



CITY OF BOSTON, MASSACHUSETTS

Basic Financial Statements and Required Supplementary Information

June 30, 2006

(With Independent Auditors' Report Thereon)

CITY OF BOSTON, MASSACHUSETTS

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KPMG LLP
99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000
Fax 617 507 8323
Internet www.us.kpmg.com

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, 2006, 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 3% and 5% of the assets and revenues, respectively, of the aggregate remaining fund information and 24% and 26% 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, 2006, 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.



In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2006 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 14 and the schedules of funding progress and employers' contributions on page 62 are not required parts 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
November 17, 2006

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Required Supplementary Information Management's Discussion and Analysis

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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, 2006. 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 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.

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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, judgment and claims, retirement costs, 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 they have certain independent qualities as well. 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.

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

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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 *Budgetary Statement or Statement of Revenues and Expenditures – Budgetary Basis* is presented on page 21. This Statement provides a comparison of the original and final budget and the actual expenditures for the current and prior year.

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 as an expenditure any amount raised to cover for a prior year deficit, and as a revenue any available funds raised from prior year surpluses, 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.

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- 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.

New for fiscal year 2006, is the implementation of GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*. Please see the statistical section in the City's Comprehensive Annual Financial Report (CAFR).

Also for fiscal year 2006, the City adopted GASB Statement Nos. 42, 46 and 47, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, Net Assets Restricted By Enabling Legislation and Accounting for Termination Benefits*. These Statements did not have a material effect on the City's fiscal year 2006 financial statements.

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.

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Government-Wide Financial Analysis

This analysis is based on the statement of net assets and the statement of activities found on pages 15 and 16, respectively, of the financial statements.

Government-Wide Highlights

Net Assets – Primary Government – The total net assets of the City exceeded its liabilities at fiscal year ending June 30, 2006 by \$975.1 million (presented as net assets). Of this amount, \$467.7 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 increased by \$99.4 million in fiscal year 2006. Net assets of governmental activities increased by \$93.2 million, while net assets of the business-type activities increased by \$6.2 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 \$975.1 million at the end of 2006, compared to \$875.7 million at the end of the previous year.

The components of net assets are composed 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 \$230.6 million indicating that the net book value of the City’s fixed 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.

A portion of the City’s governmental activities net assets (26.3%) 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 \$145.5 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 2007, the amount to be received by the City to pay debt service is approximately \$15.2 million. Although this receivable increases unrestricted net assets, it will not affect the City’s free cash position.

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At the end of the current fiscal year, the City is reporting a positive balance 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. These costs are 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	
	2006	2005	2006	2005	2006	2005
Current assets	\$ 1,387,438	1,496,597	58,737	50,010	1,446,175	1,546,607
Capital assets	1,063,860	1,013,034	—	—	1,063,860	1,013,034
Other assets	4,830	4,748	2,801	2,987	7,631	7,735
Due from others	27,075	28,106	85,751	92,370	112,826	120,476
Total assets	\$ 2,483,203	2,542,485	147,289	145,367	2,630,492	2,687,852
Noncurrent liabilities	\$ 1,041,598	1,032,463	207,893	217,683	1,249,491	1,250,146
Other liabilities	388,260	549,872	17,647	12,166	405,907	562,038
Total liabilities	\$ 1,429,858	1,582,335	225,540	229,849	1,655,398	1,812,184
Invested in capital assets net of related debt	\$ 230,636	108,924	—	—	230,636	108,924
Restricted	276,769	294,453	—	—	276,769	294,453
Unrestricted	545,940	556,773	(78,251)	(84,482)	467,689	472,291
Total net assets	\$ 1,053,345	960,150	(78,251)	(84,482)	975,094	875,668

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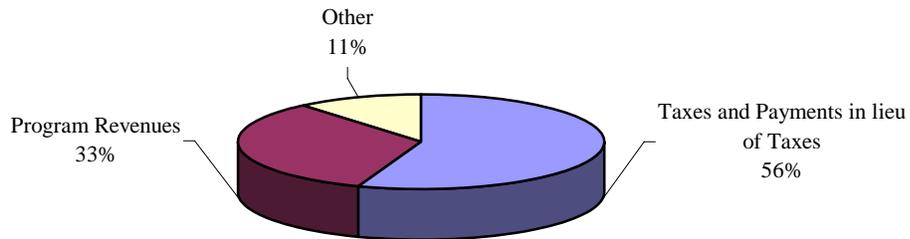
Changes in Net Assets – Primary Government
(In thousands)

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 167,596	158,513	—	—	167,596	158,513
Operating grants and contributions	614,685	581,220	3,537	297	618,222	581,517
Capital grants and contributions	24,746	21,079	—	—	24,746	21,079
General revenues:						
Taxes:						
Property taxes, levied for general purposes	1,195,564	1,136,487	—	—	1,195,564	1,136,487
Excises	94,743	100,888	30,503	28,028	125,246	128,916
Payment in lieu of taxes	60,584	42,218	—	—	60,584	42,218
Grants and contributions not restricted	225,731	231,258	—	—	225,731	231,258
Investment income	42,082	28,072	5,920	6,116	48,002	34,188
Miscellaneous	2,164	2,344	—	—	2,164	2,344
Total revenues	<u>2,427,895</u>	<u>2,302,079</u>	<u>39,960</u>	<u>34,441</u>	<u>2,467,855</u>	<u>2,336,520</u>
Program expenses:						
General government	82,040	113,301	—	—	82,040	113,301
Human services	39,956	36,673	—	—	39,956	36,673
Public safety	578,778	543,552	—	—	578,778	543,552
Public works	127,379	124,406	—	—	127,379	124,406
Property and development	112,875	90,471	—	—	112,875	90,471
Parks and recreation	21,985	20,835	—	—	21,985	20,835
Library	41,665	38,250	—	—	41,665	38,250
Schools	1,016,901	924,148	—	—	1,016,901	924,148
Public health programs	63,604	62,653	—	—	63,604	62,653
County	115,388	109,854	—	—	115,388	109,854
State and district assessments	118,817	115,894	—	—	118,817	115,894
Interest on long-term debt	33,312	35,877	—	—	33,312	35,877
Convention center	—	—	10,814	6,165	10,814	6,165
Hospital	—	—	4,915	5,104	4,915	5,104
Total program expenses	<u>2,352,700</u>	<u>2,215,914</u>	<u>15,729</u>	<u>11,269</u>	<u>2,368,429</u>	<u>2,227,183</u>
Excess before special items and transfers	75,195	86,165	24,231	23,172	99,426	109,337
Special items	—	348,427	—	—	—	348,427
Transfers	<u>18,000</u>	<u>18,000</u>	<u>(18,000)</u>	<u>(18,000)</u>	<u>—</u>	<u>—</u>
Change in net assets	93,195	452,592	6,231	5,172	99,426	457,764
Net assets – beginning of year	<u>960,150</u>	<u>507,558</u>	<u>(84,482)</u>	<u>(89,654)</u>	<u>875,668</u>	<u>417,904</u>
Net assets – end of year	<u>\$ 1,053,345</u>	<u>960,150</u>	<u>(78,251)</u>	<u>(84,482)</u>	<u>975,094</u>	<u>875,668</u>

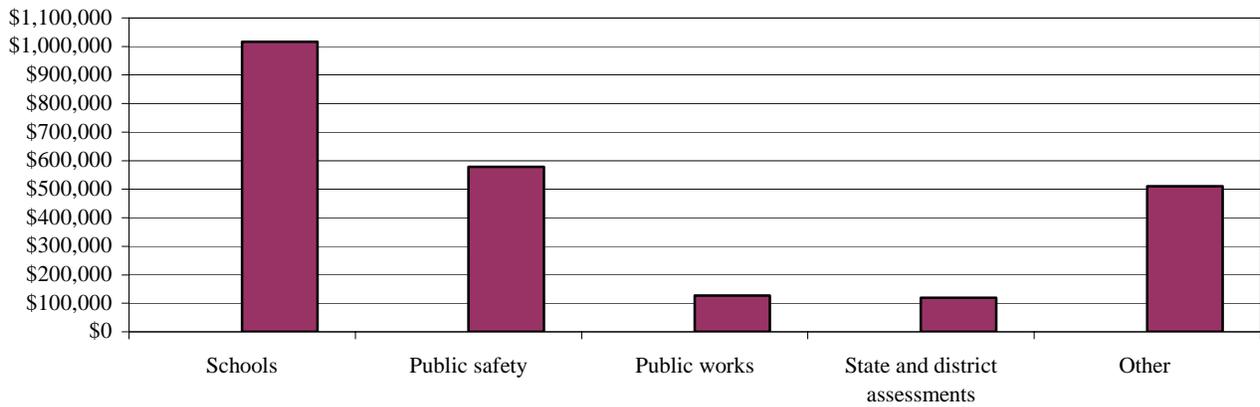
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**Revenues – Governmental Activities
Fiscal Year 2006**



**Expenses – Governmental Activities
Fiscal Year 2006
(In thousands)**



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Governmental Activities

The City's governmental activities net assets increased by \$93.2 million over the prior fiscal year. The following net changes occurred during the course of operations in fiscal 2006: In the assets accounts, cash and investments increased by \$2.2 million, receivables decreased by \$96.1 million, capital assets increased by \$50.8 million. In the liability accounts, there were decreases in warrants payable of \$58.9 million, and current long-term debt of \$88.5 million, with an increase of \$1.0 million in unearned revenue and a \$15.2 million decrease in accrued liabilities.

