

City of Boston

Massachusetts

Basic Financial Statements and Required Supplementary Information

For the Fiscal Year Ended June 30, 2009

Thomas M. Menino, Mayor

Lisa C. Signori, Director of Administration and Finance

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Prepared by the City of Boston Auditing Department

City of Boston, Massachusetts
Basic Financial Statements and Required Supplementary Information
For the Fiscal Year Ended June 30, 2009

Table of Contents

	<u>Page</u>
<i>Independent Auditors' Report</i>	A – 1
<i>Management's Discussion and Analysis (Unaudited)</i>	A – 3
<i>Basic Financial Statements:</i>	
Governmentwide Financial Statements	
Statement of Net Assets	A – 17
Statement of Activities	A – 18
Fund Financial Statements	
Balance Sheet – Governmental Funds	A – 20
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	A – 21
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	A – 22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	A – 23
Statement of Revenues and Expenditures – Budgetary Basis, General Fund – Budget and Actual	A – 24
Statement of Net Assets – Proprietary Funds	A – 25
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	A – 26
Statement of Cash Flows – Proprietary Fund Types	A – 27
Statement of Fiduciary Net Assets – Fiduciary Funds	A – 28
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	A – 29
Notes to Basic Financial Statements	A – 30
 <i>Required Supplementary Information (Unaudited)</i>	 A – 70



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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston (the City), Massachusetts, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain entities, which represent 2.9% of the assets of the aggregate remaining fund information and 22.6% of the assets 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, 2009, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in note 2(n), the City, in 2009, implemented Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.



In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2009 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 A – 3 through A – 15 and the schedules of funding progress and employers' contributions on page A – 70 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
December 2, 2009

Required Supplementary Information
Management’s Discussion and Analysis
June 30, 2009
(Unaudited)

The City of Boston (the City) provides this Management’s Discussion and Analysis to present additional information to the readers of the City’s basic financial statements. This narrative overview and analysis of the financial activities of the City is for the fiscal year ended June 30, 2009. 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) Governmentwide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Financial Statements. This report also contains required supplementary information regarding historical pension information and other postemployment benefit (OPEB) plan information. The 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 *Governmentwide 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.

Governmentwide Financial Statements

The *Governmentwide 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 assists 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 Governmentwide 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.

Required Supplementary Information
Management's Discussion and Analysis
June 30, 2009
(Unaudited)

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

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

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

Discretely Presented Component Units – These are operations for which the City has financial accountability but function independent of the City. 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 Governmentwide 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.

Required Supplementary Information
Management’s Discussion and Analysis
June 30, 2009
(Unaudited)

The *Fund Financial Statements* focus on individual parts of the city government, reporting the City’s operations in more detail than the Governmentwide Financial 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 Governmentwide Financial Statements. However, unlike the Governmentwide 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 Governmentwide Financial Statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the Governmentwide 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 Governmentwide Financial Statements.

Of the City’s governmental funds, the General Fund is the only fund for which a budget is legally adopted. The *Statement of Revenues and Expenditures – Budgetary Basis* is presented on page A – 24. 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 any amount raised that covers a prior year deficit as an

Required Supplementary Information
Management’s Discussion and Analysis
June 30, 2009
(Unaudited)

expenditure and any available funds raised from prior year surpluses as a revenue, while GAAP ignores these impacts from prior years. The difference in accounting principles inevitably leads to varying results in excess or deficiency of revenues over expenditures. Additional information and a reconciliation of “budgetary” to GAAP statements is provided in note 4 to the financial statements.

2. **Proprietary Funds Financial Statements** – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers including local governments, they are known as enterprise funds. Proprietary Funds provide the same type of information as the Governmentwide Financial Statements, only in more detail. Like the Governmentwide Financial Statements, Proprietary Fund Financial Statements use the accrual basis of accounting. No reconciliation is needed between the Governmentwide 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 Governmentwide 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 Governmentwide and the Fund Financial Statements. The Notes to the Financial Statements can be found immediately following the Fiduciary Funds 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 as well as the schedule of funding progress for the City’s OPEB plan.

Governmentwide Financial Analysis

This analysis is based on the Statement of Net Assets found on page A – 17 and the Statement of Activities found on pages A – 18 and A – 19 of the financial statements.

Required Supplementary Information
Management’s Discussion and Analysis
June 30, 2009
(Unaudited)

Governmentwide Highlights

Net Assets – Primary Government – The total assets of the City exceeded its liabilities at fiscal year ended June 30, 2009 by \$780.1 million (presented as net assets). Of this amount, \$178.6 million was reported as “unrestricted net assets.” Unrestricted net assets represent the amount available to be used to meet the City’s ongoing obligations to citizens and creditors.

Changes in Net Assets – Primary Government – The City’s total net assets decreased by \$140.7 million in fiscal year 2009. Net assets of governmental activities decreased by \$148.9 million, while net assets of the business-type activities increased by \$8.2 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 \$780.1 million at the end of 2009, compared to \$924.3 million at the end of the previous year.

The components of net assets comprise 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 \$384.4 million indicating that the net book value of the City’s capital assets exceeds the amount of capital debt outstanding. The City uses these capital assets to provide services to citizens; consequentially, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City’s governmental activities net assets (26%) 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 \$87.8 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 year 2010, the amount to be received by the City to pay debt service is approximately \$13.0 million. Although this receivable increases unrestricted net assets, it will not affect the City’s free cash position.

At the end of the current fiscal year, the City is reporting a positive balance 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.

Required Supplementary Information
Management's Discussion and Analysis
June 30, 2009
(Unaudited)

Net Assets – Primary Government
(In thousands)

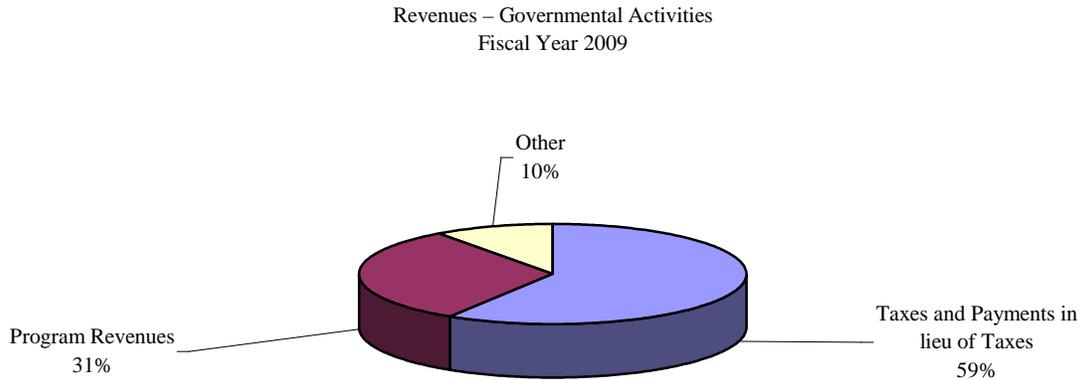
	Governmental activities		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
Current assets	\$ 1,472,556	1,445,085	64,289	59,398	1,536,845	1,504,483
Capital assets	1,285,270	1,221,717	0	0	1,285,270	1,221,717
Other assets	130,984	146,682	82,298	89,725	213,282	236,407
Total assets	\$ 2,888,810	2,813,484	146,587	149,123	3,035,397	2,962,607
Noncurrent liabilities	\$ 1,520,738	1,291,528	176,126	187,165	1,696,864	1,478,693
Current liabilities	545,195	546,709	13,264	12,955	558,459	559,664
Total liabilities	\$ 2,065,933	1,838,237	189,390	200,120	2,255,323	2,038,357
Invested in capital assets net of related debt	\$ 384,389	334,467	0	0	384,389	334,467
Restricted	217,070	234,902	0	0	217,070	234,902
Unrestricted	221,418	405,878	(42,803)	(50,997)	178,615	354,881
Total net assets	\$ 822,877	975,247	(42,803)	(50,997)	780,074	924,250

Required Supplementary Information
Management's Discussion and Analysis
June 30, 2009
(Unaudited)

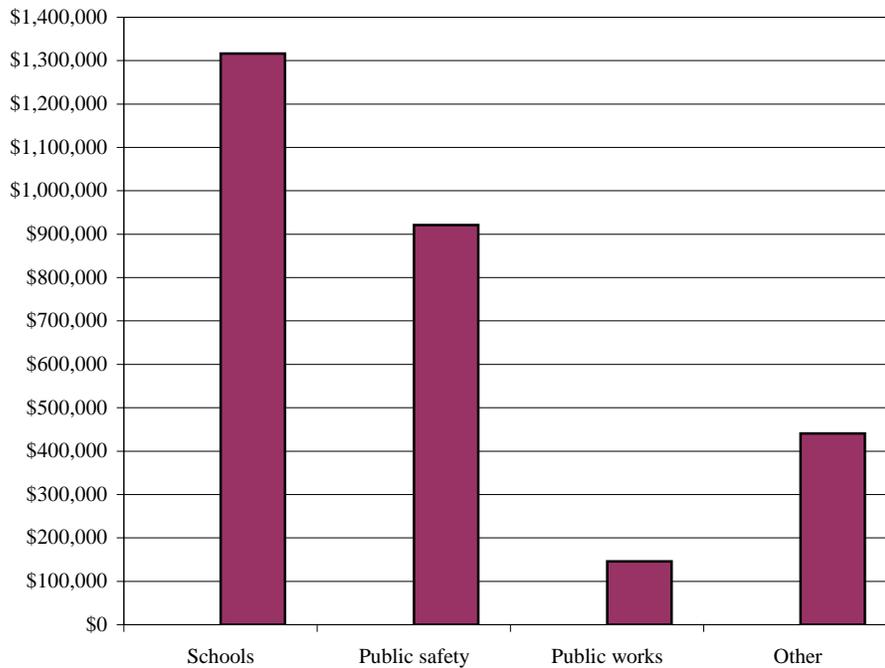
Changes in Net Assets – Primary Government
(In thousands)

