



**CITY OF BOSTON, MASSACHUSETTS**

Basic Financial Statements and Required Supplementary Information

June 30, 2005

(With Independent Auditors' Report Thereon)

# CITY OF BOSTON, MASSACHUSETTS

## Table of Contents

	<b>Page</b>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis – Required Supplementary Information	3 - 14
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet – Governmental Funds	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	18
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	20
Statement of Revenues and Expenditures – Budgetary Basis General Fund – Budget and Actual	21
Statement of Net Assets – Proprietary Funds	22
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	23
Statement of Cash Flows – Proprietary Fund Types	24 - 25
Statement of Fiduciary Net Assets – Fiduciary Funds	26
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	27
Notes to Basic Financial Statements	28 - 61
Schedule I: Schedules of Funding Progress and Employers' Contributions – Required Supplementary Information	62



**KPMG LLP**  
99 High Street  
Boston, MA 02110-2371

Telephone 617 988 1000  
Fax 617 988 0800  
Internet [www.us.kpmg.com](http://www.us.kpmg.com)

## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston (the City), Massachusetts, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain entities, which represent 3% and 3% of the assets and revenues, respectively, of the aggregate remaining fund information and 29% and 27% of the assets and revenues, respectively, of the discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the financial statements, insofar as it relates to the aggregate remaining fund information and the discretely presented component units and their effects on the governmental and fiduciary activities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. The financial statements of the permanent funds and private-purpose trust funds were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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, 2005, 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 accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2005 on our consideration of the City's internal control over financial reporting and on our tests of its



compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 14 and the schedules of funding progress and employers' contributions on page 62 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Boston, Massachusetts  
November 18, 2005

## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2005

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, 2005. Readers are encouraged to consider this information in conjunction with the additional information that is furnished in the City's Comprehensive Annual Financial Report (CAFR).

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

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

#### **Basic Financial Statements**

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

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

The *Government-Wide Financial Statements* provide a broad view of the City's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the City's financial position, which 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 government-wide financial statements include two statements:

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

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

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

Both of 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

## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2005

category, including general government, human services, public safety, public works, property and development, parks and recreation, library, schools, county, public health programs, judgment and claims, retirement costs, state and district assessments, and debt service.

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

*Discretely Presented Component Units* – These are operations for which the City has financial accountability but they have certain independent qualities as well. For the most part, these entities operate similar to private-sector businesses and the business-type activities described above.

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

Boston Public Health Commission

Boston Redevelopment Authority

Economic Development Industrial Corporation

Trustees of the Boston Public Library

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

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

#### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

- 1. Governmental Fund Financial Statements** – Most of the basic services provided by the City are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach, revenues are

## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2005

recorded when cash is received or when susceptible to accrual. Expenditures are recorded when liabilities are incurred and due. These statements provide a detailed short-term view of the City's finances to assist in determining whether there will be adequate financial resources available to meet the current needs of the City.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

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

Of the City's governmental funds, the General Fund is the only fund for which a budget is legally adopted. The *Budgetary Statement or Statement of Revenues and Expenditures – Budgetary Basis* is presented on page 21. This Statement provides a comparison of the original and final budget and the actual expenditures for the current and prior year.

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

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

## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2005

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

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

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

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

#### *Notes to the Financial Statements*

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the fiduciary fund financial statements.

New for fiscal year 2005 is the implementation of Government Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*. Please see note 5 to the financial statements for additional reporting and information.

Also for fiscal year 2005, the City recorded a long-term intergovernmental receivable from the Commonwealth of Massachusetts (the Commonwealth) and revised its estimate of uncollectible and notes receivables. See note 18 to the 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.

#### **Government-Wide Financial Analysis**

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

#### *Government-Wide Highlights*

*Net Assets* – The total net assets of the City exceeded its liabilities at fiscal year ending June 30, 2005 by \$875.7 million (presented as net assets). Of this amount, \$472.3 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.

## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2005

*Changes in Net Assets* – The City's total net assets increased by \$457.8 million in fiscal year 2005. Net assets of governmental activities increased by \$452.6 million, while net assets of the business-type activities showed an increase of \$5.2 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 (government and business-type activities) totaled \$875.7 million at the end of 2005, compared to \$417.9 million at the end of the previous year.

The components of net assets are comprised of the following: the investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related debt used to acquire that asset that is still outstanding – this amount is \$108.9 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 net assets (30.7%) 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 \$258.8 million) represents the receivable from the Massachusetts School Building Authority (the 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 2006, the amount to be received by the City to pay debt service is approximately \$112.3 million. Although this receivable increases unrestricted net assets, it will not effect the City's free cash position.