The City's largest sources of revenues were property taxes, excise taxes, and payment in lieu of taxes of \$1.4 billion and \$807.0 million of program revenues. Approximately 55.6% of the City's total revenue came from taxes and payments in lieu of taxes, while 33.2% resulted from program revenues. Investment income and other miscellaneous revenues totaled \$44.2 million. The City's expenses cover a range of services. The largest expenses were for schools (\$1.0 billion), public safety (\$578.8 million), public works (\$127.4 million), state and district assessments (\$118.8 million), county (\$115.4 million) property and development (\$112.9 million), and general government (\$82.0 million). In 2006, governmental activities expenses exceeded program revenues (i.e., user charges, operating grants and capital grants) by \$1.5 billion. This shortfall was covered primarily through taxes (\$1.4 billion) and unrestricted grants and contributions (\$225.7 million).

Significant changes in revenues, specifically property tax revenue and federal and state grant revenue, allowed for increased spending for schools, public safety and public works. 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 by \$6.2 million during fiscal 2006. This change in net assets resulted primarily from an increase in excise tax revenues.

Financial Analysis of the City's Fund Statements

This analysis is based on the Governmental and Proprietary Fund Financial Statements on pages 17 through 25.

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

Fund Highlights

Governmental Funds – Fund Balances – As of the close of fiscal year 2006, the City's governmental funds reported a combined ending fund balance of \$938.2 million, an increase of \$80.9 million from the prior year. Of this total amount, \$487.8 million represents the "unreserved and undesignated fund balances" with \$438.7 million of this amount in the general fund.

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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 2006 was \$438.7 million, which represents approximately 22.1% 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 non-recurring events as determined and certified by the City Auditor.

The general fund budgetary highlights include ending fiscal year 2006 with a \$13.9 million dollar surplus. This represents the City's 21st consecutive year with a balanced budget. Changes to the original budget resulted in an increase of \$11.3 million to the overall budget. The two supplemental appropriations totaling \$11.3 million were for the School, Public Works, Police, Fire, Library, Property Management, Parks, Transportation, City Clerk, and Arts and Cultural Development Departments. These appropriations were used for energy supply increases. Funding for the supplemental appropriations came from available revenue sources. During the year revenues exceeded budgetary estimates, thus eliminating the need to draw from existing fund balance.

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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 2006 special revenue fund balance is reported at \$216.9 million, a \$35.6 million increase from fiscal year 2005. The overall increase is primarily due to an increase in Intergovernmental Revenue of \$45.1 million, offset by a decrease of \$7.0 million in Departmental and Other Revenue.

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 2006 capital projects fund balance is \$14.8 million, a \$3.8 million decrease from fiscal year 2005.

Other Governmental Funds – Fund Balance – Other Governmental Funds account for assets held by the City in permanent trust funds. The fiscal year 2006 other governmental funds fund balance is \$45.0 million, a \$719 thousand increase from fiscal year 2005.

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 2006 was \$78.3 million. As stated in the discussion on the Government-Wide Financial Statements, the net deficit in the Proprietary Funds is a result of the Convention Center special obligation bonds and Hospital special obligation bonds outstanding at year-end.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental activities as of June 30, 2006, included \$2.2 billion of cost and accumulated depreciation of \$1.1 billion, leaving a net book value of \$1.1 billion. This 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 5% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$94.6 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 \$48.5 million. Additional information on the City's capital assets can be found in note 8 of the Notes to Basic Financial Statements.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2006

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 \$839.1 million in General Obligations Bonds principal outstanding – an increase of 0.4% over last year.

The key factor in this increase was the issuance of the January 31, 2006 Series A \$80.0 million General Obligation Bonds, of which there was no debt that was refinanced during the fiscal year.

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 decreased by \$82.7 million, or 20.5% during the current fiscal year. The key factor was the payoff of the Bond Anticipation Notes totaling \$96.0 million.

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

Future Accounting Pronouncements

GASB Statement Nos. 43 and 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans and Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* are effective June 30, 2007 and June 30, 2008, respectively.

These statements will require the City to account for and report the value of its future other post-employment benefit (OPEB) obligations currently rather than on a pay-as-you-go basis. The City has estimated its total OPEB obligation as of June 30, 2005 to be between \$5.2 billion (pay-as-you-go) and \$2.5 billion (pre-funded) depending on the funding policy elected by the City. Based on these estimates, the City's actuarially required contribution (ARC) is estimated to be between \$286 million and \$176 million, respectively.

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. This financial report seeks to demonstrate the City's accountability for the money it receives. 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.

CITY OF BOSTON, MASSACHUSETTS

Statement of Net Assets

June 30, 2006

(In thousands)

	Primary government			Component units
	Governmental activities	Business-type activities	Total	
Assets:				
Current assets:				
Cash and investments	\$ 880,993	—	880,993	195,394
Cash and investments held by trustees	49,499	56,596	106,095	5,828
Receivables, net:				
Property taxes	17,510	—	17,510	—
Intergovernmental	216,648	—	216,648	—
Other	18,705	2,141	20,846	40,693
Other assets	4,830	2,801	7,631	20,664
Internal balances	18,000	(18,000)	—	—
Due from BMC	—	—	—	1,015
Due from primary government	—	—	—	250
Due from component units	9,075	—	9,075	—
Total current assets	1,215,260	43,538	1,258,798	263,844
Noncurrent assets:				
Intergovernmental receivables	130,394	—	130,394	—
Notes and other receivables	73,689	—	73,689	71,305
Other assets	—	—	—	131,082
Capital assets:				
Nondepreciable	194,626	—	194,626	20,100
Depreciable, net	869,234	—	869,234	39,579
Due from component units	—	103,751	103,751	—
Total noncurrent assets	1,267,943	103,751	1,371,694	262,066
Total assets	2,483,203	147,289	2,630,492	525,910
Liabilities:				
Current liabilities:				
Warrants and accounts payable	54,055	5,240	59,295	19,830
Accrued liabilities – current:				
Tax abatement liability	26,000	—	26,000	—
Compensated absences	41,892	—	41,892	—
Judgments and claims	8,354	—	8,354	—
Payroll and related costs	89,555	—	89,555	—
Deposits and other	62,853	2,842	65,695	1,844
Current portion of long-term debt and leases	92,355	9,565	101,920	1,041
Due to component units	250	—	250	—
Due to BMC	—	—	—	70,473
Due to primary government	—	—	—	112,826
Unearned revenue	12,946	—	12,946	47,035
Total current liabilities	388,260	17,647	405,907	253,049
Noncurrent liabilities:				
Bonds due in more than one year	780,256	207,893	988,149	136,527
Notes and leases payable due in more than one year	58,945	—	58,945	—
Other noncurrent liabilities	202,397	—	202,397	3,045
Total noncurrent liabilities	1,041,598	207,893	1,249,491	139,572
Total liabilities	1,429,858	225,540	1,655,398	392,621
Net assets:				
Investment in capital assets, net of related debt	230,636	—	230,636	38,069
Restricted for:				
Capital projects	14,844	—	14,844	—
Expendable trust	45,018	—	45,018	—
Special Revenue	216,907	—	216,907	56,490
Unrestricted	545,940	(78,251)	467,689	38,730
Total net assets	\$ 1,053,345	(78,251)	975,094	133,289

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Activities

Year ended June 30, 2006

(In thousands)