	Governmental activities		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 169,826	180,069	0	0	169,826	180,069
Operating grants and contributions	594,914	593,767	1,116	1,196	596,030	594,963
Capital grants and contributions	56,517	18,267	0	0	56,517	18,267
General revenues:						
Taxes:						
Property taxes, levied for general purposes	1,389,218	1,316,165	0	0	1,389,218	1,316,165
Excises	115,237	97,262	36,605	40,342	151,842	137,604
Payment in lieu of taxes	56,686	56,668	0	0	56,686	56,668
Grants and contributions not restricted	230,475	259,931	0	0	230,475	259,931
Investment income	22,584	47,072	6,299	9,796	28,883	56,868
Miscellaneous	12,107	1,531	0	0	12,107	1,531
Total revenues	<u>2,647,564</u>	<u>2,570,732</u>	<u>44,020</u>	<u>51,334</u>	<u>2,691,584</u>	<u>2,622,066</u>
Program expenses:						
General government	103,420	109,121	0	0	103,420	109,121
Human services	48,896	50,827	0	0	48,896	50,827
Public safety	920,790	908,353	0	0	920,790	908,353
Public works	145,867	148,497	0	0	145,867	148,497
Property and development	105,581	110,272	0	0	105,581	110,272
Parks and recreation	30,026	30,134	0	0	30,026	30,134
Library	52,881	47,340	0	0	52,881	47,340
Schools	1,316,314	1,272,997	0	0	1,316,314	1,272,997
Public health programs	71,618	68,718	0	0	71,618	68,718
Interest on long-term debt	28,041	31,058	0	0	28,041	31,058
Convention center	0	0	4,902	5,122	4,902	5,122
Hospital	0	0	3,924	4,201	3,924	4,201
Total program expenses	<u>2,823,434</u>	<u>2,777,317</u>	<u>8,826</u>	<u>9,323</u>	<u>2,832,260</u>	<u>2,786,640</u>
Excess (deficiency) before special items and transfers	(175,870)	(206,585)	35,194	42,011	(140,676)	(164,574)
Loss on disposal	0	(298)	0	0	0	(298)
Transfers	27,000	23,000	(27,000)	(23,000)	0	0
Change in net assets	(148,870)	(183,883)	8,194	19,011	(140,676)	(164,872)
Net assets (deficit) – beginning of year	975,247	1,159,130	(50,997)	(70,008)	924,250	1,089,122
Prior year adjustment – implementation of GASB49	(3,500)				(3,500)	
Net assets (deficit) – end of year	<u>\$ 822,877</u>	<u>975,247</u>	<u>(42,803)</u>	<u>(50,997)</u>	<u>780,074</u>	<u>924,250</u>

Required Supplementary Information
Management's Discussion and Analysis
June 30, 2009
(Unaudited)



Expenses – Governmental Activities
Fiscal Year 2009
(In thousands)



Required Supplementary Information
Management's Discussion and Analysis
June 30, 2009
(Unaudited)

Governmental Activities

The City's governmental activities net assets decreased by \$148.9 million over the prior fiscal year. The following net changes occurred during the course of operations in fiscal year 2009: In the assets accounts, cash and investments increased by \$132.4 million, receivables increased by \$25.1 million, and capital assets increased by \$63.6 million. In the liability accounts, there were decreases in warrants and accounts payable of \$6.3 million and unearned revenue of \$37.0 million; and increases in current long-term debt of \$5.3 million and accrued liabilities of \$36.4 million. Additionally, an increase of \$218.0 million was recorded relative to the City's other postemployment obligation in 2009.

During fiscal year 2009, the City's revenues increased by 3.0%. The City's largest sources of revenues were property taxes, excise taxes, and payment in lieu of taxes of \$1.56 billion (59.0% of total revenue) and \$821.3 million of program revenues (31.0% of total revenue). The primary factors for the increase in tax revenue were an increase in property tax, aircraft fuel excise, and hotel room occupancy excise. The increase in program revenue is attributed to increase in Chapter 90 and MSBA reimbursements. Investment income and other miscellaneous revenues totaled \$34.7 million down \$13.9 million from fiscal year 2008. The primary factor for the decrease in investment income was lower investment returns.

The increase in revenues allowed for an increase in expense categories. The City's expenses cover a range of services. The largest expenses were for schools (\$1.32 billion), public safety (\$920.8 million), public works (\$145.9 million), property and development (\$105.6 million), general government (\$103.4 million), public health programs (\$71.6 million), and human services (\$48.9 million). Expenses increased only slightly (\$46.1 million) from 2008. The City was aggressive in containing costs in 2009 with the news of a decrease in state funding. All categories of government continue to experience an increase in expenses due to the recognition of the City's OPEB expense, which increased \$218.0 million in 2009.

In 2009, governmental activities expenses exceeded program revenues (i.e., user charges, operating grants, and capital grants) by \$2.0 billion. This shortfall was covered primarily through taxes (\$1.56 billion) and unrestricted grants and contributions (\$230.5 million).

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

Business-type Activities

Net assets from business-type activities increased \$8.2 million during fiscal year 2009. This change in net assets resulted primarily from hotel/motel excise tax collections exceeding program expenses.

Financial Analysis of the City's Fund Statements

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

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

Required Supplementary Information
Management’s Discussion and Analysis
June 30, 2009
(Unaudited)

Fund Highlights

Governmental Funds – Fund Balances – As of the close of fiscal year 2009, the City’s governmental funds reported a combined ending fund balance of \$1.08 billion, an increase of \$39.9 million from the prior year. Of this total amount, \$614.8 million represents the “unreserved and undesignated fund balances” with \$550.3 million of this amount in the General Fund. The increase in fund balance is largely due to an increase in tax receipts.

Governmental Funds

The focus of the City’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City’s financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government’s financial position at the end of the fiscal year.

General Fund – Fund Balance – The General Fund is the chief operating fund of the City. The City’s General Fund – Fund Balance Policy states in part to maintain a GAAP undesignated fund balance in the General Fund that is 10%, or higher, of GAAP General Fund operating expenditures for the fiscal year. The GAAP undesignated fund balance at the end of fiscal year 2009 was \$550.3 million, which represents approximately 24.5% 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, exceed budgeted amounts and encumbrances are less than appropriations, or both.

The City 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 expenditures.

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

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 2009

Required Supplementary Information
Management's Discussion and Analysis
June 30, 2009
(Unaudited)

Special Revenue Fund balance is reported at \$180.8 million, a \$9.3 million decrease from fiscal year 2008. This decrease is due to a reduction in federal aid.

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 2009 Capital Projects Fund balance is \$30.1 million, a \$31.0 million increase from fiscal year 2008. The increase in fund balance is attributed to the City receiving reimbursement from the Commonwealth of Massachusetts for construction costs associated with the Burke School and the Mattapan Library, as well as the issuance of general obligation bonds to fund capital projects.

Other Governmental Funds – Fund Balance – Other Governmental Funds account for assets held by the City in permanent trust funds. The fiscal year 2009 Other Governmental Funds fund balance is \$36.3 million, an \$8.6 million decrease from fiscal year 2008. The trust funds experienced the same lower investment rates as the rest of the nation in fiscal year 09.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the Governmentwide 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 2009 was \$42.8 million. The net deficit in the proprietary funds is a result of the convention center special obligation bonds outstanding at year-end.

Budgetary Highlights

General Fund budgetary highlights include ending fiscal year 2009 with a \$4.1 million surplus. This represents the City's 24th consecutive year with a balanced budget. Although the budgetary estimates for revenue exceeded actual receipts in fiscal year 2009, the revenue deficit is due to a large decrease in state aid, with the City receiving \$25.5 million or 4.25% less than in fiscal year 2008. This number is skewed by an increase in Boston Public School teachers' pension reimbursement. When the increase in pension reimbursement is taken into account, the City actually experienced a \$38.9 million net decrease in aid from the Commonwealth. However, it should be noted that the majority of the decrease in state aid is the result of a decision by the Commonwealth to reduce the General Fund education aid by \$23.3 million and replace it with a Special Revenue grant of the same amount. The source of the funding for the grant was the Commonwealth's ARRA Stabilization Fund. These funds are reported as Special Revenue Funds.

Favorable results were reported for other General Fund revenue sources. Excise taxes posted a favorable variance of \$17.8 million, primarily due to an increase in aircraft fuel excise and hotel room receipts. In addition, departmental and other revenue saw a favorable variance of \$11.6 million, due to an increase in Medicare Part D reimbursements and Affirmative Recovery revenue.

The overall expenditure surplus of \$21.7 million is also the result of the Commonwealth's decision to decrease General Fund education aid and replace it with a Special Revenue grant of the same amount. Fiscal year 2009 shows expenditures for schools are \$23.3 million lower than expected due to this

Required Supplementary Information
Management's Discussion and Analysis
June 30, 2009
(Unaudited)

General Fund state aid change. Expenditures of \$23.3 million which were budgeted as General Fund were funded with the state aid and were reported as Special Revenue expenditures. There was overspending in public safety, public works and judgments and claims. Public safety deficits of \$4.6 million are generally due to overtime spending. A severe winter in the region increased the demand for snow removal creating the unfavorable variance of \$7.4 million for public works. Judgments and claims saw a slight increase in settled claims creating a \$1.3 million deficit. As a result of the decrease in state aid, actions were taken early in the second quarter of fiscal year 2009 to control spending. This resulted in favorable variances in all other expenditure categories.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental activities, as of June 30, 2009, has a net book value of \$1.29 billion, made up of costs totaling \$2.56 billion less accumulated depreciation of \$1.28 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 5.2% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$135.3 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 \$71.6 million. Additional information on the City's capital assets can be found in note 8 of the Notes to the Financial Statements.

Long-Term Obligations

Debt Administration – The authority of the City to incur debt is governed by federal and state laws that restrict the amounts and purposes for which a municipality can incur debt. At year-end, the City had \$916.8 million in General Obligations Bonds principal outstanding – an increase of \$13.6 million over last year.

The key factor in this increase was the issuance of the March 1, 2009 Series A general obligation bonds totaling \$100.0 million exceeding principal repayments and the net effect of refundings. Further, \$40.4 million (Series B and Series C) was issued for the purpose of refunding certain outstanding general obligations of the City. The Series A and B bonds were given a bond rating of Aa1 and AA+ by Moody's and Fitch, respectively.

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

Required Supplementary Information
Management's Discussion and Analysis
June 30, 2009
(Unaudited)

Notes and Leases Payable and Other Long-Term Obligations – The City's general long-term notes and leases and other long-term obligations increased by \$219.0 million, or 39.6%, during the current fiscal year. As in 2008, the key factor for this increase is the recognition of additional OPEB of \$218.0 million.

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

New Accounting Standards

In 2009, the City implemented the Governmental Accounting Standards Board Statement No. 49 (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*. This standard requires the City to report a liability in its financial statements related to cleaning up pollution or contamination. The statement also requires restatement of beginning net assets in fiscal year 2009 if an obligation exists and establishes a probability-weighted method that a government would be required to use to determine the established amount of pollution obligation liabilities to be reported in its financial statements.

In fiscal year 2009, beginning net assets were restated by \$3.5 million due to the implementation of GASB 49. The majority of this pollution remediation liability is the result of existing pollution on property the City acquired through a tax taking. The City is remediating the property to build a new police station on the site. The remaining liability is estimated to be \$2 million and will be expended by fiscal year 2012.

Future Accounting Pronouncements

GASB has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this pronouncement is to enhance the usefulness of fund balance information and provide clearer fund balance classifications. Currently, fund balance is reported as restricted and unrestricted. Effective for fiscal year 2011 reporting, fund balance will be reported as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all of the City's citizens, taxpayers, customers, investors, and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: City of Boston, Auditing Department, Boston City Hall, Room M-4, Boston, MA 02201. Alternatively, these requests may also be made through email, by contacting the Auditing Department at CityAuditor@cityofboston.gov.



