	<u>\$ 40,810</u>	<u>(10,000)</u>	<u>(5,669)</u>	<u>(2,141)</u>	<u>(23,000)</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(14) Excess of Expenditures over Budgets

The City had expenditures in excess of their budgeted amounts for the year ended June 30, 2008 in the following categories (in thousands):

Public safety:	
Police Department	\$ 10,918
Fire Department	5,996
Public Works	
Snow removal	4,872
State and district assessments:	
Parking surcharge	40
Special education Chapter 766	94
	<hr/>
	\$ 21,920
	<hr/>

The excess expenditures reported above are allowed under the budgetary laws governing the City.

(15) Public Health System

Effective July 1, 1996, the City's Department of Health and Hospitals and Trustees of Health and Hospitals, were abolished. Substantially all their assets and liabilities, including title to the City's two hospitals, Boston City Hospital (BCH) and Boston Specialty and Rehabilitation Hospital (BSRH), were transferred to and assumed by the Boston Public Health Commission (PHC).

Also effective July 1, 1996, the operations of BCH and BSRH were consolidated with the operations of the Boston University Medical Center under the licensure and control of the Boston Medical Center Corporation (BMC).

The PHC receives the majority of its funding from Federal and state grants, lease agreements with BMC and a City appropriation. During fiscal year 2008, the City appropriated \$68.2 million to the PHC. As described below, the PHC uses the appropriation to pay debt service on certain general obligation bonds and base assistance grant payments to BMC. The remainder of the appropriation is used for administrative purposes and to support the various public health programs run by the PHC. The City has budgeted \$69.4 million for the PHC for fiscal year 2009.

Due from PHC/BMC

On July 1, 1996, in connection with the consolidation transaction described above, the PHC assumed a liability of \$149.8 million for a mortgage note due to the City. In August 2002, this note was refinanced such that the stream of payments made by the PHC on the new note will be used to pay the outstanding balance of \$122.9 million of the City's Special Obligation Refunding Bonds dated August 2002. The PHC receives funding for the note payments from the BMC under a lease agreement whereby the BMC leases portions of the former BCH for an initial period of 50 years. Rental payments received under this lease are equal to the debt service costs on the new note and on all City general obligation bonds allocable to BCH. These general obligation bonds were issued by the City between December 1967 and October 1995 and total \$7.0 million at June 30, 2008. These bonds pertain to the property and operations of the BCH

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

Campus, South Block Campus, BSRH Campus, Emergency Medical Services Operations, and the Long Island Campus.

In addition, the PHC and BMC are also responsible for reimbursing the City for health insurance, equipment lease payments, workers' compensation, and other miscellaneous expenses paid for by the City.

Payments to BMC

PHC is obligated to make future base assistance grant payments to BMC of \$10.8 million each year through fiscal year 2019.

(16) Risk Management

The City is self insured for general liability, property, and casualty (except for boiler and machinery losses up to \$10.0 million), worker injury, unemployment, and certain employee health claims. The City's Corporation Counsel defends the City in any lawsuits that arise from the normal course of operations, with exposure limited by a state tort cap under Chapter 258 of the MGL. Except for certain health care costs described below, judgments and claims are charged to the general fund.

The City's health insurance program, administered by the Health Insurance and Benefits Division, a program within Human Resources, provides coverage to the City's employees and retirees through a number of Health Maintenance Organizations (HMO) and Blue Cross/Blue Shield of Massachusetts (BC/BS). Costs to the City for the HMOs, which varies from 90%-82.5% of total premium after employee contributions, are accounted for in the general fund and are capped at a defined premium payment per employee.

BC/BS acts as a third-party agent for the City in the payment of the various claim plans used by the City. City costs incurred for the operation of the BC/BS plans, totaling 75% of premium after employee contributions, are accounted for in a separate health insurance internal service fund.

The City has implemented a comprehensive risk financing strategy that includes establishing a catastrophic risk reserve, currently with a \$12.2 million balance available for future losses. The City's property insurance was renewed – a one-year, all-risk catastrophic property insurance policy covering all City property assets up to \$100.0 million, after a \$10.0 million retention. Any boiler and machinery-related property loss is additionally insured, after a \$50,000 deductible, for up to \$10.0 million.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

The City has established a liability based on historical trends of previous years and attorney's estimates of pending matters and lawsuits in which the City is involved. Changes in the self-insurance liability for the fiscal years ended June 30, 2008 and 2007 are as follows (in thousands):

		Internal service fund	
		2008	2007
Health and life claims, beginning of year	\$	6,827	6,593
Incurred claims		89,392	89,289
Payments of claims attributable to events of both the current and prior fiscal years:			
Health and life		(88,783)	(89,055)
Health and life claims, end of year	\$	7,436	6,827

		Government-wide statements	
		2008	2007
Judgments and claims, beginning of year	\$	71,224	47,401
Incurred claims		51,354	61,553
Payments of claims attributable to events of both the current and prior fiscal years:			
Workers' compensation		(37,369)	(31,225)
Unemployment compensation		(3,386)	(3,148)
Court judgments		(1,967)	(3,357)
Judgments and claims, end of year	\$	79,856	71,224

The liabilities above have not been discounted to their present value. Incurred claims represent the total of a provision for events of the current fiscal year and any change in the provision for events of the prior fiscal years.