Functions/programs	Expenses	Program revenues			Net (expense) revenue and changes in net assets			Component units
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary government			
					Governmental activities	Business-type activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 82,040	11,600	6,573	8,217	(55,650)		(55,650)	
Human services	39,956	32	15,323	—	(24,601)		(24,601)	
Public safety	578,778	121,090	46,700	—	(410,988)		(410,988)	
Public works	127,379	13,670	—	10,035	(103,674)		(103,674)	
Property and development	112,875	5,415	69,589	230	(37,641)		(37,641)	
Parks and recreation	21,985	281	284	1,368	(20,052)		(20,052)	
Library	41,665	397	4,493	382	(36,393)		(36,393)	
Schools	1,016,901	15,105	360,600	4,514	(636,682)		(636,682)	
Public health programs	63,604	—	—	—	(63,604)		(63,604)	
County	115,388	6	111,123	—	(4,259)		(4,259)	
State and district assessments	118,817	—	—	—	(118,817)		(118,817)	
Interest on long-term debt	33,312	—	—	—	(33,312)		(33,312)	
Total governmental activities	<u>2,352,700</u>	<u>167,596</u>	<u>614,685</u>	<u>24,746</u>	<u>(1,545,673)</u>		<u>(1,545,673)</u>	
Business-type activities:								
Convention Center	10,814	—	3,537	—		(7,277)	(7,277)	
Hospital Bonds	4,915	—	—	—		(4,915)	(4,915)	
Total business-type activities	<u>15,729</u>	<u>—</u>	<u>3,537</u>	<u>—</u>	<u>—</u>	<u>(12,192)</u>	<u>(12,192)</u>	
Total primary government	<u>\$ 2,368,429</u>	<u>167,596</u>	<u>618,222</u>	<u>24,746</u>	<u>(1,545,673)</u>	<u>(12,192)</u>	<u>(1,557,865)</u>	
Component units:								
Boston Public Health Commission	\$ 122,574	—	45,066	541				(76,967)
Boston Redevelopment Authority	19,459	11,429	2,458	—				(5,572)
Trustees of the Public Library of the City of Boston	16,860	858	13,699	—				(2,303)
Economic Development and Industrial Corporation of Boston	32,928	13,835	15,577	—				(3,516)
Total component units	<u>\$ 191,821</u>	<u>26,122</u>	<u>76,800</u>	<u>541</u>				<u>(88,358)</u>
General revenues:								
Taxes:								
Property taxes, levied for general purposes					1,195,564	—	1,195,564	—
Excises					94,743	30,503	125,246	—
Payments in lieu of taxes					60,584	—	60,584	—
Grants and contributions not restricted					225,731	—	225,731	—
Investment income					42,082	5,920	48,002	8,190
City appropriation					—	—	—	61,300
Miscellaneous					2,164	—	2,164	16,376
Transfers					18,000	(18,000)	—	—
Total general revenues and transfers					<u>1,638,868</u>	<u>18,423</u>	<u>1,657,291</u>	<u>85,866</u>
Change in net assets					93,195	6,231	99,426	(2,492)
Net assets – beginning of year					<u>960,150</u>	<u>(84,482)</u>	<u>875,668</u>	<u>135,781</u>
Net assets – end of year					<u>\$ 1,053,345</u>	<u>(78,251)</u>	<u>975,094</u>	<u>133,289</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Balance Sheet – Governmental Funds

June 30, 2006

(In thousands)

Assets	General	Special revenue	Capital projects	Other governmental funds	Total governmental funds
Cash and investments	\$ 663,547	158,601	24,221	—	846,369
Cash and investments held by trustees	—	—	4,209	45,290	49,499
Receivables, net:					
Property taxes	17,510	—	—	—	17,510
Intergovernmental	239,719	103,307	4,016	—	347,042
Departmental and other	18,381	73,689	—	218	92,288
Total receivables	<u>275,610</u>	<u>176,996</u>	<u>4,016</u>	<u>218</u>	<u>456,840</u>
Due from other funds	24,221	2,682	—	—	26,903
Due from component units	9,021	—	—	—	9,021
Total assets	<u>\$ 972,399</u>	<u>338,279</u>	<u>32,446</u>	<u>45,508</u>	<u>1,388,632</u>
Liabilities and Fund Balances					
Liabilities:					
Warrants and accounts payable	\$ 36,295	11,452	5,786	490	54,023
Accrued liabilities:					
Payroll and related costs	88,189	1,366	—	—	89,555
Deposits and other	9,653	28,646	8,510	—	46,809
Deferred revenue	173,349	73,689	3,306	—	250,344
Due to other funds	3,266	6,219	—	—	9,485
Due to component unit	250	—	—	—	250
Total liabilities	<u>311,002</u>	<u>121,372</u>	<u>17,602</u>	<u>490</u>	<u>450,466</u>
Fund balances:					
Reserved for:					
Encumbrances	44,573	67,116	71,727	149	183,565
Future appropriations	—	—	43,756	—	43,756
Unreserved:					
Designated for subsequent years' expenditures	178,157	—	—	—	178,157
Undesignated	438,667	149,791	(100,639)	—	487,819
Reported in permanent funds	—	—	—	44,869	44,869
Total fund balances	<u>661,397</u>	<u>216,907</u>	<u>14,844</u>	<u>45,018</u>	<u>938,166</u>
Total liabilities and fund balances	<u>\$ 972,399</u>	<u>338,279</u>	<u>32,446</u>	<u>45,508</u>	<u>1,388,632</u>

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, 2006

(In thousands)

Total fund balance – Governmental funds	\$	938,166
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		15,902
Land improvements		105,908
Buildings and improvements		1,349,059
Furniture and equipment		191,816
Infrastructure		330,555
Construction in progress		178,724
Less accumulated depreciation		<u>(1,108,104)</u>
		<u>1,063,860</u>
Adjust deferred revenues and receivables to record revenues on an accrual basis		237,398
Internal service funds are included in the government-wide statements		30,567
Bond issuance costs are capitalized in the government-wide statements		3,004
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		(890,525)
Capital leases		(17,620)
Bond issue premiums		(33,052)
Deferred bond gains (losses)		9,641
Accrued interest on bonds		(16,044)
Compensated absences		(184,276)
Landfill		(14,373)
Judgments and claims		(47,401)
Tax abatements		<u>(26,000)</u>
		<u>(1,219,650)</u>
Net assets of governmental activities	\$	<u><u>1,053,345</u></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, 2006
(In thousands)

	General	Special revenue	Capital projects	Other governmental funds	Total governmental funds
Revenues:					
Real and personal property taxes	\$ 1,190,347	—	—	—	1,190,347
Excises	107,361	—	—	—	107,361
Payments in lieu of taxes	60,584	—	—	—	60,584
Fines	67,876	18	—	—	67,894
Investment income	32,351	351	—	190	32,892
Licenses and permits	40,353	71	—	—	40,424
Departmental and other	51,992	45,894	3,864	8,018	109,768
Intergovernmental	557,418	377,471	9,538	—	944,427
Total revenues	<u>2,108,282</u>	<u>423,805</u>	<u>13,402</u>	<u>8,208</u>	<u>2,553,697</u>
Expenditures:					
Current:					
General government	57,262	4,684	—	5,379	67,325
Human services	24,875	10,009	—	—	34,884
Public safety	446,784	30,004	—	—	476,788
Public works	101,441	8,961	—	—	110,402
Property and development	33,322	71,749	—	—	105,071
Parks and recreation	15,723	384	—	—	16,107
Library	28,365	5,670	—	—	34,035
Schools	719,715	149,685	—	—	869,400
Public health programs	61,282	1,985	—	—	63,267
County	—	106,270	—	—	106,270
Judgments and claims	11,590	—	—	—	11,590
Retirement costs	96,853	—	—	—	96,853
Other employee benefits	157,885	—	—	—	157,885
State and district assessments	118,817	—	—	—	118,817
Capital outlays	815	1,695	103,305	—	105,815
Debt service	112,600	—	97,446	—	210,046
Total expenditures	<u>1,987,329</u>	<u>391,096</u>	<u>200,751</u>	<u>5,379</u>	<u>2,584,555</u>
Excess (deficiency) of revenues over expenditures	<u>120,953</u>	<u>32,709</u>	<u>(187,349)</u>	<u>2,829</u>	<u>(30,858)</u>
Other financing sources (uses):					
Long-term debt and capital leases issued	—	—	89,871	—	89,871
Premiums on long-term debt issued	—	3,872	—	—	3,872
Transfers in (out)	(72,580)	(1,000)	93,690	(2,110)	18,000
Total other financing sources (uses)	<u>(72,580)</u>	<u>2,872</u>	<u>183,561</u>	<u>(2,110)</u>	<u>111,743</u>
Net change in fund balances	48,373	35,581	(3,788)	719	80,885
Fund balance – beginning of year	613,024	181,326	18,632	44,299	857,281
Fund balance – end of year	<u>\$ 661,397</u>	<u>216,907</u>	<u>14,844</u>	<u>45,018</u>	<u>938,166</u>