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Statement of Net Assets

June 30, 2009

(In thousands)

	Primary government			Component units
	Governmental activities	Business-type activities	Total	
Assets:				
Current assets:				
Cash and investments	\$ 1,125,829	180	1,126,009	106,841
Cash and investments held by trustees	41,297	88,869	130,166	41,460
Receivables, net:				
Property taxes	22,541	0	22,541	0
Intergovernmental	180,843	0	180,843	0
Other	61,948	0	61,948	26,045
Other assets	6,445	2,240	8,685	11,880
Internal balances	27,000	(27,000)	0	0
Due from primary government	0	0	0	292
Due from component units	6,653	0	6,653	0
Total current assets	1,472,556	64,289	1,536,845	186,518
Noncurrent assets:				
Intergovernmental receivables	74,842	0	74,842	0
Notes and other receivables	56,142	0	56,142	90,678
Other assets	0	0	0	109,666
Capital assets:				
Nondepreciable	60,627	0	60,627	31,982
Depreciable, net	1,224,643	0	1,224,643	52,670
Due from component units	0	82,298	82,298	0
Total noncurrent assets	1,416,254	82,298	1,498,552	284,996
Total assets	2,888,810	146,587	3,035,397	471,514
Liabilities:				
Current liabilities:				
Warrants and accounts payable	95,491	0	95,491	22,521
Accrued liabilities – current:				
Tax abatement liability	28,200	0	28,200	0
Compensated absences	46,625	0	46,625	0
Judgments and claims	7,307	0	7,307	0
Payroll and related costs	129,687	0	129,687	0
Deposits and other	111,377	2,449	113,826	2,306
Current portion of long-term debt and leases	106,973	10,815	117,788	1,201
Due to component units	292	0	292	0
Due to BMC	0	0	0	6,464
Due to primary government	0	0	0	9,535
Unearned revenue	19,243	0	19,243	5,336
Total current liabilities	545,195	13,264	558,459	47,363
Noncurrent liabilities:				
Bonds due in more than one year	859,171	176,126	1,035,297	17,966
Notes and leases payable due in more than one year	56,324	0	56,324	0
Other noncurrent liabilities	174,449	0	174,449	158,391
Other postemployment benefits obligation	430,794	0	430,794	34,250
Unearned revenue	0	0	0	39,819
Due to primary government	0	0	0	79,416
Total noncurrent liabilities	1,520,738	176,126	1,696,864	329,842
Total liabilities	2,065,933	189,390	2,255,323	377,205
Net assets:				
Investment in capital assets, net of related debt	384,389	0	384,389	55,392
Restricted for:				
Capital projects	0	0	0	0
Expendable trust	36,270	0	36,270	49,794
Federal and state grants	180,800	0	180,800	0
Unrestricted	221,418	(42,803)	178,615	(10,877)
Total net assets (deficit)	\$ 822,877	(42,803)	780,074	94,309

See accompanying notes to basic financial statements.

Statement of Activities
Year ended June 30, 2009
(In thousands)

Functions/programs	Expenses	Program revenues		
		Charges for services	Operating grants and contributions	Capital grants and contributions
Primary government:				
Governmental activities:				
General government	\$ 103,420	22,368	4,515	656
Human services	48,896	44	9,970	0
Public safety	920,790	115,013	154,133	681
Public works	145,867	10,174	51	14,053
Property and development	105,581	5,561	58,268	10
Parks and recreation	30,026	353	410	0
Library	52,881	236	5,380	9,513
Schools	1,316,314	16,077	362,187	31,604
Public health programs	71,618	0	0	0
Interest on long-term debt	28,041	0	0	0
Total governmental activities	<u>2,823,434</u>	<u>169,826</u>	<u>594,914</u>	<u>56,517</u>
Business-type activities:				
Convention Center	4,902	0	1,116	0
Hospital Bonds	3,924	0	0	0
Total business-type activities	<u>8,826</u>	<u>0</u>	<u>1,116</u>	<u>0</u>
Total primary government	<u>\$ 2,832,260</u>	<u>169,826</u>	<u>596,030</u>	<u>56,517</u>
Component units:				
Boston Public Health Commission	\$ 144,954	8,884	47,381	5,776
Boston Redevelopment Authority	29,108	7,616	10,303	0
Trustees of the Public Library of the City of Boston	16,421	1,032	11,813	0
Economic Development and Industrial Corporation of Boston	37,125	14,710	15,906	0
Total component units	<u>\$ 227,608</u>	<u>32,242</u>	<u>85,403</u>	<u>5,776</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				
Excises				
Payments in lieu of taxes				
Grants and contributions not restricted				
Investment income				
City appropriation				
Miscellaneous				
Gain on disposal				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets (deficit) – beginning of year				
Prior period adjustment				
Net assets (deficit) – end of year				

See accompanying notes to basic financial statements.

Net (expense) revenue and changes in net assets			
Primary government			Component units
Governmental activities	Business-type activities	Total	
(75,881)	0	(75,881)	0
(38,882)	0	(38,882)	0
(650,963)	0	(650,963)	0
(121,589)	0	(121,589)	0
(41,742)	0	(41,742)	0
(29,263)	0	(29,263)	0
(37,752)	0	(37,752)	0
(906,446)	0	(906,446)	0
(71,618)	0	(71,618)	0
(28,041)	0	(28,041)	0
<u>(2,002,177)</u>	<u>0</u>	<u>(2,002,177)</u>	<u>0</u>
0	(3,786)	(3,786)	0
0	(3,924)	(3,924)	0
<u>0</u>	<u>(7,710)</u>	<u>(7,710)</u>	<u>0</u>
<u>0</u>	<u>0</u>	<u>(2,009,887)</u>	<u>0</u>
0	0	0	(82,913)
0	0	0	(11,189)
0	0	0	(3,576)
0	0	0	(6,509)
<u>0</u>	<u>0</u>	<u>0</u>	<u>(104,187)</u>
\$ 1,389,218	0	1,389,218	0
115,237	36,605	151,842	0
56,686	0	56,686	0
230,475	0	230,475	0
22,584	6,299	28,883	(4,893)
0	0	0	69,446
12,107	0	12,107	6,398
0	0	0	6,905
27,000	(27,000)	0	0
<u>1,853,307</u>	<u>15,904</u>	<u>1,869,211</u>	<u>77,856</u>
(148,870)	8,194	(140,676)	(26,331)
975,247	(50,997)	924,250	120,684
(3,500)	0	(3,500)	(44)
<u>\$ 822,877</u>	<u>(42,803)</u>	<u>780,074</u>	<u>94,309</u>

Balance Sheet – Governmental Funds

June 30, 2009

(In thousands)

Assets	General	Special revenue	Capital projects	Other governmental funds	Total governmental funds
Cash and investments	\$ 863,606	168,216	38,017	229	1,070,068
Cash and investments held by trustees			4,914	36,383	41,297
Receivables, net:					
Property taxes	7,396	0	0	0	7,396
Intergovernmental	231,096	67,976	12,755	0	311,827
Departmental and other	15,256	61,528	0	140	76,924
Total receivables	253,748	129,504	12,755	140	396,147
Due from other funds	27,000	1,181	2,031	0	30,212
Due from component units	6,653	0	0	0	6,653
Total assets	<u>\$ 1,151,007</u>	<u>298,901</u>	<u>57,717</u>	<u>36,752</u>	<u>1,544,377</u>
Liabilities and Fund Balances					
Liabilities:					
Warrants and accounts payable	\$ 57,124	24,679	13,206	482	95,491
Accrued liabilities:					
Payroll and related costs	125,527	4,160	0	0	129,687
Deposits and other	23,655	33,120	1,693	0	58,468
Deferred revenue	112,047	56,142	12,754	0	180,943
Due to other funds	3,675	0	0	0	3,675
Due to component unit	292	0	0	0	292
Total liabilities	<u>322,320</u>	<u>118,101</u>	<u>27,653</u>	<u>482</u>	<u>468,556</u>
Fund balances:					
Reserved for:					
Encumbrances	37,534	42,206	74,145	527	154,412
Future appropriations	0	0	30,087	0	30,087
Unreserved:					
Designated for subsequent years' expenditures	240,824	0	0	0	240,824
Undesignated	550,329	138,594	(74,168)	0	614,755
Reported in permanent funds	0	0	0	35,743	35,743
Total fund balances	<u>828,687</u>	<u>180,800</u>	<u>30,064</u>	<u>36,270</u>	<u>1,075,821</u>
Total liabilities and fund balances	<u>\$ 1,151,007</u>	<u>298,901</u>	<u>57,717</u>	<u>36,752</u>	<u>1,544,377</u>

See accompanying notes to basic financial statements.

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

June 30, 2009

(In thousands)

Total fund balance – governmental funds	\$	1,075,821
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land		25,064
Construction in progress		35,563
Land improvements		151,266
Buildings and improvements		1,679,952
Furniture and equipment		236,152
Infrastructure		435,111
Less accumulated depreciation		<u>(1,277,838)</u>
		<u>1,285,270</u>
Adjust deferred revenues and receivables to record revenues on an accrual basis		160,195
Internal service funds are included in the governmentwide statements		51,390
Bond issuance costs are capitalized in the governmentwide statements		6,445
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		(949,431)
Capital leases		(39,545)
Bond issue premiums		(43,447)
Deferred bond gains (losses)		9,956
Accrued interest on bonds		(11,992)
Compensated absences		(172,804)
Landfill		(8,919)
Judgments and claims		(79,068)
Other postemployment benefits		(430,794)
Tax abatements		(28,200)
Pollution Remediation		<u>(2,000)</u>
		<u>(1,756,244)</u>
Net assets of governmental activities	\$	<u><u>822,877</u></u>

See accompanying notes to basic financial statements.

**Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds**

Year ended June 30, 2009

(In thousands)

	<u>General</u>	<u>Special revenue</u>	<u>Capital projects</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Revenues:					
Real and personal property taxes	\$ 1,393,371	0	0	0	1,393,371
Excises	115,454	0	0	0	115,454
Payments in lieu of taxes	56,686	0	0	0	56,686
Fines	69,711	12	0	0	69,723
Investment income	18,289	194	0	(3,208)	15,275
Licenses and permits	40,822	308	0	0	41,130
Departmental and other	82,087	21,931	0	190	104,208
Intergovernmental	454,252	365,102	56,558	0	875,912
Total revenues	<u>2,230,672</u>	<u>387,547</u>	<u>56,558</u>	<u>(3,018)</u>	<u>2,671,759</u>
Expenditures:					
Current:					
General government	69,524	9,021	0	3,360	81,905
Human services	29,722	7,585	0	0	37,307
Public safety	521,898	7,527	0	0	529,425
Public works	112,168	9,254	0	0	121,422
Property and development	28,959	64,449	0	0	93,408
Parks and recreation	17,571	624	0	0	18,195
Library	31,268	5,366	0	0	36,634
Schools	818,338	154,989	0	0	973,327
Public health programs	69,985	1,408	0	0	71,393
County	0	129,603	0	0	129,603
Judgments and claims	9,946	0	0	0	9,946
Retirement costs	82,332	0	0	0	82,332
Other employee benefits	191,597	0	0	0	191,597
State and district assessments	142,055	0	0	0	142,055
Capital outlays	566	1,151	139,592	0	141,309
Debt service	119,294	0	0	0	119,294
Total expenditures	<u>2,245,223</u>	<u>390,977</u>	<u>139,592</u>	<u>3,360</u>	<u>2,779,152</u>
Deficiency of revenues under expenditures	<u>(14,551)</u>	<u>(3,430)</u>	<u>(83,034)</u>	<u>(6,378)</u>	<u>(107,393)</u>
Other financing sources (uses):					
Long-term debt and capital leases issued	0	0	113,962	0	113,962
Refunding bonds issued	0	0	40,425	0	40,425
Payments to escrow agent	0	(1,922)	(40,308)	0	(42,230)
Premiums on long-term debt issued	0	8,087	0	0	8,087
Transfers in (out)	41,189	(12,000)	0	(2,189)	27,000
Total other financing sources (uses)	<u>41,189</u>	<u>(5,835)</u>	<u>114,079</u>	<u>(2,189)</u>	<u>147,244</u>
Net change in fund balances	26,638	(9,265)	31,045	(8,567)	39,851
Fund balance (deficit) – beginning of year	802,049	190,065	(981)	44,837	1,035,970
Fund balance – end of year	\$ <u>828,687</u>	<u>180,800</u>	<u>30,064</u>	<u>36,270</u>	<u>1,075,821</u>

See accompanying notes to basic financial statements.