There are numerous pending matters and lawsuits in which the City is involved. The City attorneys estimate that the potential claims against the City not recorded in the accompanying basic financial statements resulting from such litigation would not materially affect the basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(17) Discretely Presented Component Units

The following presents condensed financial statements for each of the discretely presented component units:

Condensed Statements of Net Assets					
June 30, 2008					
(In thousands)					
	PHC	BRA	TPL	EDIC	Total
Assets:					
Current assets:					
Cash and investments	\$ 34,298	45,906	10,602	13,554	104,360
Cash and investments held by trustee	—	—	49,592	1,512	51,104
Receivables, net:					
Other	9,928	15,822	1,863	7,437	35,050
Other assets	8,993	113	1,978	2,699	13,783
Due from BMC	493	—	—	—	493
Due from primary government	250	—	—	—	250
Total current assets	<u>53,962</u>	<u>61,841</u>	<u>64,035</u>	<u>25,202</u>	<u>205,040</u>
Noncurrent assets:					
Notes receivable	4,834	69,780	—	—	74,614
Other assets	86,127	33,438	—	—	119,565
Capital assets:					
Nondepreciable	18,368	15,075	—	1,420	34,863
Depreciable	8,859	5,278	720	32,254	47,111
Total noncurrent assets	<u>118,188</u>	<u>123,571</u>	<u>720</u>	<u>33,674</u>	<u>276,153</u>
Total assets	<u>\$ 172,150</u>	<u>185,412</u>	<u>64,755</u>	<u>58,876</u>	<u>481,193</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

Condensed Statements of Net Assets

June 30, 2008

(In thousands)

	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Liabilities:					
Current liabilities:					
Warrants and accounts payable	\$ 12,300	3,430	1,439	4,086	21,255
Accrued liabilities:					
Other	—	—	173	2,188	2,361
Current portion of long-term debt and leases	—	—	—	1,145	1,145
Due to BMC	16,137	—	—	—	16,137
Due to primary government	8,857	—	466	—	9,323
Deferred revenue	1,469	2,838	—	885	5,192
Total current liabilities	<u>38,763</u>	<u>6,268</u>	<u>2,078</u>	<u>8,304</u>	<u>55,413</u>
Noncurrent liabilities:					
Bonds notes and leases due in more than one year	—	3,375	—	17,839	21,214
Other noncurrent liabilities	1,920	136,168	—	778	138,866
Other postemployment benefits obligation	15,570	966	—	—	16,536
Deferred revenue	5,345	34,904	—	—	40,249
Due to primary government	88,231	—	—	—	88,231
Total noncurrent liabilities	<u>111,066</u>	<u>175,413</u>	<u>—</u>	<u>18,617</u>	<u>305,096</u>
Total liabilities	<u>149,829</u>	<u>181,681</u>	<u>2,078</u>	<u>26,921</u>	<u>360,509</u>
Net assets:					
Invested in capital assets, net of related debt	25,448	8,397	720	16,202	50,767
Restricted	—	—	59,305	—	59,305
Unrestricted	(3,127)	(4,666)	2,652	15,753	10,612
Total net assets	<u>\$ 22,321</u>	<u>3,731</u>	<u>62,677</u>	<u>31,955</u>	<u>120,684</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2008

(In thousands)

	PHC	BRA	TPL	EDIC	Total
Expenses	\$ 142,025	25,824	16,811	34,476	219,136
Program revenues:					
Charges for services	9,335	7,381	1,055	14,506	32,277
Operating grants and contributions	46,056	6,155	13,611	15,133	80,955
Capital grants and contributions	3,564	—	—	—	3,564
Total program revenues	58,955	13,536	14,666	29,639	116,796
Net (expenses) revenues	(83,070)	(12,288)	(2,145)	(4,837)	(102,340)
General revenues:					
Investment income (loss)	1,813	1,647	(3,175)	540	825
Sale of property	—	5,734	—	—	5,734
City appropriation	67,440	—	—	—	67,440
Miscellaneous income	1,778	1,094	—	2,024	4,896
Total general revenues	71,031	8,475	(3,175)	2,564	78,895
Change in net assets	(12,039)	(3,813)	(5,320)	(2,273)	(23,445)
Net assets – beginning of year	34,360	7,544	67,997	28,225	138,126
Prior period adjustment	—	—	—	6,003	6,003
Net assets – end of year	\$ 22,321	3,731	62,677	31,955	120,684

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information
(Unaudited)

(Dollar amounts in thousands)

Schedules of Funding Progress

Pension						
Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b – a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
01/01/07	\$ 4,138,146	6,223,154	2,085,008	66.5%	\$ 1,221,404	170.7%
01/01/06	3,836,807	5,957,373	2,120,566	64.4	1,168,808	181.4
01/01/05	3,587,118	5,664,288	2,077,170	63.3	1,115,529	186.2
01/01/04	3,384,814	5,420,842	2,036,028	62.4	1,067,492	190.7
01/01/03	3,204,893	5,121,319	1,916,426	62.6	1,099,779	174.3
01/01/02	3,371,716	4,796,130	1,424,414	70.3	1,052,420	135.3
OPEB						
06/30/07	\$ —	5,480,682	5,480,682	—%	\$ 669,802	818.3%

Schedule of Employers' Contributions – Pension

Year ended December 31:	Annual required contribution	Percentage contributed
2007	\$ 233,779	100%
2006	217,088	100
2005	191,132	100
2004	164,069	100
2003	157,064	100
2002	152,882	100

See accompanying independent auditors' report.