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, 2006

Net change in fund balances – total governmental funds	\$	80,885
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 (\$94,582) exceeded depreciation expense (\$48,495).		46,087
Tax revenues in the statement of activities that are not reported as revenues in the governmental funds.		(7,478)
Proceeds of long-term debt (\$89,871) 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 (\$180,432) is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds.		90,561
Bond premiums net (\$1,176) increase the long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Bond issuance costs net (\$1,555) are expenditures in the governmental funds, but are deferred assets in the statement of assets. This is the amount by which premiums exceeded issuance costs.		379
Intergovernmental revenues decrease receivables on the statement of net assets, but are included in the operating statement of governmental funds		(114,983)
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 compensated absences (\$9,612), judgments (\$1,653) and health and life claims (\$128) offset by a decrease in liabilities for landfill (\$116), interest payable (\$3,359) and notes payable (\$1,755).		(6,163)
Net income from the internal service fund which is presented in the statement of activities, but not in the governmental funds.		<u>3,907</u>
Change in net assets of governmental activities	\$	<u><u>93,195</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, 2006
(with comparative actual amounts for 2005)

(In thousands)

	2006			2005	
	Original budget	Final budget	Actual	Variance over (under)	
				Actual	
Revenues and other available funds:					
Real and personal property taxes, net	\$ 1,166,783	1,166,783	1,167,342	559	1,106,336
Excises	104,450	105,450	126,208	20,758	118,657
Commonwealth of Massachusetts	546,162	546,162	549,777	3,615	537,655
Departmental and other revenue	40,988	40,988	54,116	13,128	53,142
Fines	64,600	64,600	67,611	3,011	65,280
Payments in lieu of taxes	43,315	46,815	60,584	13,769	42,218
Investment income	16,000	22,806	30,049	7,243	17,787
Licenses and permits	27,180	27,180	38,755	11,575	33,821
Other available funds	41,336	41,336	9,810	(31,526)	5,529
Total revenues and other available funds	2,050,814	2,062,120	2,104,252	42,132	1,980,425
Expenditures:					
General government	58,807	62,351	60,933	1,418	59,837
Human services	24,506	25,019	24,950	69	23,853
Public safety	427,692	430,182	451,997	(21,815)	429,376
Public works	93,812	100,672	101,996	(1,324)	106,699
Property and development	32,351	36,375	36,225	150	25,425
Parks and recreation	15,134	15,859	15,629	230	15,179
Library	26,694	27,713	27,712	1	26,600
Schools	712,683	717,809	717,793	16	680,181
Boston Public Health Commission	61,300	61,300	61,300	—	60,568
Judgments and claims	3,500	3,500	10,497	(6,997)	10,884
Other employee benefits	159,002	159,002	159,058	(56)	147,803
Retirement costs	190,985	190,985	190,885	100	151,463
State and district assessments	125,102	118,401	118,817	(416)	115,894
Debt requirements	119,246	112,952	112,599	353	118,330
Total expenditures	2,050,814	2,062,120	2,090,391	(28,271)	1,972,092
Excess of revenues and other available funds over expenditures	\$ —	—	13,861	70,403	8,333

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Net Assets – Proprietary Funds

June 30, 2006

(In thousands)

	Enterprise funds			Internal service
	Convention center bonds	Hospital revenue bonds	Total	
Assets:				
Current assets:				
Cash and investments	\$ —	—	—	34,624
Cash and investments held by trustees	36,266	20,330	56,596	—
Receivables, net	—	—	—	107
Intergovernmental receivables	2,141	—	2,141	—
Total current assets	38,407	20,330	58,737	34,731
Noncurrent assets:				
Due from other funds	—	—	—	582
Due from component units	—	103,751	103,751	54
Other assets	1,307	1,494	2,801	1,825
Total noncurrent assets	1,307	105,245	106,552	2,461
Total assets	39,714	125,575	165,289	37,192
Liabilities:				
Current liabilities:				
Warrants and accounts payable	5,240	—	5,240	32
Accrued liabilities	—	—	—	6,593
Due to other funds	18,000	—	18,000	—
Accrued interest payable	867	1,975	2,842	—
Current portion of long-term debt	3,070	6,495	9,565	—
Total current liabilities	27,177	8,470	35,647	6,625
Noncurrent liabilities:				
Special obligation bonds	103,715	—	103,715	—
Revenue bonds	—	104,178	104,178	—
Total noncurrent liabilities	103,715	104,178	207,893	—
Total liabilities	130,892	112,648	243,540	6,625
Net assets:				
Unrestricted	(91,178)	12,927	(78,251)	30,567
Total net assets	\$ (91,178)	12,927	(78,251)	30,567

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, 2006

(In thousands)

	Enterprise funds			Internal service
	Convention center bonds	Hospital revenue bonds	Total	
Operating revenues:				
Contributions	\$ —	—	—	90,165
State aid – pledged for debt service	30,503	—	30,503	—
Intergovernmental revenue	2,141	—	2,141	—
Total operating revenues	<u>32,644</u>	<u>—</u>	<u>32,644</u>	<u>90,165</u>
Operating expenses:				
Payments made on behalf of State	5,240	—	5,240	—
Health benefits	—	—	—	86,258
Total operating expenses	<u>5,240</u>	<u>—</u>	<u>5,240</u>	<u>86,258</u>
Operating income	<u>27,404</u>	<u>—</u>	<u>27,404</u>	<u>3,907</u>
Nonoperating revenue (expense):				
Intergovernmental – state grants	1,396	—	1,396	—
Investment earnings – pledged for debt service	—	5,145	5,145	—
Investment earnings – other	775	—	775	—
Interest expense	(5,574)	(4,915)	(10,489)	—
Total nonoperating revenue (expense)	<u>(3,403)</u>	<u>230</u>	<u>(3,173)</u>	<u>—</u>
Income before transfers	<u>24,001</u>	<u>230</u>	<u>24,231</u>	<u>3,907</u>
Transfer to general fund	(18,000)	—	(18,000)	—
Change in net assets	<u>6,001</u>	<u>230</u>	<u>6,231</u>	<u>3,907</u>
Total net assets – beginning of year	<u>(97,179)</u>	<u>12,697</u>	<u>(84,482)</u>	<u>26,660</u>
Total net assets – end of year	<u><u>\$ (91,178)</u></u>	<u><u>12,927</u></u>	<u><u>(78,251)</u></u>	<u><u>30,567</u></u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS
Statement of Cash Flows – Proprietary Fund Types
Year ended June 30, 2006
(In thousands)

	Enterprise funds			Internal service
	Convention center bonds	Hospital revenue bonds	Total	
Cash flows from operating activities:				
Cash received from State aid	\$ 30,503	—	30,503	—
Cash received from employees and employer	—	—	—	90,165
Cash paid to vendors	—	—	—	(86,096)
Cash payments on behalf of State	—	—	—	—
Net cash provided by operations	<u>30,503</u>	<u>—</u>	<u>30,503</u>	<u>4,069</u>
Cash flows from noncapital financing activities:				
Grants received from State	1,396	—	1,396	—
Interest paid on debt	(5,537)	(5,094)	(10,631)	—
Lease receipts	—	11,763	11,763	—
Transfers to other funds	(18,000)	—	(18,000)	—
Repayment of long-term debt	(2,915)	(6,305)	(9,220)	—
Net cash provided by (used in) noncapital financing activities	<u>(25,056)</u>	<u>364</u>	<u>(24,692)</u>	<u>—</u>
Cash flows from investing activities:				
Investment income	775	—	775	—
Net cash provided by investing activities	<u>775</u>	<u>—</u>	<u>775</u>	<u>—</u>
Increase in cash and cash equivalents	6,222	364	6,586	4,069
Cash and cash equivalents, beginning of year	<u>30,044</u>	<u>19,966</u>	<u>50,010</u>	<u>30,555</u>
Cash and cash equivalents, end of year	<u>\$ 36,266</u>	<u>20,330</u>	<u>56,596</u>	<u>34,624</u>
Reconciliation of operating income to cash provided by operating activities:				
Operating income	\$ 27,404	—	27,404	3,907
Reconciliation of operating income to net cash provided by operating activities:				
Changes in operating assets and liabilities:				
Accounts receivable	(2,141)	—	(2,141)	(60)
Other assets	—	—	—	49
Due from component units	—	—	—	54
Accounts payable and accrued liabilities	5,240	—	5,240	119
Net cash provided by operating activities	<u>\$ 30,503</u>	<u>—</u>	<u>30,503</u>	<u>4,069</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS
Statement of Cash Flows – Proprietary Fund Types
Year ended June 30, 2006
(In thousands)