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

Year ended June 30, 2008

(In thousands)

Net change in fund balances – total governmental funds	\$	39,851
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 (\$135,260) exceeded depreciation expense (\$71,647) and disposals (\$60).		63,553
Tax revenues in the statement of activities that are not reported as revenues in the governmental funds		(4,371)
Proceeds of long-term debt (\$154,387) 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 (\$101,699) and payment to the escrow agent (\$42,230) are expenditures in the governmental funds, but reduce long-term liabilities in the statement of net assets. This is the amount by which proceeds exceed repayments and escrow payments.		(10,458)
Bond premiums net (\$4,505) increase the long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Deferred losses on refunding (\$2,090) decrease long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Bond issuance costs, net (\$1,164) are expenditures in the governmental funds, but are deferred assets in the statement of assets. This is the amount by which premiums and deferred losses on refundings exceeded issuance costs.		(5,431)
Intergovernmental revenues decrease receivables on the statement of net assets, but are included in the operating statement of governmental funds		(15,941)
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 (\$4,488) and other postemployment benefits (\$217,971) offset by a decrease in liabilities for judgements and claims (\$788), pollution remediation (\$1,500), interest payable (\$2,356), and the landfill liability (\$200).		(217,615)
Net income from the internal service fund, which is presented in the statement of activities, but not in the governmental funds		1,542
Change in net assets of governmental activities	\$	<u><u>(148,870)</u></u>

See accompanying notes to basic financial statements.

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

**Year ended June 30, 2009
(with comparative actual amounts for 2008)**

(In thousands)

	2009		Actual	Variance over (under)	2008 Actual
	Original budget	Final budget			
Revenues and other available funds:					
Real and personal property taxes, net	\$ 1,364,580	1,364,580	1,365,272	692	1,295,460
Excises	131,995	131,995	149,776	17,781	131,558
Commonwealth of Massachusetts	610,018	610,018	573,278	(36,740)	598,747
Departmental and other revenue	64,051	64,051	75,661	11,610	67,379
Fines	75,075	75,075	70,053	(5,022)	67,391
Payments in lieu of taxes	56,100	56,100	56,493	393	56,667
Investment income	18,500	18,500	17,835	(665)	39,512
Licenses and permits	40,585	40,585	41,008	423	47,577
Other available funds	59,219	59,219	53,219	(6,000)	38,818
Total revenues and other available funds	<u>2,420,123</u>	<u>2,420,123</u>	<u>2,402,595</u>	<u>(17,528)</u>	<u>2,343,109</u>
Expenditures:					
General government	117,798	115,628	113,114	2,514	102,837
Human services	29,524	29,888	29,734	154	29,116
Public safety	497,089	500,058	504,717	(4,659)	495,425
Public works	104,943	105,027	112,420	(7,393)	107,629
Property and development	30,121	31,178	31,178	0	31,453
Parks and recreation	17,446	17,693	17,490	203	17,374
Library	31,230	31,230	31,211	19	29,601
Schools	833,105	833,299	810,006	23,293	795,488
Boston Public Health Commission	69,446	69,446	69,446	0	68,195
Judgments and claims	3,500	3,500	4,806	(1,306)	3,500
Other employee benefits	195,128	195,666	195,612	54	191,032
Retirement costs	217,430	217,430	217,378	52	207,049
Debt requirements	125,905	122,622	119,294	3,328	115,771
State and district assessments	147,458	147,458	142,055	5,403	132,792
Total expenditures	<u>2,420,123</u>	<u>2,420,123</u>	<u>2,398,461</u>	<u>21,662</u>	<u>2,327,262</u>
Excess of revenues and other available funds over expenditures	\$ <u>0</u>	<u>0</u>	<u>4,134</u>	<u>4,134</u>	<u>15,847</u>

See accompanying notes to basic financial statements.

Statement of Net Assets – Proprietary Funds

June 30, 2009

(In thousands)

	Enterprise funds			Internal service
	Convention center bonds	Hospital revenue bonds	Total	
Assets:				
Current assets:				
Cash and investments	\$ 180	0	180	55,761
Cash and investments held by trustees	65,795	23,074	88,869	0
Receivables, net	0	0	0	170
Total current assets	65,975	23,074	89,049	55,931
Noncurrent assets:				
Due from other funds	0	0	0	463
Due from component units	0	82,298	82,298	0
Other assets	1,120	1,120	2,240	1,503
Total noncurrent assets	1,120	83,418	84,538	1,966
Total assets	67,095	106,492	173,587	57,897
Liabilities:				
Current liabilities:				
Accrued liabilities	0	0	0	6,507
Due to other funds	27,000	0	27,000	0
Accrued interest payable	782	1,667	2,449	0
Current portion of long-term debt	3,580	7,235	10,815	0
Total current liabilities	31,362	8,902	40,264	6,507
Noncurrent liabilities:				
Special obligation bonds	93,505	0	93,505	0
Revenue bonds	0	82,621	82,621	0
Total noncurrent liabilities	93,505	82,621	176,126	0
Total liabilities	124,867	91,523	216,390	6,507
Net assets:				
Unrestricted	(57,772)	14,969	(42,803)	51,390
Total net assets	\$ (57,772)	14,969	(42,803)	51,390

See accompanying notes to basic financial statements.

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

Year ended June 30, 2009

(In thousands)

	Enterprise funds			Internal service
	Convention center bonds	Hospital revenue bonds	Total	
Operating revenues:				
Contributions	\$ 0	0	0	88,822
State aid – pledged for debt service	36,605	0	36,605	0
Total operating revenues	36,605	0	36,605	88,822
Operating expenses:				
Health benefits	0	0	0	87,280
Total operating expenses	0	0	0	87,280
Operating income	36,605	0	36,605	1,542
Nonoperating revenue (expense):				
Intergovernmental – state grants	1,116	0	1,116	0
Investment earnings – pledged for debt service	0	5,910	5,910	0
Investment earnings – other	389		389	0
Interest expense	(4,902)	(3,924)	(8,826)	0
Total nonoperating revenue (expense)	(3,397)	1,986	(1,411)	0
Income before transfers	33,208	1,986	35,194	1,542
Transfer to general fund	(27,000)	0	(27,000)	0
Change in net assets	6,208	1,986	8,194	1,542
Total net assets (deficit) – beginning of year	(63,980)	12,983	(50,997)	49,848
Total net assets (deficit) – end of year	\$ (57,772)	14,969	(42,803)	51,390

See accompanying notes to basic financial statements.

Statement of Cash Flows – Proprietary Fund Types

Year ended June 30, 2009

(In thousands)

	Enterprise funds			Internal service
	Convention center bonds	Hospital revenue bonds	Total	
Cash flows from operating activities:				
Cash received from other governments	\$ 36,815	0	36,815	0
Cash received from employees and employer	0	0	0	88,999
Cash paid to vendors	0	0	0	(84,878)
Net cash provided by operations	<u>36,815</u>	<u>0</u>	<u>36,815</u>	<u>4,121</u>
Cash flows from noncapital financing activities:				
Grants received from state	1,116	0	1,116	0
Interest paid on debt	(4,870)	(4,139)	(9,009)	0
Transfers to other funds	(23,000)	0	(23,000)	0
Repayment of long-term debt	(3,400)	(6,960)	(10,360)	0
Net cash used in noncapital financing activities	<u>(30,154)</u>	<u>(11,099)</u>	<u>(41,253)</u>	<u>0</u>
Cash flows from investing activities:				
Investment income	389	2,587	2,976	0
Principal received on note	0	7,427	7,427	0
Interest received on note	0	3,323	3,323	0
Net cash provided by investing activities	<u>389</u>	<u>13,337</u>	<u>13,726</u>	<u>0</u>
Increase in cash and cash equivalents	7,050	2,238	9,288	4,121
Cash and cash equivalents, beginning of year	<u>58,925</u>	<u>20,836</u>	<u>79,761</u>	<u>51,640</u>
Cash and cash equivalents, end of year	<u>\$ 65,975</u>	<u>23,074</u>	<u>89,049</u>	<u>55,761</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 36,605	0	36,605	1,542
Adjustments to reconcile operating income to net cash provided by operating activities:				
Changes in operating assets and liabilities:				
Accounts receivable	210	0	210	147
Other assets	0	0	0	3,353
Due from component units	0	0	0	30
Accounts payable and accrued liabilities	0	0	0	(951)
Net cash provided by operating activities	<u>\$ 36,815</u>	<u>0</u>	<u>36,815</u>	<u>4,121</u>

See accompanying notes to basic financial statements.

Statement of Fiduciary Net Assets – Fiduciary Funds
June 30, 2009
(Except for Employee Retirement Plan, which is as of December 31, 2008)
(In thousands)

	Employee retirement plan	Private purpose trusts	Agency funds
Assets:			
Cash and cash equivalents	\$ 28,309	80,765	5,700
Receivables:			
Interest and dividends	17,222	0	0
Securities sold	158,961	0	0
Employer contributions	106,540	0	0
Other	17,100	1,138	0
Total receivables	299,823	1,138	0
Investments, at fair value:			
Short-term:			
Domestic	31,333	0	0
International	8,500	0	0
Equity:			
Domestic	1,139,541	0	0
International	519,489	0	0
Fixed-income:			
Domestic	645,301	0	0
International	221,438	0	0
Real estate	364,262	0	0
Venture capital funds	395,883	0	0
Total investments	3,325,747	0	0
Securities lending short-term collateral investment pool	268,064	0	0
Total assets	3,921,943	81,903	5,700
Liabilities:			
Accounts payable	13,093	2,703	0
Securities purchased	223,647	0	0
Collateral held on securities lending	268,064	0	0
Refunds payable and other	250	0	5,700
Total liabilities	505,054	2,703	\$ 5,700
Net assets – held in trust for pension benefits and other purposes	\$ 3,416,889	79,200	

See accompanying notes to basic financial statements.