	Enterprise funds			Internal service
	Convention center bonds	Hospital revenue bonds	Total	
Reconciliation of operating income to cash provided by operating activities:				
Operating income	\$ 27,404	—	27,404	3,907
Reconciliation of operating income to net cash provided by operating activities:				
Changes in operating assets and liabilities:				
Accounts receivable	(2,141)	—	(2,141)	(60)
Other assets	—	—	—	49
Due from other funds	—	—	—	54
Accounts payable and accrued liabilities	5,240	—	5,240	119
Net cash provided by operating activities	<u>\$ 30,503</u>	<u>—</u>	<u>30,503</u>	<u>4,069</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Fiduciary Net Assets – Fiduciary Funds

June 30, 2006

(Except for Employee Retirement Plan, which is as of December 31, 2005)

(In thousands)

	<u>Employee retirement plan</u>	<u>Private purpose trusts</u>	<u>Agency funds</u>
Assets:			
Cash and cash equivalents	\$ 16,193	79,725	1,673
Receivables:			
Interest and dividends	27,223	—	
Securities sold	81,845	—	—
Other	106,087	2,192	—
Total receivables	<u>215,155</u>	<u>2,192</u>	<u>—</u>
Investments, at fair value:			
Short-term:			
Domestic	42,739	—	—
International	19,325	—	—
Equity:			
Domestic	1,656,389	—	—
International	701,405	—	—
Fixed-income:			
Domestic	538,842	—	—
International	204,858	—	—
Real estate	255,357	—	—
Venture capital funds	260,270	—	—
Total investments	<u>3,679,185</u>	<u>—</u>	<u>—</u>
Securities lending short-term collateral investment pool	228,073	—	—
Other assets	—	30	—
Total assets	<u>4,138,606</u>	<u>81,947</u>	<u>1,673</u>
Liabilities:			
Accounts payable	13,681	1,314	—
Securities purchased	105,225	—	—
Collateral held on securities lending	228,073	—	—
Refunds payable and other	—	—	1,673
Total liabilities	<u>346,979</u>	<u>1,314</u>	<u>\$ 1,673</u>
Net assets:			
Held in trust for pension benefits and other purposes	\$ <u>3,791,627</u>	<u>80,633</u>	

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Changes in Fiduciary Net Assets –
Fiduciary Funds

Year ended June 30, 2006

(Except for Employee Retirement Plan, which is for the year ended December 31, 2005)

(In thousands)

	Employee retirement plan	Private purpose trusts
	<u> </u>	<u> </u>
Additions:		
Contributions:		
Employers	\$ 212,308	—
Employees	108,837	—
Donations and other	—	25,243
Total contributions	<u>321,145</u>	<u>25,243</u>
Investment earnings:		
Net appreciation in the fair value of investments	183,408	—
Interest and dividends	95,800	1,395
Less investment expenses	(10,925)	—
Net investment earnings	<u>268,283</u>	<u>1,395</u>
Securities lending activities:		
Securities lending income	7,733	—
Less borrower rebates and fees	(7,284)	—
Net income from securities lending activities	<u>449</u>	<u>—</u>
Total net investment income	268,732	1,395
Intergovernmental	18,070	—
Total additions	<u>607,947</u>	<u>26,638</u>
Deductions:		
Benefits	335,718	—
Reimbursement to other systems	8,746	—
Refunds of contributions	16,107	—
Administrative expenses	3,589	20,479
Total deductions	<u>364,160</u>	<u>20,479</u>
Change in net assets	243,787	6,159
Net assets, beginning of year	<u>3,547,840</u>	<u>74,474</u>
Net assets, end of year	\$ <u><u>3,791,627</u></u>	<u><u>80,633</u></u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

(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) *Blended Component Unit Disclosure*

The following component unit has been presented as a blended component unit (included in the primary government) because the component unit provides services almost exclusively to the primary government:

State-Boston Retirement System (SBRS) – The 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 employees.

A complete set of financial statements for SBRS for the fiscal year ended December 31, 2005 can be obtained through the City Auditor's office, Room M-4, City Hall Plaza, Boston, Massachusetts 02201.

(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, 2006

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, 2006.

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, 2006

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

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. 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 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.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

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 charges to other funds for health insurance. 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.

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.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

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 fund* is used to report funds held by the City in a purely custodial capacity.

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.

(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.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

(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 \$25,000 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:

<u>Assets</u>	<u>Years</u>
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

(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, 2006 is recorded in the governmental fund financial statements. The unamortized portion is presented in the government-wide statement of net assets. 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.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

(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. 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.

Arbitrage Rebate – Rebatable arbitrage earnings are calculated for the City by third parties and is accounted for as a liability in the general fund to the extent it is “due and payable.” At June 30, 2006, an accumulated arbitrage rebate liability of \$1.9 million was recorded in the general fund.

(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.

(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, 2006, 100% of the Gardner Street landfill site had been used and had not accepted solid waste for several years. The City has completed the covering of this site in accordance with applicable laws and regulations.

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 closure and postclosure care in fiscal year 2006 were approximately \$116,000.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

(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 2006, 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 approximately \$11.3 million for the year.

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 overexpenditures in that department.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

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.

The following reconciliation summarizes the differences between budgetary and GAAP basis accounting principles for the year ended June 30, 2006 (in thousands):

	<u>Revenue</u>	<u>Expenditures</u>	<u>Other financing sources (uses), net</u>	<u>Excess of revenue and other financing sources</u>
As reported on a budgetary basis	\$ 2,104,252	2,090,391	—	13,861
Adjustments:				
Revenues to modified accrual basis	16,614	—	—	16,614
Expenditures, encumbrances, and accruals, net	—	(17,898)	—	17,898
Reclassifications:				
State-funded teachers’ retirement costs	(85,164)	(85,164)	—	—
Convention Center fund revenue	(18,000)	—	18,000	—
Transfers	90,580	—	(90,580)	—
As reported on a GAAP basis	<u>\$ 2,108,282</u>	<u>1,987,329</u>	<u>(72,580)</u>	<u>48,373</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

(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 certain levels 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 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.

The City and its blended component unit adopted 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 and investments that are fully insured by FDIC insurance, collateralized and deposits that are not collateralized and are uninsured. As of June 30, 2006, the bank balances of uninsured and uncollateralized deposits totaled approximately \$5.2 million.

(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.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

(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, 2006:

<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1-5</u>
External investment pool	\$ 643	643	—
Mutual funds	57,403	57,403	—
U.S. Treasury notes and bonds	10,877	—	10,877
Domestic corporate	4,673	—	4,673
	<u>\$ 73,596</u>	<u>58,046</u>	<u>15,550</u>

(d) Credit Risk

The City's fixed income investments as of June 30, 2006 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:

<u>Investment type</u>	<u>Fair value</u>	<u>Rating</u>
Mutual funds	\$ 57,403	AAA
External investment pool	643	Not Rated
Domestic corporate	4,673	AAA to BBB+
	<u>\$ 62,719</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, 2005, all of the System's deposits were insured.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

(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.

(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, 2005:

<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
U.S. Treasury notes and bonds	\$ 49,908	9,822	10,377	12,475	17,234
U.S. agencies	127,079	—	63,399	18,954	44,726
Domestic corporate	292,593	14,426	134,431	101,459	42,277
International corporate	70,877	6,072	48,581	12,667	3,557
International government	98,126	—	64,321	16,637	17,168
Asset-backed:					
CMOs	19,861	—	2,338	1,708	15,815
Mortgage-backed	43,185	—	857	211	42,117
Other	42,071	—	26,038	7,351	8,682
	<u>\$ 743,700</u>	<u>30,320</u>	<u>350,342</u>	<u>171,462</u>	<u>191,576</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, 2005 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, 2006

The System's fixed income investments as of December 31, 2005 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	\$ 127,079	127,079	—	—	—	—	—	—	—
Domestic corporate	292,593	10,137	17,174	143,401	20,159	46,544	44,900	795	9,483
International corp.	70,877	40,952	1,040	5,586	5,566	3,449	1,915	—	12,369
International gov't	98,126	69,202	11,150	98	598	—	—	—	17,078
Asset-backed:									
CMOs	19,861	19,220	279	94	—	—	—	—	268
Mortgage-backed	43,185	22,836	—	—	—	—	—	—	20,349
Other	42,071	40,437	—	317	767	—	—	—	550
	<u>\$ 693,792</u>	<u>329,863</u>	<u>29,643</u>	<u>149,496</u>	<u>27,090</u>	<u>49,993</u>	<u>46,815</u>	<u>795</u>	<u>60,097</u>

In addition to the above schedule, the System has approximately \$49,908,000 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, 2005.

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. Currency hedging is permitted for defensive purposes. Currency hedging shall be effected through the use of forward currency contracts. At December 31, 2005, there were no open forward currency contracts.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

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).

<u>Currency</u>	<u>Short-term</u>	<u>Fixed income</u>	<u>Equity</u>	<u>Alternative</u>	<u>Total</u>
Australian dollar	58	3,999	14,681	—	18,738
Brazilian real	(3,047)	2,389	3,328	—	2,670
Canadian dollar	18	6,419	5,088	—	11,525
Danish krone	—	3,711	5,524	—	9,235
Euro currency	3,126	64,199	196,296	5,847	269,468
Hong Kong dollar	163	—	10,136	—	10,299
Indonesian rupiah	3	833	621	—	1,457
Israeli shekel	(62)	—	428	—	366
Japanese yen	235	59,891	154,423	—	214,549
Malaysian ringgit	10	—	1,233	—	1,243
Mexican peso	872	867	1,528	—	3,267
New Zealand dollar	249	1,027	—	—	1,276
Norwegian krone	—	2,072	5,288	—	7,360
Phillipine peso	—	—	249	—	249
Pound sterling	1,799	16,421	133,136	—	151,356
Singapore dollar	62	6,210	6,299	—	12,571
South African rand	70	—	4,584	—	4,654
South Korean won	283	1,644	4,678	—	6,605
Swedish krona	65	10,562	9,406	—	20,033
Swiss franc	204	—	48,937	—	49,141
Thailand baht	—	3,173	725	—	3,898
International equity pooled funds (various currencies)	—	—	65,814	—	65,814
Total securities subject to foreign currency risk	4,108	183,417	672,402	5,847	865,774
United States dollars (securities held by international investment managers)*	19,388	21,441	29,003	—	69,832
Total international investment securities	23,496	204,858	701,405	5,847	935,606

* Short-term investments include cash of approximately \$63 million.

(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.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

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 August 6, all properties with unpaid fiscal year 2006 property taxes were liened. The City ultimately has the right to foreclose on all properties where the taxes remain unpaid.

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):

	<u>General</u>	<u>Special revenue</u>	<u>Capital projects</u>	<u>Other nonmajor funds</u>	<u>Internal service</u>	<u>Total</u>
Receivables:						
Property taxes	\$ 21,401	—	—	—	—	21,401
Other taxes	138,506	—	—	—	—	138,506
Intergovernmental	239,719	103,307	4,016	—	—	347,042
Other	<u>33,146</u>	<u>73,689</u>	<u>—</u>	218	107	<u>107,160</u>
Gross receivables	432,772	176,996	4,016	218	107	614,109
Less allowance for uncollectibles	<u>(157,162)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(157,162)</u>
Net total receivables	\$ <u>275,610</u>	<u>176,996</u>	<u>4,016</u>	<u>218</u>	<u>107</u>	<u>456,947</u>

(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, 2006, under this program, the City was due funds totaling \$145.5 million.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

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, 2006 through 2011, and in five-year increments thereafter:

	<u>Anticipated revenue</u>
Fiscal year(s):	
2007	\$ 15,136
2008	15,020
2009	14,507
2010	14,265
2011	12,466
2012-2015	40,565
2016-2020	<u>33,571</u>
Total	<u>\$ 145,530</u>

(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, 2006, under this program, the City determined that \$73.7 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>
Delinquent taxes receivable (general fund)	\$ 18,179	—
Due from component units	—	9,021
Section 108 receivable	73,689	—
School building assistance receivable	145,530	3,306
Other	<u>—</u>	<u>619</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 237,398</u>	<u>12,946</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

(8) Capital Assets

Capital asset activity for the year ended June 30, 2006 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	\$ 15,866	36	—	15,902
Construction in progress	<u>319,601</u>	<u>78,233</u>	<u>(219,110)</u>	<u>178,724</u>
Total capital assets not being depreciated	<u>335,467</u>	<u>78,269</u>	<u>(219,110)</u>	<u>194,626</u>
Capital assets being depreciated:				
Land improvements	79,463	26,445	—	105,908
Buildings and improvements	1,177,761	171,298	—	1,349,059
Furniture and equipment	176,628	21,158	(5,970)	191,816
Infrastructure	<u>308,062</u>	<u>22,493</u>	<u>—</u>	<u>330,555</u>
Total capital assets being depreciated	<u>1,741,914</u>	<u>241,394</u>	<u>(5,970)</u>	<u>1,977,338</u>
Less accumulated depreciation for:				
Land improvements	8,741	3,812	—	12,553
Buildings and improvements	809,592	21,068	—	830,660
Furniture and equipment	142,802	13,078	(4,738)	151,142
Infrastructure	<u>103,212</u>	<u>10,537</u>	<u>—</u>	<u>113,749</u>
Total accumulated depreciation	<u>1,064,347</u>	<u>48,495</u>	<u>(4,738)</u>	<u>1,108,104</u>
Total capital assets being depreciated, net	<u>677,567</u>	<u>192,899</u>	<u>(1,232)</u>	<u>869,234</u>
Governmental activities capital assets, net	\$ <u><u>1,013,034</u></u>	<u><u>271,168</u></u>	<u><u>(220,342)</u></u>	<u><u>1,063,860</u></u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

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

Governmental activities:		
General government	\$	524
Human services		459
Public safety		8,658
Public works, including depreciation of general infrastructure assets		11,440
Property and development		2,009
Parks and recreation		3,012
Library		2,041
Schools		20,128
County		72
Public health		152
		<hr/>
Total depreciation expense – governmental activities	\$	<u><u>48,495</u></u>

(9) Interfund Receivable and Payable Balances

Individual fund and discrete component unit receivable and payable balances at June 30, 2006, are as follows (in thousands):

<u>Interfund balances</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 24,221	3,266
Special revenue	2,682	6,219
Convention Center	—	18,000
Internal service	582	—
	<hr/>	<hr/>
Balances at June 30, 2006	\$ <u><u>27,485</u></u>	<u><u>27,485</u></u>

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

<u>Discrete component unit balances</u>	<u>Receivable</u>	<u>Payable</u>
Primary government:		
General	\$ 9,021	250
Hospital revenue bond	103,751	—
Internal service	54	—
	<hr/>	<hr/>
	112,826	250
Discretely presented component units:		
TPL	—	23
PHC	250	112,803
	<hr/>	<hr/>
	250	112,826
	<hr/>	<hr/>
Balances at June 30, 2006	\$ <u><u>113,076</u></u>	<u><u>113,076</u></u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

(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, 2006 (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>
Bonds and notes payable:						
General obligation bonds dated 1/31/06	4.0-5.0%	—	80,000	—	80,000	6,235
General obligation refunding bonds dated 2/1/05	2.5-5.0%	\$ 127,775	—	5,125	122,650	5,125
General obligation refunding bonds dated 4/1/04	2.0-5.0%	37,005	—	6,530	30,475	5,725
General obligation refunding bonds dated 2/1/04	3.0-5.0%	97,070	—	5,090	91,980	9,345
General obligation refunding bonds dated 2/1/03	2.25-5.0%	146,610	—	9,010	137,600	9,710
General obligation refunding bonds dated 11/15/02	4.0-5.0%	20,905	—	4,790	16,115	4,660
General obligation refunding bonds dated 8/15/02	2.875-5.0%	47,525	—	275	47,250	285
General obligation bonds dated 2/1/02	3.0-5.0%	81,730	—	6,090	75,640	6,090
General obligation refunding bonds dated 4/11/01	3.50-5.0%	43,100	—	300	42,800	350
General obligation bonds dated 2/1/01	4.25-5.0%	86,560	—	8,360	78,200	6,890
General obligation bonds dated 2/1/00	5.0-5.75%	30,125	—	6,025	24,100	6,025
General obligation bonds dated 10/15/98	3.25-5.0%	40,675	—	6,685	33,990	6,685
General obligation refunding bonds dated 4/15/98	4.5-5.25%	40,820	—	4,960	35,860	5,135
General obligation bonds dated 1/15/98	4.5%	21,690	—	4,625	17,065	4,620
General obligation bonds dated 11/15/96	5.0%	10,800	—	5,400	5,400	5,400
General obligation bonds dated 10/15/95	5.0-5.25%	3,300	—	3,300	—	—
Total governmental obligation bonds payable		\$ 835,690	80,000	76,565	839,125	82,280
Add (deduct):						
Unamortized bond premiums					33,052	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(9,641)	
Current portion of long-term debt					(82,280)	
					\$ 780,256	