**Statement of Changes in Fiduciary Net Assets –
Fiduciary Funds**

Year ended June 30, 2009

(Except for Employee Retirement Plan, which is for the year ended December 31, 2008)

(In thousands)

	Employee retirement plan	Private purpose trusts
	<u> </u>	<u> </u>
Additions:		
Contributions:		
Employers	\$ 244,299	0
Employees	124,283	0
Donations and other	0	12,045
Total contributions	<u>368,582</u>	<u>12,045</u>
Investment (loss) earnings:		
Realized and unrealized losses on investments	(1,265,238)	0
Interest and dividends	102,321	887
Less investment expenses	<u>(13,506)</u>	<u>0</u>
Net investment (loss) earnings	<u>(1,176,423)</u>	<u>887</u>
Securities lending activities:		
Securities lending income	12,317	0
Less borrower rebates and fees	<u>(8,216)</u>	<u>0</u>
Net income from securities lending activities	<u>4,101</u>	<u>0</u>
Total net investment (loss) income	<u>(1,172,322)</u>	<u>887</u>
Intergovernmental	<u>20,777</u>	<u>0</u>
Total additions	<u>(782,963)</u>	<u>12,932</u>
Deductions:		
Benefits	395,116	0
Reimbursement to other systems	9,673	0
Refunds of contributions	18,581	0
Administrative expenses and other	<u>4,566</u>	<u>20,388</u>
Total deductions	<u>427,936</u>	<u>20,388</u>
Change in net assets	<u>(1,210,899)</u>	<u>(7,456)</u>
Net assets, beginning of year	<u>4,627,788</u>	<u>86,656</u>
Net assets, end of year	<u>\$ 3,416,889</u>	<u>79,200</u>

See accompanying notes to basic financial statements.

Notes to Basic Financial Statements

June 30, 2009

(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 13 elected members serving two-year terms.

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

(b) Retirement System

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

A complete set of financial statements for SBRS for the fiscal year ended December 31, 2008 can be obtained through the City Auditor's office, Room M-4, City Hall Plaza, Boston, Massachusetts 02201. The SBRS is included in the City's Fiduciary Fund Financial Statements.

Notes to Basic Financial Statements

June 30, 2009

(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 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.

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, 2009.

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

Notes to Basic Financial Statements

June 30, 2009

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 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) Governmentwide and Fund Financial Statements

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

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

Separate financial statements are provided for Governmental Funds, Proprietary Funds, and Fiduciary Funds, even though the latter are excluded from the Governmentwide 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

Governmentwide Financial Statements

The Governmentwide Financial Statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary Fund and Fiduciary Fund Financial Statements. The Agency Fund within the Fiduciary Fund has no measurement to focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Notes to Basic Financial Statements

June 30, 2009

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.

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 Governmentwide and Proprietary Fund Financial Statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

Notes to Basic Financial Statements

June 30, 2009

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 Projects 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 PHC. 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. The City operates four pools used for the improvement of the City’s parks and cemeteries, educational scholarships and sporting equipment, creation of public utility and beauty, and commingled nontestamentary trusts.

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

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

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

Notes to Basic Financial Statements

June 30, 2009

As a general rule, the effect of interfund activity has been eliminated from the Governmentwide Financial Statements. However, interfund services provided and used are not eliminated in the process of consolidation.

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 Governmentwide Financial Statements as "internal balances."

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

(f) Uncollectible Tax and Other Receivables

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

(g) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the Governmentwide Financial Statements. Capital assets are defined by the City as assets with an initial, individual cost

Notes to Basic Financial Statements

June 30, 2009

of more than \$15,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Any significant construction commitments are encumbered at year-end in the City’s Capital Project Fund.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ useful 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, 2009 is recorded in the Governmental Fund Financial Statements. The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on the amount accumulated at the balance sheet date (vesting method). The liability for both amounts is calculated based on the pay or salary rates in effect at the balance sheet date.

Notes to Basic Financial Statements

June 30, 2009

(i) Long-Term Obligations and Related Costs

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

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

(j) Fund Equity

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

(k) Tax Abatement Refunds

Matured tax abatement refunds that are due and payable at June 30 have been recorded as a liability in the General Fund. Other refunds have been recorded in the Governmentwide 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, 2009, 100% of the Gardner Street landfill site had been used and had not accepted solid waste for several years. While most of the landfill closure construction was completed in prior years, there still remains 12 acres of the landfill to be capped as of June 30, 2009.

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 Governmentwide Statement of Net Assets. Expenditures related to the Gardner Street landfill site postclosure care in fiscal year 2009 were \$200 thousand.

Notes to Basic Financial Statements

June 30, 2009

(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.

(n) Adoption of New Accounting Pronouncements and Restatements

During the fiscal year ended June 30, 2009, the City adopted GASB Statement No. 49 (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*, establishing accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The standard excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care.

The provisions of GASB 49 require the measurement of pollution remediation liabilities at July 1, 2008; therefore, the City’s beginning net assets have been restated. The following is a reconciliation of the total governmental activities net assets as previously reported as of June 30, 2008 to the beginning net assets balance (in thousands):

Net Assets at June 30, 2008	\$	975,247
Adoption of GASB 49		<u>(3,500)</u>
Total Net Assets at July 1, 2008	\$	<u>971,747</u>

The adoption of GASB 49 is now reflected in the City’s long-term obligations, which can be seen in footnote 10 (b).

(3) Short-Term Debt

During fiscal year 2009, 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.

Notes to Basic Financial Statements

June 30, 2009

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. There were no supplemental appropriations, other than the aforementioned transfers, for the fiscal 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 over expenditures in that department.

Notes to Basic Financial Statements

June 30, 2009

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, 2009 (in thousands):

	<u>Revenue</u>	<u>Expenditures</u>	<u>Other financing sources, net</u>	<u>Excess of revenue and other financing sources</u>
As reported on a budgetary basis	\$ 2,402,595	2,398,461	0	4,134
Adjustments:				
Revenues to modified accrual basis	(11,893)	0	0	(11,893)
Expenditures, encumbrances, and accruals, net	0	(34,397)	0	34,397
Reclassifications:				
State-funded teachers’ retirement costs	(118,841)	(118,841)	0	0
Convention Center fund revenue	(27,000)	0	27,000	0
Transfers	(14,189)	0	14,189	0
As reported on a GAAP basis	<u>\$ 2,230,672</u>	<u>2,245,223</u>	<u>41,189</u>	<u>26,638</u>

Notes to Basic Financial Statements

June 30, 2009

(5) Deposits and Investments

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

Commercial Paper Credit Ratings			
	Moody's	S&P	Fitch
Superior	P1	A1+ or A1	F1+ or F1
Satisfactory	P2	A2	F2
Adequate	P3	A3	F3

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

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

Primary Government (except the pension trust fund)

(a) Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned. The City carries deposits that are fully insured by FDIC insurance, collateralized and deposits that are not collateralized and are uninsured. As of June 30, 2009, the bank balances of uninsured and uncollateralized deposits totaled approximately \$1.6 million. All of the City's investments are held by third parties in the City's name.

(b) Investment Policy

The City's primary concern in connection with its investment activities is a concern shared by all municipal governments: the preservation of capital. The City's investment policy establishes a domain in which all of the City's investment activities may be safely conducted while it strives to use its capital resources as efficiently as possible. The frontiers of that

Notes to Basic Financial Statements

June 30, 2009

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; limits the amount of the City’s bank deposits in any one financial institution; and establishes qualifying criteria for banking institutions. Further, all investments held by third parties are to be held in the City’s name.

(c) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The following is a listing of the City’s fixed income investments (in thousands) and related maturity schedule (in years) as of June 30, 2009:

<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 – 5</u>
External investment pool	\$ 575,366	575,366	0
Mutual funds	130,977	130,977	0
U.S. Treasury notes and bonds	10,743	0	10,743
Domestic corporate	4,513	0	4,513
	<u>\$ 721,599</u>	<u>706,343</u>	<u>15,256</u>

(d) Credit Risk

The City’s fixed income investments as of June 30, 2009 were rated by S & P and/or an equivalent national rating organization, and the ratings are presented below (in thousands) using the S & P rating scale:

<u>Investment type</u>	<u>Fair value</u>	<u>Rating</u>
Mutual funds	\$ 130,977	AAA
External investment pool	575,366	Not Rated
Domestic corporate	4,513	AAA to BBB+
	<u>\$ 710,856</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.

Notes to Basic Financial Statements

June 30, 2009

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 the Federal Deposit Insurance Corporation (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, 2008, all of the System’s deposits were insured or collateralized.

(b) Investment Policy

The provisions of M.G.L. c. 32, sec 23(2) govern the System’s investment practice. Diversification is attained through varied investment management styles that comply with Massachusetts state law. This is accomplished through the retention of investment managers that adhere to M.G.L. c. 32, sec. 23(3), the “Prudent Person” rule.

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

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

(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, 2008:

<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 \$	35,920	0	132	13,485	22,303
U.S. agencies	39,155	0	16	7,611	31,528
Domestic corporate	290,070	26,954	102,679	119,906	40,531
International corporate	144,170	1,732	49,496	63,719	29,223
International government	77,268	8,559	16,779	31,139	20,791
Short-term investment funds	39,833	39,833	0	0	0
Asset-backed:					
CMOs	35,179	0	0	2,885	32,294
Mortgage-backed	155,126	0	483	11,962	142,681
Other	89,851	0	70,768	11,381	7,702
	<u>\$ 906,572</u>	<u>77,078</u>	<u>240,353</u>	<u>262,088</u>	<u>327,053</u>

Notes to Basic Financial Statements

June 30, 2009

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, 2008 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.

The System’s fixed income investments as of December 31, 2008 were rated by S & P and/or an equivalent national rating organization and the ratings are presented below (in thousands) using the S & P rating scale:

Investment type	Fair value	AAA	AA	A	BBB	BB	B	CCC	Not rated
U.S. agencies	\$ 39,155	34,535	0	0	0	0	0	0	4,620
Domestic corporate	290,070	11,049	39,354	140,063	31,229	33,691	28,522	4,410	1,752
International corp.	144,170	56,322	9,436	23,238	30,566	11,774	2,340	175	10,319
International gov't	77,268	45,527	17,720	0	2,754	3,104	0	0	8,163
Short-term investment funds	39,833	39,833	0	0	0	0	0	0	0
Asset-backed:									
CMOs	35,179	27,805	390	150	0	0	0	0	6,834
Mortgage-backed	155,126	99,921	0	0	0	0	0	0	55,205
Other	89,851	22,129	2,609	1,050	0	0	0	0	64,063
	<u>\$ 870,652</u>	<u>337,121</u>	<u>69,509</u>	<u>164,501</u>	<u>64,549</u>	<u>48,569</u>	<u>30,862</u>	<u>4,585</u>	<u>150,956</u>

In addition to the above schedule, the System has approximately \$35,919,712 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, 2008.

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

Notes to Basic Financial Statements

June 30, 2009

(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.