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

(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, 2006 (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%	\$ 7,534	—	448	7,086	446
Notes payable – Section 108	5.44-7.18%	46,069	—	1,755	44,314	2,903
Bond Anticipation Notes dated 2/02, due 2/06	3.5%	62,000	—	62,000	—	—
Bond Anticipation Notes dated 2/03, due 2/06	2.125%	34,000	—	34,000	—	—
Leases		13,413	9,871	5,664	17,620	6,726
Total notes and leases payable		<u>163,016</u>	<u>9,871</u>	<u>103,867</u>	<u>69,020</u>	<u>10,075</u>
Other long-term obligations:						
Judgments		2,448	14,768	13,115	4,101	1,761
Workers' compensation		43,300	9,219	9,219	43,300	—
Health and life claims		6,465	86,386	86,258	6,593	6,593
Compensated absences		174,664	62,210	52,598	184,276	41,892
Landfill postclosure care costs		14,489	—	116	14,373	—
Total other long-term obligations		<u>241,366</u>	<u>172,583</u>	<u>161,306</u>	<u>252,643</u>	<u>50,246</u>
Total notes, leases, and other long-term obligations		<u>\$ 404,382</u>	<u>182,454</u>	<u>265,173</u>	<u>321,663</u>	<u>60,321</u>

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

(c) ***Business Type Activity Obligations***

Following is a summary of the business type long-term obligations of the City as of June 30, 2006 (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%	\$ 109,700	—	2,915	106,785	3,070
Hospital Bond fund:						
Special Obligation Refunding Bonds, Boston City Hospital, dated 8/1/02	2.0-5.0%	<u>114,290</u>	<u>—</u>	<u>6,305</u>	<u>107,985</u>	<u>6,495</u>
Total business type obligations		<u>\$ 223,990</u>	<u>—</u>	<u>9,220</u>	<u>214,770</u>	<u>9,565</u>
Add (deduct):						
Unamortized bond premiums					3,096	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(408)	
Current portion of long-term debt					<u>(9,565)</u>	
					<u>207,893</u>	

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

A. General Obligation Bonds

The annual debt service requirements of the City's general obligation governmental bonds outstanding as of June 30, 2006, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2007	\$ 82,280	38,169	120,449
2008	77,440	34,936	112,376
2009	75,315	31,344	106,659
2010	71,670	28,157	99,827
2011	66,460	24,910	91,370
2012-2016	262,200	81,238	343,438
2017-2021	155,145	30,117	185,262
2022-2026	48,615	4,520	53,135
	<u>\$ 839,125</u>	<u>273,391</u>	<u>1,112,516</u>

On January 31, 2006, the City issued \$80 million of general obligation bonds for various municipal purposes. Interest on the bonds is payable semiannually each July 1 and January 1, until maturity in fiscal 2026.

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, 2006, the City may issue \$2.8 billion of additional general obligation debt under the debt limit. General obligation debt of \$434.8 million, subject to the debt limit, and \$90.7 million, exempt from the debt limit, are authorized but unissued as of June 30, 2006.

B. Notes and Leases Payable

At June 30, 2006, the City had various notes outstanding totaling \$51.4 million.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

The annual debt of the City's notes payable as of June 30, 2006, is as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2007	\$ 3,349	2,447	5,796
2008	3,799	2,355	6,154
2009	2,809	2,207	5,016
2010	2,676	2,088	4,764
2011	3,186	1,939	5,125
2012-2016	26,700	6,324	33,024
2017-2021	7,127	1,076	8,203
2022-2026	1,754	134	1,888
	<u>\$ 51,400</u>	<u>18,570</u>	<u>69,970</u>

In prior years, the City issued two BANs totaling \$96 million to fund various school projects that were due in fiscal 2006. The City received a lump-sum payment of \$93.6 million from the MSBA to pay down the BANs in fiscal year 2006. The remaining portion was paid out of unspent BAN proceeds.

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, 2006 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2007	\$ 9,565	9,843	19,408
2008	9,920	9,451	19,371
2009	10,360	9,008	19,368
2010	10,815	8,546	19,361
2011	11,250	8,108	19,358
2012-2016	63,575	33,015	96,590
2017-2021	57,310	16,975	74,285
2022-2026	34,100	7,250	41,350
2027-2031	7,875	394	8,269
	<u>\$ 214,770</u>	<u>102,590</u>	<u>317,360</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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

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.

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 \$8.7 million at June 30, 2006.

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 \$100.9 million of general obligation refunding bonds, of which \$65.0 million were general obligation and \$35.9 million was used to advance refund \$37.7 million of 1994, 1995, 1996, and 1998 Series Bonds.
- In February 2005, the City issued \$127.8 million of general obligation refunding bonds, of which \$75.0 million were general obligation and \$52.8 million was used to advance refund \$56.9 million of 1996, 1998, and 2000 Series Bonds.

The principal amount of debt refunded through in-substance defeasance transactions and still outstanding at June 30, 2006 was approximately \$128.1 million.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

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 2006 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	\$ 3,493	—	1,852	1,641
April 21, 2004	2,604	—	1,074	1,530
November 5, 2004	6,266	—	1,856	4,410
March 11, 2005	1,050	—	290	760
November 10, 2005	—	6,545	592	5,953
April 13, 2006	—	3,326	—	3,326
	<u>\$ 13,413</u>	<u>9,871</u>	<u>5,664</u>	<u>17,620</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, 2006 are as follows (in thousands):

2007	\$ 7,315
2008	4,816
2009	3,246
2010	1,435
2011	1,126
2012-2013	<u>1,097</u>
Total minimum lease payments	19,035
Less amount representing interest	<u>1,415</u>
Total minimum principal lease payments	17,620
Less current portion	<u>6,726</u>
Long-term portion	<u>\$ 10,894</u>

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

(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) Sheriff of Suffolk County

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.

The City also participates in the Boston Retirement System (BRS) and made benefit payments of approximately \$5.9 million for the year ended June 30, 2006. The number of BRS plan participants was frozen in 1946. The financial statements of BRS are combined with the System's; however, disclosures for BRS are not material and, thus, are not presented separately.

(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, 2006

(c) Membership

Membership in the System consisted of the following at December 31, 2005, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	13,783
Terminated plan members entitled to but not receiving benefits	6,178
Active plan members	<u>20,917</u>
Total membership	<u><u>40,878</u></u>
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, 2006, 2005 and 2004 were \$186 million, \$147 million, and \$137 million, or \$101 million, \$71 million, and \$78 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 2002 and fiscal year 2001. 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, 2006

(e) Legally Required Reserve Accounts

The balances in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2005 are as follows (in thousands):

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity savings fund	\$ 1,163,543	Active members' contribution balance
Annuity reserve fund	370,583	Retired members' contribution account
Military service credit	48	Members' contribution account while on military leave
Pension reserve fund	572,652	Amounts appropriated to fund future retirement benefits
Pension fund	<u>1,684,801</u>	Remaining net assets
	<u>\$ 3,791,627</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 years ended December 31, 2005 and 2004. 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, 2005 and 2004, 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 years ended December 31, 2005 and 2004 were \$7.2 million and \$2.7 million, respectively.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

At December 31, 2005 and 2004, the fair value of securities loaned by the System amounted to \$223.1 million and \$215.1 million, respectively, against which was held collateral of \$233.0 million and \$222.7 million, respectively, as follows (in thousands):

	December 31	
	2005	2004
Short-term collateral investment pool	\$ 228,073	219,129
Noncash collateral	4,946	3,539
Total	\$ 233,019	222,668

(g) Commitments

At December 31, 2005, the System had contractual commitments to provide approximately \$291 million of additional funding to venture capital funds.

(12) Other Postemployment Benefit (OPEB) Disclosures

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. Approximately 12,600 retirees meet the eligibility requirements as put forth in Chapter 32B of MGL. The City pays 75% of Blue Cross/Blue Shield of Massachusetts (BC/BS) premiums and 90% of HMO premiums for medical and hospitalization incurred by retirees and their dependents. The City also pays 75% of BC/BS Medicare premiums for each Medicare eligible retiree. The City provides for 50% of the premiums for \$5,000 of life insurance for each eligible retiree.