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

Currency	Short-term	Fixed income	Equity	Alternative	Total
Australian dollar	\$ 239	647	17,614	0	18,500
Brazilian real	1	0	6,181	0	6,182
Canadian dollar	222	2,256	5,000	0	7,478
Chilean pesa	0	0	26	0	26
Columbian peso	0	0	0	0	0
Danish krone	0	0	4,038	0	4,038
Egyptian pound	0	0	0	0	0
Euro currency	7,645	83,554	155,311	5,560	252,070
Hong Kong dollar	94	0	11,416	0	11,510
Indian rupee	74	0	6,194	0	6,268
Indonesian rupiah	8	1,023	890	0	1,921
Israeli shekel	26	0	633	0	659
Japanese yen	1,075	68,476	102,796	0	172,347
Malaysian ringgit	138	0	2,466	0	2,604
Mexican peso	36	0	1,238	0	1,274
New Taiwan dollar	567	0	777	0	1,344
New Zealand dollar	23	0	117	0	140
Norwegian krone	25	5,364	3,075	0	8,464
Polish zloty	2	0	358	0	360
Pound sterling	821	9,493	74,935	0	85,249
Singapore dollar	292	404	6,439	0	7,135
South African rand	76	0	3,417	0	3,493
South Korean won	29	0	6,211	0	6,240
Swedish krona	234	0	6,411	0	6,645
Swiss franc	629	0	38,197	0	38,826
Thailand baht	9	0	892	0	901
Uruguayan peso	0	1,580	0	0	1,580
International equity pooled funds (various currencies)	0	0	43,636	0	43,636
Total securities subject to foreign currency risk	12,265	172,797	498,268	5,560	688,890
U.S. dollars (securities held by international investment managers)*	8,530	48,641	21,221	0	78,392
Total international investment securities	\$ 20,795	221,438	519,489	5,560	767,282

* Short-term investments include cash of approximately \$30.

Notes to Basic Financial Statements

June 30, 2009

(g) Derivatives

The System trades financial instruments with off-balance-sheet risk in the normal course of its investing activities to assist in managing exposure to market risks. The System uses forward foreign currency contracts to hedge against the risk of future foreign currency fluctuations. Forward foreign currency contracts open at December 31, 2008 were as follows (in thousands):

	<u>Fair value</u>	<u>Aggregate face value</u>	<u>Delivery date(s)</u>	<u>Unrealized gains</u>	<u>Unrealized losses</u>
Forward foreign currency contracts purchased:					
Canadian dollar	\$ 547	536	1/22/09	\$ 0	(10)
Euro	147	146	1/2/09	0	(1)
Indian rupee	1,636	1,698	3/16/09	62	0
Mexican peso	796	931	3/3/09	135	0
Pound sterling	1,134	1,303	1/2/09-3/3/09	169	0
Singapore dollar	2,935	2,933	1/15/09-2/27/09	0	(2)
South African rand	2,950	3,102	3/9/09-5/29/09	152	0
South Korean won	2,090	2,243	2/27/09	153	0
Swiss franc	172	173	1/5/09	1	0
Thailand baht	70	69	3/5/08	0	(1)
Forward foreign currency contracts sold:					
Brazilian real	34	34	1/2/09-1/5/09	0	0
Cambodian riel	2,431,244	2,431,020	2/27/09	224	0
Hong Kong dollar	140	140	1/5/09	0	0
Indian rupee	77,186	77,157	3/16/09	29	0
Indonesian rupiah	1,566	1,566	1/6/09	0	0
Malaysian ringgit	40	40	1/2/09-1/5/09	0	0
Mexican peso	5,861	5,913	3/3/09	0	(52)
Pound sterling	512	695	3/3/09	0	(183)
Singapore dollar	3,789	3,746	1/15/09-2/27/09	43	0
South African rand	26,594	26,382	1/2/09-5/29/09	212	0
Swiss franc	207	208	1/5/09	0	(1)
Total				\$ 1,180	(250)

(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.

Notes to Basic Financial Statements

June 30, 2009

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

Based on the City’s experience, most property taxes are collected during the year in which they are assessed. Liening of properties on which taxes remain unpaid occurs annually. On December 16, 2008, all properties with unpaid fiscal year 2008 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 Citywide 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	\$ 17,724	0	0	0	0	17,724
Other taxes	147,467	0	0	0	0	147,467
Intergovernmental	231,096	67,976	12,755	0	0	311,827
Other	15,256	61,528	0	140	170	77,094
Gross receivables	411,543	129,504	12,755	140	170	554,112
Less allowance for uncollectibles	(157,795)	0	0	0	0	(157,795)
Net total receivables	\$ <u>253,748</u>	<u>129,504</u>	<u>12,755</u>	<u>140</u>	<u>170</u>	<u>396,317</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

Notes to Basic Financial Statements

June 30, 2009

schools. As of June 30, 2009, under this program, the City was due funds totaling \$87.8 million.

In the General Fund, the receivable is offset by deferred revenue because the revenue is not considered available. The following is a schedule of the five-year paydown (in thousands) as of June 30, 2009 through 2014, and in five-year increments thereafter:

Fiscal year(s):	<u>Anticipated revenue</u>
2010	\$ 12,956
2011	11,158
2012	9,848
2013	8,833
2014	8,475
2015 – 2019	34,067
2020	<u>2,461</u>
Total	<u>\$ 87,798</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, 2009, under this program, the City determined that \$56.1 million was collectible.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows (in thousands):

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Delinquent taxes receivable (General Fund)	\$ 17,760	0	17,760
Due from component units	0	5,933	5,933
Section 108 receivable	56,142	0	56,142
School building assistance receivable	87,798	3,611	91,409
Chapter 90	0	9,143	9,143
Other	<u>0</u>	<u>556</u>	<u>556</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 161,700</u>	<u>19,243</u>	<u>180,943</u>

Notes to Basic Financial Statements
June 30, 2009

(8) Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows (in thousands):

Primary Government

	Beginning balance	Increases	Decreases	Ending balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 25,060	4	0	25,064
Construction in progress	4,038	104,927	(73,402)	35,563
Total capital assets not being depreciated	29,098	104,931	(73,402)	60,627
Capital assets being depreciated:				
Land improvements	141,675	9,591	0	151,266
Buildings and improvements	1,632,231	47,721	0	1,679,952
Furniture and equipment	225,564	19,291	(8,703)	236,152
Infrastructure	407,983	27,128	0	435,111
Total capital assets being depreciated	2,407,453	103,731	(8,703)	2,502,481
Less accumulated depreciation for:				
Land improvements	23,405	7,379	0	30,784
Buildings and improvements	881,713	29,558	0	911,271
Furniture and equipment	172,417	20,859	(8,643)	184,633
Infrastructure	137,299	13,851	0	151,150
Total accumulated depreciation	1,214,834	71,647	(8,643)	1,277,838
Total capital assets being depreciated, net	1,192,619	32,084	(60)	1,224,643
Governmental activities capital assets, net	\$ 1,221,717	137,015	(73,462)	1,285,270

Notes to Basic Financial Statements

June 30, 2009

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

Governmental activities:		
General government	\$	1,165
Human services		1,584
Public safety		12,283
Public works, including depreciation of general infrastructure assets		15,158
Property and development		3,399
Parks and recreation		6,401
Library		3,273
Schools		28,145
Public health		239
Total depreciation expense – governmental activities	\$	<u>71,647</u>

(9) Interfund Receivable and Payable Balances

Individual fund and discrete component unit receivable and payable balances at June 30, 2009 are as follows (in thousands):

<u>Interfund balances</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 27,000	3,675
Special revenue	1,181	0
Capital projects	2,031	0
Convention Center	0	27,000
Internal service	463	0
Balances at June 30, 2009	\$ <u>30,675</u>	<u>30,675</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	\$ 6,653	292
Hospital revenue bond	82,298	0
	<u>88,951</u>	<u>292</u>
Discretely presented component units:		
TPL	0	352
PHC	292	88,599
	<u>292</u>	<u>88,951</u>
Balances at June 30, 2009	\$ <u>89,243</u>	<u>89,243</u>

Notes to Basic Financial Statements

June 30, 2009

(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, 2009 (in thousands):

	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
Bonds and notes payable:						
General obligation refunding bonds dated 5/27/09	2.25% - 3.5%	\$ 0	31,485	0	31,485	530
General obligation refunding bonds dated 3/1/09	2.00 - 4.00	0	8,940	0	8,940	5
General obligation bonds dated 3/1/09	2.00 - 4.75	0	100,000	0	100,000	5,755
General obligation refunding bonds dated 3/1/08	3.25 - 4.00	28,155	0	1,040	27,115	5,180
General obligation bonds dated 3/1/08	5.0	126,185	0	6,360	119,825	6,875
General obligation refunding bonds dated 3/1/07	0.125 - 5.0	85,030	0	310	84,720	320
General obligation bonds dated 3/1/07	3.0 - 5.0	94,375	0	5,585	88,790	5,835
General obligation bonds dated 1/31/06	4.0 - 5.0	67,530	0	6,235	61,295	6,235
General obligation refunding bonds dated 2/1/05	2.5 - 5.0	112,400	0	5,125	107,275	10,315
General obligation refunding bonds dated 4/1/04	2.0 - 5.0	18,640	0	5,995	12,645	5,875
General obligation refunding bonds dated 2/1/04	3.0 - 5.0	72,920	0	9,755	63,165	9,595
General obligation refunding bonds dated 2/1/03	2.25 - 5.0	97,570	0	16,060	81,510	9,440
General obligation refunding bonds dated 11/15/02	4.0 - 5.0	6,295	0	6,295	0	0
General obligation refunding bonds dated 8/15/02	2.875 - 5.0	46,670	0	310	46,360	320
General obligation bonds dated 2/1/02	3.0 - 5.0	40,580	0	14,645	25,935	5,645
General obligation refunding bonds dated 4/11/01	3.50 - 5.0	39,550	0	6,250	33,300	6,300
General obligation bonds dated 2/1/01	4.25 - 5.0	39,290	0	20,855	18,435	6,890
General obligation bonds dated 2/1/00	5.0 - 5.75	12,050	0	6,025	6,025	6,025
General obligation bonds dated 10/15/98	3.25 - 5.0	15,975	0	15,975	0	0
Total governmental obligation bonds payable		\$ 903,215	140,425	126,820	916,820	91,140
Add (deduct):						
					43,447	
					(9,956)	
					(91,140)	
					\$ 859,171	

Notes to Basic Financial Statements

June 30, 2009

(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, 2009 (in thousands):

	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
Notes and leases payable:						
Massachusetts Water Pollution Abatement Trust note payable	4.25% – 5.75%	\$ 6,186	0	444	5,742	451
Notes payable – Section 108	5.44 – 7.18	29,235	0	2,366	26,869	3,235
Leases		36,773	13,962	11,190	39,545	12,147
Total notes and leases payable		72,194	13,962	14,000	72,156	15,833
Other long-term obligations:						
Judgments and claims		6,005	4,077	7,157	2,925	600
Workers' compensation		73,851	36,569	34,277	76,143	39,617
Health and life claims		7,436	86,351	87,280	6,507	6,507
Compensated absences		168,316	68,339	63,851	172,804	46,625
Landfill closure and postclosure care costs		9,119	0	200	8,919	200
Pollution remediation		3,500	0	1,500	2,000	1,300
Other postemployment benefits		212,823	346,425	128,454	430,794	0
Total other long-term obligations		481,050	541,761	322,719	700,092	94,849
Total notes, leases, and other long-term obligations		\$ 553,244	555,723	336,719	772,248	110,682