Expenditures of approximately \$78.3 million for health care and life insurance benefits for retirees are accounted for on a pay-as-you-go basis in fiscal year 2006.

GASB Statement Nos. 43 and 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* are effective June 30, 2007 and June 30, 2008, respectively.

These statements will require the City to account for and report the value of its future other post-employment benefit (OPEB) obligations currently rather than on a pay-as-you-go basis. The City has estimated its total OPEB obligation as of June 30, 2005 to be between \$5.2 billion (pay-as-you-go) and \$2.5 billion (pre-funded) depending on the funding policy elected by the City. Based on these estimates, the City's actuarially required contribution (ARC) is estimated to be between \$286 million and \$176 million, respectively.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

(13) Transfers

Transfers and their purposes during the year ended June 30, 2006 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	\$ 18,000	—	—	—	(18,000)
Cemetery fees/fund appropriation	2,110	—	—	(2,110)	—
Parking meter fees/fund appropriation	1,000	(1,000)	—	—	—
Intergovernmental revenue/BAN payment	(93,690)	—	93,690	—	—
Total	\$ (72,580)	(1,000)	93,690	(2,110)	(18,000)

(14) Excess of Expenditures over Budgets

The City had expenditures in excess of their budgeted amounts for the year ended June 30, 2006 in the following categories (in thousands):

Public safety:	
Police Department	\$ 9,765
Fire Department	12,506
Public works:	
Snow removal	1,336
Judgments and claims:	
Execution of courts	6,997
Other employee benefits:	
Worker's compensation fund	151
State and district assessments:	
Parking Surcharge	449
Special Education Chapter 766	24
	\$ 31,228

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).

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

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 2006, the City appropriated \$61.3 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 \$63.6 million for the PHC for fiscal year 2007.

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 \$8.7 million at June 30, 2006. These bonds pertain to the property and operations of the BCH 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 \$2.5 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, of which 10% is paid by employees, are accounted for in the general fund and are capped at a defined premium payment per employee.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

BC/BS acts as a third-party agent for the City in the payment of the various claim plans used by the City. Costs incurred for the operation of the BC/BS plans, of which 25% is paid by employees, 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 an \$11.1 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 \$65 million, after a \$10 million retention. Any boiler and machinery-related property loss is additionally insured, after a \$50,000 deductible, for up to \$2.5 million.

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, 2006 and 2005 are as follows (in thousands):

	Internal service fund	
	2006	2005
Health and life claims, beginning of year	\$ 6,465	6,114
Incurred claims	86,386	83,035
Payments of claims attributable to events of both the current and prior fiscal years:		
Health and life	(86,258)	(82,684)
Health and life claims, end of year	<u>\$ 6,593</u>	<u>6,465</u>
	Government-wide statements	
	2006	2005
Judgments and claims, beginning of year	\$ 45,748	25,468
Incurred claims	31,818	48,777
Payments of claims attributable to events of both the current and prior fiscal years:		
Workers' compensation	(14,293)	(18,708)
Unemployment compensation	(2,757)	(3,164)
Court judgments	(13,115)	(6,625)
Judgments and claims, end of year	<u>\$ 47,401</u>	<u>45,748</u>

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, 2006

(17) Discretely Presented Component Units

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

Condensed Statement of Net Assets					
June 30, 2006					
(In thousands)					
	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Assets:					
Current assets:					
Cash and investments	\$ 91,579	39,043	60,759	4,013	195,394
Cash and investments held by trustee	—	—	—	5,828	5,828
Receivables, net:					
Other	8,562	15,130	1,579	15,422	40,693
Other assets	8,431	219	2,193	9,821	20,664
Due from BMC	1,015	—	—	—	1,015
Due from primary government	250	—	—	—	250
Total current assets	<u>109,837</u>	<u>54,392</u>	<u>64,531</u>	<u>35,084</u>	<u>263,844</u>
Noncurrent assets:					
Notes receivable	4,377	66,928	—	—	71,305
Other assets	101,763	29,319	—	—	131,082
Capital assets:					
Nondepreciable	11,915	6,766	—	1,419	20,100
Depreciable	10,664	1,656	1,159	26,100	39,579
Total noncurrent assets	<u>128,719</u>	<u>104,669</u>	<u>1,159</u>	<u>27,519</u>	<u>262,066</u>
Total assets	<u>238,556</u>	<u>159,061</u>	<u>65,690</u>	<u>62,603</u>	<u>525,910</u>
Liabilities:					
Current liabilities:					
Warrants and accounts payable	11,451	1,691	2,095	4,593	19,830
Accrued liabilities:					
Other	—	—	16	1,828	1,844
Current portion of long-term debt and leases	—	—	—	1,041	1,041
Due to BMC	70,473	—	—	—	70,473
Due to primary government	112,803	—	23	—	112,826
Deferred revenue	6,011	33,679	125	7,220	47,035
Total current liabilities	<u>200,738</u>	<u>35,370</u>	<u>2,259</u>	<u>14,682</u>	<u>253,049</u>
Noncurrent liabilities:					
Due in more than one year	—	116,215	247	20,065	136,527
Other noncurrent liabilities	2,442	—	—	603	3,045
Total noncurrent liabilities	<u>2,442</u>	<u>116,215</u>	<u>247</u>	<u>20,668</u>	<u>139,572</u>
Total liabilities	<u>203,180</u>	<u>151,585</u>	<u>2,506</u>	<u>35,350</u>	<u>392,621</u>
Net assets:					
Invested in capital assets, net of related debt	20,269	3,657	910	13,233	38,069
Restricted	—	—	56,490	—	56,490
Unrestricted	15,107	3,819	5,784	14,020	38,730
Total net assets	<u>\$ 35,376</u>	<u>7,476</u>	<u>63,184</u>	<u>27,253</u>	<u>133,289</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2006

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

Year ended June 30, 2006

	(In thousands)				
	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Expenses	\$ 122,574	19,459	16,860	32,928	191,821
Program revenues:					
Charges for services	—	11,429	858	13,835	26,122
Operating grants and contributions	45,066	2,458	13,699	15,577	76,800
Capital grants and contributions	541	—	—	—	541
Total program revenues	<u>45,607</u>	<u>13,887</u>	<u>14,557</u>	<u>29,412</u>	<u>103,463</u>
Net (expenses) revenues	<u>(76,967)</u>	<u>(5,572)</u>	<u>(2,303)</u>	<u>(3,516)</u>	<u>(88,358)</u>
General revenues:					
Investment income	3,045	380	3,642	1,123	8,190
City appropriation	61,300	—	—	—	61,300
Miscellaneous income	11,601	3,619	—	1,156	16,376
Total general revenues	<u>75,946</u>	<u>3,999</u>	<u>3,642</u>	<u>2,279</u>	<u>85,866</u>
Change in net assets	<u>(1,021)</u>	<u>(1,573)</u>	<u>1,339</u>	<u>(1,237)</u>	<u>(2,492)</u>
Net assets – beginning of year	<u>36,397</u>	<u>9,049</u>	<u>61,845</u>	<u>28,490</u>	<u>135,781</u>
Net assets – end of year	<u>\$ 35,376</u>	<u>7,476</u>	<u>63,184</u>	<u>27,253</u>	<u>133,289</u>

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information
(Unaudited)

(Dollar amounts in thousands)

Schedule of Funding Progress

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)
01/01/06	\$ 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
01/01/01	3,211,692	4,256,714	1,045,022	75.5	990,325	105.5
01/01/00	2,979,953	4,101,383	1,121,430	72.7	943,107	118.9

Schedule of Employers' Contributions

Year ended December 31:	Annual required contribution	Percentage contributed
2005	\$ 191,132	100%
2004	164,069	100
2003	157,064	100
2002	152,882	100
2001	146,882	100
2000	145,541	100
1999	142,502	100

Notes to Schedules

Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2006
Actuarial cost method	Entry age normal cost
Amortization method	Payment increase at 4.5% per year
Remaining amortization period	17 years remaining as of January 1, 2006
Asset valuation method	Sum of actuarial value at the beginning of the year, contributions and investment earnings based on the actuarial interest assumption less benefit payments and operating expenses plus 20% of market value at the end of the year in excess of that sum, plus additional adjustment toward market value as necessary so that final actuarial value is within 20% of market value. A similar formula used for negative adjustment toward market value if actuarial value exceeds market value.

Actuarial assumptions:

Investment rate of return	8.0%
Projected salary increases	5.0%
Inflation rate	4.5%
Cost-of-living adjustments	3.0% on first \$12,000 of retirement income

See accompanying independent auditors' report.