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

(c) Business-Type Activity Obligations

Following is a summary of the business-type long-term obligations of the City as of June 30, 2009 (in thousands):

	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
Convention Center Fund:						
Special Obligation Bonds dated 4/1/02	4.0% – 5.25%	\$ 100,485	0	3,400	97,085	3,580
Hospital Bond Fund:						
Special Obligation Refunding Bonds, Boston City Hospital, dated 8/1/02	2.0 – 5.0	94,800	0	6,960	87,840	7,235
Total business-type obligations		\$ 195,285	0	10,360	184,925	10,815
Add (deduct):						
Unamortized bond premiums					2,322	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(306)	
Current portion of long-term debt					(10,815)	
					\$ 176,126	

Notes to Basic Financial Statements

June 30, 2009

A. General Obligation Bonds

The annual debt service requirements of the City’s general obligation governmental bonds outstanding as of June 30, 2009 are as follows (in thousands):

	Principal	Interest	Total
Year(s) ending June 30:			
2010	\$ 91,140	40,870	132,010
2011	86,445	37,084	123,529
2012	83,460	33,132	116,592
2013	78,020	29,468	107,488
2014	69,490	26,024	95,514
2015-2019	277,605	86,547	364,152
2020-2024	162,465	33,484	195,949
2025-2029	68,195	7,730	75,925
	\$ 916,820	294,339	1,211,159

On April 1, 2009, the City issued \$108,940,000 of general obligation and refunding bonds, \$100,000,000 for various municipal capital projects, and \$8,940,000 for the purpose of refunding certain outstanding general obligation bonds of the City totaling \$9,290,000. Interest on the bonds are payable semiannually each April 1 and October 1 until maturity in fiscal years 2029 and 2019, respectively.

On May 27, 2009, the City issued \$31,485,000 of refunding bonds for the purpose of refunding certain outstanding general obligation bonds of the City totaling \$29,830,000. Interest on these bonds are payable semiannually each August 1 and February 1 until maturity in fiscal year 2019.

The cash flow difference and economic gain (the difference between the present values of the debt service payments on old and new debt) obtained from the April 1, 2009 Series B refunding were \$615,965 and \$579,515, respectively. For the May 27, 2009 Series C refunding, the cash flow difference and economic gain were \$1,437,461 and \$1,345,680, respectively.

On October 28, 2009, the City issued \$20,000,000 of Qualified School Construction Bonds (QSCBs). QSCBs are offered under the American Recovery and Reinvestment Act (ARRA), which allows the City to issue the bonds at no interest cost. The principal of the bonds are payable quarterly, until maturity in fiscal year 2024.

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

Notes to Basic Financial Statements

June 30, 2009

are not charged 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, 2009, the City may issue \$4.0 billion of additional general obligation debt under the debt limit. General obligation debt of \$538.1 million, subject to the debt limit, and \$82.0 million, exempt from the debt limit, are authorized but unissued as of June 30, 2009.

B. Notes Payable

At June 30, 2009, the City had various notes outstanding totaling \$32.6 million.

The annual debt of the City’s notes payable as of June 30, 2009 is as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2010	\$ 3,686	1,539	5,225
2011	3,683	1,368	5,051
2012	3,206	1,209	4,415
2013	3,720	1,020	4,740
2014	3,991	827	4,818
2015-2019	11,202	2,171	13,373
2020-2024	3,123	409	3,532
	<u>\$ 32,611</u>	<u>8,543</u>	<u>41,154</u>

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, 2009 are as follows (in thousands):

Notes to Basic Financial Statements

June 30, 2009

	Principal	Interest	Total
Year(s) ending June 30:			
2010	\$ 10,815	8,546	19,361
2011	11,250	8,108	19,358
2012	11,700	7,652	19,352
2013	12,170	7,173	19,343
2014	12,665	6,669	19,334
2015-2019	72,875	23,432	96,307
2020-2024	30,930	10,420	41,350
2025-2029	22,520	2,289	24,809
	\$ 184,925	74,289	259,214

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 PHC. PHC expects to meet its obligation on the bonds through application of a portion of the rent payable to the PHC by the BMC for its lease of the former BCH. 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.

Pledged Revenues

The City has pledged future mortgage note payments from the PHC, to repay \$127.8 million in special obligation refunding bonds issued in August 2002. Proceeds from the bonds originally provided financing for the construction of Boston City Hospital. The bonds are payable solely from mortgage note payments received from the PHC and are payable through 2019. Annual principal and interest payments on the bonds are expected to require 100 percent of the mortgage note repayments. The total principal and interest remaining to be paid on the bonds is \$110.3 million. Principal and interest paid for the current year and mortgage note repayments received were \$10.9 million and \$13.3, respectively.

The City has pledged future taxi medallion sales and state hotel/motel excise tax receipts (pledged revenues) to repay \$116.9 million in special obligation bonds issued in April 2002. Proceeds from the bonds provided financing for the City’s activities related to the financing for the construction of the state-owned convention center. The bonds are payable solely from the pledged revenues and are payable through 2027. Annual principal and interest payments on the bonds are expected to require 25 percent of the pledged revenues. The total principal and interest remaining to be paid on the bonds is \$148.9 million. Principal and interest paid for the current year and pledged revenue receipts received, net of the \$27.0 million transfer to the general fund, were \$7.5 million and \$9.6 million, respectively.

Notes to Basic Financial Statements

June 30, 2009

Defeased Debt

The principal amount of debt refunded through in-substance defeasance transactions and still outstanding at June 30, 2009 was approximately \$139.3 million.

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 2009 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>
April 21, 2004	\$ 225	0	225	0
November 5, 2004	1,276	0	536	740
March 11, 2005	146	0	135	11
November 10, 2005	3,455	0	1,062	2,393
April 13, 2006	1,372	0	1,087	285
November 22, 2006	10,447	0	3,167	7,280
October 25, 2007	19,852	0	4,978	14,874
March 31, 2009	0	13,962	0	13,962
	<u>\$ 36,773</u>	<u>13,962</u>	<u>11,190</u>	<u>39,545</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, 2009 are as follows (in thousands):

2010	\$ 13,315
2011	11,188
2012	8,630
2013	4,119
2014	2,921
2015-2016	<u>2,279</u>
Total minimum lease payments	42,452
Less amount representing interest	<u>(2,907)</u>
Total minimum principal lease payments	39,545
Less current portion	<u>(12,147)</u>
Long-term portion	<u>\$ 27,398</u>

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

Notes to Basic Financial Statements

June 30, 2009

(11) Retirement Plans

(a) Plan Description

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

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

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

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

(b) Basis of Accounting

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

Investments of the System are stated as follows:

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

Notes to Basic Financial Statements

June 30, 2009

(c) Membership

Membership in the System consisted of the following at December 31, 2008, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	13,752
Terminated plan members entitled to but not receiving benefits	9,815
Active plan members	21,613
	<hr/>
Total membership	45,180
	<hr/> <hr/>
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 Systemwide actuarially determined contribution, which is apportioned among the employers based on active covered payroll. 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 M.G.L. The City’s required and actual contributions to the System for the years ended June 30, 2009, 2008, and 2007 were \$213 million, \$ 203 million, \$193 million, or \$108 million, \$ 105 million, and \$99 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 first in fiscal year 2001 and each year following. These cost-of-living adjustments will be awarded by the Retirement Board each year, except in years in which the Retirement Board determines that such an adjustment would substantially impair the funding schedule.

Notes to Basic Financial Statements

June 30, 2009

(e) Legally Required Reserve Accounts

The balance in the System’s legally required reserves (on the statutory basis of accounting) at December 31, 2008 is as follows (in thousands):

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity savings fund	\$ 1,329,052	Active members’ contribution balance
Annuity reserve fund	410,870	Retired members’ contribution account
Military service credit	49	Members’ contribution account while on military leave
Pension reserve fund	1,409,389	Amounts appropriated to fund future retirement benefits
Pension fund	<u>267,529</u>	Remaining net assets
	<u>\$ 3,416,889</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 U.S. and foreign currency), U.S. government securities, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. The custodian does not have the ability to pledge or sell collateral unless the borrower defaults. Borrowers are required to deliver cash collateral in amounts equal to not less than 100% of the market value of the loaned securities.

The System does not impose any restrictions on the amount of securities lent on its behalf by the custodian. There were no failures by any borrowers to return loaned securities or pay distributions thereon, and there were no losses from a default of the borrowers or the custodian for the year ended December 31, 2008. 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, 2008, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the

Notes to Basic Financial Statements

June 30, 2009

amounts owed to the System. Borrower rebates and fees paid to the custodian during the year ended December 31, 2008 totaled \$137,557.

At December 31, 2008, the fair value of securities loaned by the System amounted to \$284.9 million, against which was held collateral of \$292.2 million as follows (in thousands):

Short-term collateral investment pool	\$	268,064
Noncash collateral		<u>24,095</u>
Total	\$	<u><u>292,159</u></u>

(g) Commitments

At December 31, 2008, the System had contractual commitments to provide approximately \$63 million of additional funding to venture capital funds.

(h) Funded Status and Funding Progress

The funded status of the System as of January 1, 2008, the most recent actuarial valuation date, is as follows (in thousands):

Actuarially accrued liability (AAL)	\$	6,596,148
Actuarial value of plan assets		<u>4,458,002</u>
Unfunded AAL (UAAL)	\$	<u><u>2,138,146</u></u>
Funded ratio (actuarial value of plan assets/AAL)		67.6%
Covered payroll (active plan members)	\$	1,299,112
UAAL as a percentage of covered payroll		164.6%

In the January 1, 2008 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions included an 8.0% investment rate of return, projected salary increases of 5.0%, and cost-of-living adjustments of 3.0% up to \$360 annually. The actuarial value of assets was determined using the fair value of investments. The System's unfunded actuarial accrued liability is being amortized as a level percentage of pay on an open basis. The remaining amortization period at January 1, 2008 was 16 years.

The schedule of funding progress, presented as Requires Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Notes to Basic Financial Statements

June 30, 2009

(12) Other Postemployment Benefits (OPEB)

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires governments to account for OPEB, primarily healthcare, on an accrual basis. The effect is the recognition of an actuarially required contribution as an expense on the Governmentwide Statement of Activities when a future retiree earns their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the Governmentwide Statement of Net Assets over time.

In addition to the pension benefits described in note 11, the City provides postemployment healthcare and life insurance benefits, in accordance with state statute and City ordinance, to participating retirees and their beneficiaries. Participating retirees are City retirees. As of June 30, 2007, the valuation date, approximately 14,000 retirees and 16,000 active members meet the eligibility requirements as put forth in Chapter 32B of M.G.L. The City sponsors and participates in an agent multi-employer defined benefit OPEB plan. The OPEB plan is administered by the City and does not issue a stand-alone financial report. GASB Statement No. 45 requires the City to report their OPEB plan as an agency fund in their Fiduciary Financial Statements. However, the City has determined that activity in this fund is immaterial to the City's financial statements and does not present the fund within the Fiduciary Financial Statements.

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

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

(a) Funding Policy

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

Notes to Basic Financial Statements

June 30, 2009

(b) Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2009, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of June 30, 2007 (in thousands):

ARC	\$ 344,100
Interest on net OPEB obligation	9,577
Adjustment to ARC	<u>(7,252)</u>
Annual OPEB cost	<u>346,425</u>
Contributions made	<u>(128,454)</u>
Change in net OPEB obligation	<u>217,971</u>
Net OPEB obligation – beginning of year	<u>212,823</u>
Net OPEB obligation – end of year	<u><u>\$ 430,794</u></u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 346,425	37%	\$ 430,794
2008	327,752	35%	212,823

(c) Funded Status and Funding Progress

The funded status of the plan as of June 30, 2009, based on an actuarial valuation as of June 30, 2007, was as follows (in thousands):

Notes to Basic Financial Statements

June 30, 2009

AAL	\$	5,490,836
Actuarial value of plan assets		0
UAAL	\$	5,490,836
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	669,802
UAAL as a percentage of covered payroll		820%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the Notes to the Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

In January 2009, the Commonwealth adopted Chapter 479, which amends Chapter 32B and allows local municipalities to establish an OPEB liability trust fund and a funding schedule for the trust fund. On October 1, 2009, the City Council approved the establishment of a revocable OPEB trust fund and appropriated \$20 million to the fund.

(d) Actuarial Methods and Assumptions

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

In the June 30, 2007 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.5% investment rate of return and an annual healthcare cost trend rate of 10.0% to 11.0% initially, reduced by decrements to an ultimate rate of 5.0% after 5 – 6 years. The healthcare cost trend rate differs between the master medical and other healthcare plans. The actuarial value of assets was determined using the market value of investments. The City’s UAAL is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at July 1, 2007 was 30 years.

Notes to Basic Financial Statements

June 30, 2009

(13) Transfers

Transfers and their purposes during the year ended June 30, 2009 were as follows (in thousands):

	Governmental funds			Proprietary fund
	General	Special revenue	Capital projects	Convention center
Primary government:				
Excess hotel/motel excise taxes \$	27,000	0	0	(27,000)
Cemetery fees/fund appropriation	2,189	0	0	0
Parking meter fees/fund appropriation payment	12,000	(12,000)	0	0
Sale of surplus property	0	0	0	0
Total	\$ 41,189	(12,000)	0	(27,000)

(14) Excess of Expenditures over Budgets

The City had expenditures in excess of their budgeted amounts for the year ended June 30, 2009 in the following categories (in thousands):

Public safety:	
Police Department	\$ 3,752
Fire Department	3,731
Public Works:	
Snow Removal	8,494
Execution of Courts:	
Execution of Courts	1,306
	\$ 17,283

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, BCH and Boston Specialty and Rehabilitation Hospital (BSRH), were transferred to and assumed by PHC.

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

Notes to Basic Financial Statements

June 30, 2009

The PHC receives the majority of its funding from federal and state grants, lease agreements with BMC, and a City appropriation. During fiscal year 2009, the City appropriated \$69.4 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 \$70.0 million for the PHC for fiscal year 2010.

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. In fiscal year 2009, the City received \$7.4 million in principal and \$3.4 million in interest for a total of \$10.8 million from PHC in payments for this note. These general obligation bonds were issued by the City between December 1967 and October 1995 and total \$7.2 million at June 30, 2009. 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 \$10.0 million), worker injury, unemployment, and certain employee health claims. The City's Corporation Counsel defends the City in any lawsuits that arise from the normal course of operations, with exposure limited by a state tort cap under Chapter 258 of the M.G.L. Except for certain healthcare 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

Notes to Basic Financial Statements

June 30, 2009

Shield of Massachusetts (BCBS). Costs to the City for the HMOs, which varies from 90.0% to 78.0% of total premium after employee contributions, are accounted for in the General Fund and are capped at a defined premium payment per employee.

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

The City has implemented a comprehensive risk financing strategy that includes establishing a catastrophic risk reserve, currently with a \$12.5 million balance available for future losses. The City's property insurance was renewed – a one-year, all-risk catastrophic property insurance policy covering all City property assets up to \$100.0 million, after a \$10.0 million retention. Any boiler and machinery-related property loss is additionally insured, after a \$50,000 deductible, for up to \$10.0 million.

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, 2009 and 2008 are as follows (in thousands):

	Internal service fund	
	2009	2008
Health and life claims, beginning of year	\$ 7,436	6,827
Incurred claims	86,351	89,392
Payments of claims attributable to events of both the current and prior fiscal years:		
Health and life	(87,280)	(88,783)
Health and life claims, end of year	<u>\$ 6,507</u>	<u>7,436</u>
	Government-wide statements	
	2009	2008
Judgments and claims, beginning of year	\$ 79,856	71,224
Incurred claims	44,190	51,354
Payments of claims attributable to events of both the current and prior fiscal years:		
Workers' compensation	(34,277)	(37,369)
Unemployment compensation	(3,544)	(3,386)
Court judgments	(7,157)	(1,967)
Judgments and claims, end of year	<u>\$ 79,068</u>	<u>79,856</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.

Notes to Basic Financial Statements

June 30, 2009

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.

(17) Discretely Presented Component Units

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

Condensed Statements of Net Assets					
June 30, 2009					
(In thousands)					
	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Assets:					
Current assets:					
Cash and investments	\$ 43,458	43,896	11,168	8,319	106,841
Cash and investments held by trustee	0	0	39,606	1,854	41,460
Receivables, net:					
Other	11,780	4,993	1,097	8,175	26,045
Other assets	9,465	110	1,620	685	11,880
Due from primary government	292	0	0	0	292
	<u>64,995</u>	<u>48,999</u>	<u>53,491</u>	<u>19,033</u>	<u>186,518</u>
Total current assets					
Noncurrent assets:					
Notes receivable	5,206	85,472	0	0	90,678
Other assets	77,768	31,898	0	0	109,666
Capital assets:					
Nondepreciable	15,561	15,001	0	1,420	31,982
Depreciable	16,482	3,582	724	31,882	52,670
	<u>115,017</u>	<u>135,953</u>	<u>724</u>	<u>33,302</u>	<u>284,996</u>
Total noncurrent assets					
Total assets	\$ <u>180,012</u>	<u>184,952</u>	<u>54,215</u>	<u>52,335</u>	<u>471,514</u>

Notes to Basic Financial Statements

June 30, 2009

Condensed Statements of Net Assets

June 30, 2009

(In thousands)

	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Liabilities:					
Current liabilities:					
Warrants and accounts payable	\$ 14,056	3,218	1,839	3,408	22,521
Accrued liabilities:					
Other	0	0	225	2,081	2,306
Current portion of long-term debt and leases					
Due to BMC	0	0	0	1,201	1,201
Due to primary government	6,464	0	0	0	6,464
Deferred revenue	9,183	0	352	0	9,535
	<u>1,988</u>	<u>2,629</u>	<u>0</u>	<u>719</u>	<u>5,336</u>
Total current liabilities	<u>31,691</u>	<u>5,847</u>	<u>2,416</u>	<u>7,409</u>	<u>47,363</u>
Noncurrent liabilities:					
Bonds notes and leases due in more than one year					
Other noncurrent liabilities	0	1,475	0	16,491	17,966
OPEB	17,314	140,291	0	786	158,391
Deferred revenue	32,180	2,070	0	0	34,250
Due to primary government	6,374	33,445	0	0	39,819
	<u>79,416</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>79,416</u>
Total noncurrent liabilities	<u>135,284</u>	<u>177,281</u>	<u>0</u>	<u>17,277</u>	<u>329,842</u>
Total liabilities	<u>166,975</u>	<u>183,128</u>	<u>2,416</u>	<u>24,686</u>	<u>377,205</u>
Net assets:					
Invested in capital assets, net of related debt					
Restricted	30,590	6,613	724	17,465	55,392
Unrestricted	0	0	49,794	0	49,794
	<u>(17,553)</u>	<u>(4,789)</u>	<u>1,281</u>	<u>10,184</u>	<u>(10,877)</u>
Total net assets	<u>\$ 13,037</u>	<u>1,824</u>	<u>51,799</u>	<u>27,649</u>	<u>94,309</u>

Notes to Basic Financial Statements

June 30, 2009

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

Year ended June 30, 2009

(In thousands)

	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Expenses	\$ 144,954	29,108	16,421	37,125	227,608
Program revenues:					
Charges for services	8,884	7,616	1,032	14,710	32,242
Operating grants and contributions	47,381	10,303	11,813	15,906	85,403
Capital grants and contributions	5,776	0	0	0	5,776
Total program revenues	<u>62,041</u>	<u>17,919</u>	<u>12,845</u>	<u>30,616</u>	<u>123,421</u>
Net expenses	<u>(82,913)</u>	<u>(11,189)</u>	<u>(3,576)</u>	<u>(6,509)</u>	<u>(104,187)</u>
General revenues:					
Investment income (loss)	756	1,480	(7,258)	129	(4,893)
Sale of property	0	6,905	0	0	6,905
City appropriation	69,446	0	0	0	69,446
Miscellaneous income	3,427	897	0	2,074	6,398
Total general revenues	<u>73,629</u>	<u>9,282</u>	<u>(7,258)</u>	<u>2,203</u>	<u>77,856</u>
Change in net assets	<u>(9,284)</u>	<u>(1,907)</u>	<u>(10,834)</u>	<u>(4,306)</u>	<u>(26,331)</u>
Net assets – beginning of year	22,321	3,731	62,677	31,955	120,684
Prior period adjustment	<u>0</u>	<u>0</u>	<u>(44)</u>	<u>0</u>	<u>(44)</u>
Net assets – end of year	<u>\$ 13,037</u>	<u>1,824</u>	<u>51,799</u>	<u>27,649</u>	<u>94,309</u>

**Required Supplementary Information
(Unaudited)**

(Dollar amounts in thousands)

Schedules of Funding Progress

Pension							
Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)	
01/01/08	\$ 4,458,002	6,596,148	2,138,146	67.6%	\$ 1,299,112	164.6%	
01/01/07	4,138,146	6,223,154	2,085,008	66.5	1,221,404	170.7	
01/01/06	3,836,807	5,957,373	2,120,566	64.4	1,168,808	181.4	
01/01/05	3,587,118	5,664,288	2,077,170	63.3	1,115,529	186.2	
01/01/04	3,384,814	5,420,842	2,036,028	62.4	1,067,492	190.7	
01/01/03	3,204,893	5,121,319	1,916,426	62.6	1,099,779	174.3	
Other Postemployment Benefits							
06/30/07	\$ 0	5,490,836	5,490,836	0.0%	\$ 669,802	819.8%	

Schedule of Employers' Contributions – Pension

	Annual required contribution	Percentage contributed
Year ended December 31:		
2008	\$ 244,299	100%
2007	227,822	100
2006	217,088	100
2005	191,132	100
2004	164,069	100
2003	157,064	100

See accompanying independent auditor's report