**CITY OF BOSTON, MASSACHUSETTS**

Required Supplementary Information

Management's Discussion and Analysis

June 30, 2005

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. The negative balance is intended to be covered by user charges, grants, and lease receipts from third parties.

**City of Boston Net Assets – Primary Government**

(In thousands)

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Current assets	\$ 1,496,597	1,105,228	50,010	46,510	1,546,607	1,151,738
Capital assets	1,013,034	979,662	—	—	1,013,034	979,662
Other assets	4,748	4,912	2,987	3,174	7,735	8,086
Due from others	28,106	29,326	92,370	99,739	120,476	129,065
<b>Total assets</b>	<b>\$ 2,542,485</b>	<b>2,119,128</b>	<b>145,367</b>	<b>149,423</b>	<b>2,687,852</b>	<b>2,268,551</b>
Noncurrent liabilities	\$ 1,032,463	1,105,147	217,683	227,126	1,250,146	1,332,273
Other liabilities	549,872	506,423	12,166	11,951	562,038	518,374
<b>Total liabilities</b>	<b>\$ 1,582,335</b>	<b>1,611,570</b>	<b>229,849</b>	<b>239,077</b>	<b>1,812,184</b>	<b>1,850,647</b>
Invested in capital assets net of related debt	\$ 108,924	92,802	—	—	108,924	92,802
Restricted	294,453	258,940	—	—	294,453	258,940
Unrestricted	556,773	155,816	(84,482)	(89,654)	472,291	66,162
<b>Total net assets</b>	<b>\$ 960,150</b>	<b>507,558</b>	<b>(84,482)</b>	<b>(89,654)</b>	<b>875,668</b>	<b>417,904</b>

**CITY OF BOSTON, MASSACHUSETTS**

Required Supplementary Information  
Management's Discussion and Analysis

June 30, 2005

**City of Boston Changes in Net Assets – Primary Government**

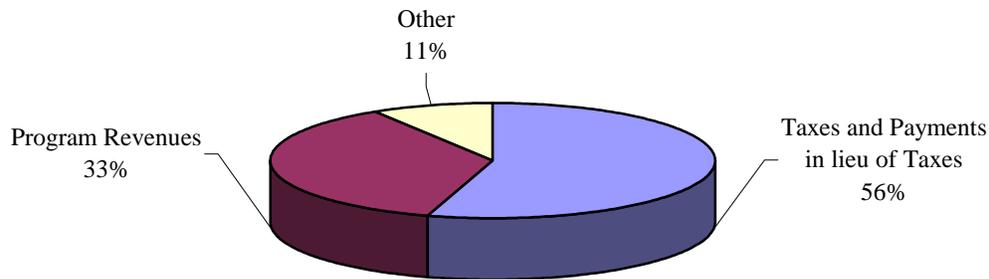
(In thousands)

	Governmental activities		Business-type activities		Totals	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 158,513	140,418	—	—	158,513	140,418
Operating grants and contributions	581,220	644,429	297	24,256	581,517	668,685
Capital grants and contributions	21,079	38,595	—	—	21,079	38,595
General revenues:						
Taxes:						
Property taxes, levied for general purposes	1,136,487	1,103,003	—	—	1,136,487	1,103,003
Excises	100,888	91,551	28,028	23,845	128,916	115,396
Payment in lieu of taxes	42,218	42,373	—	—	42,218	42,373
Grants and contributions not restricted	231,258	171,976	—	—	231,258	171,976
Investment income	28,072	18,304	6,116	5,653	34,188	23,957
Miscellaneous	2,344	11,849	—	—	2,344	11,849
Total revenues	<u>2,302,079</u>	<u>2,262,498</u>	<u>34,441</u>	<u>53,754</u>	<u>2,336,520</u>	<u>2,316,252</u>
Program expenses:						
General government	113,255	83,416	—	—	113,255	83,416
Human services	36,413	35,748	—	—	36,413	35,748
Public safety	542,512	485,229	—	—	542,512	485,229
Public works	121,513	98,753	—	—	121,513	98,753
Property and development	89,213	124,330	—	—	89,213	124,330
Parks and recreation	19,801	15,461	—	—	19,801	15,461
Library	37,878	35,025	—	—	37,878	35,025
Schools	921,311	885,931	—	—	921,311	885,931
Public health programs	62,296	58,848	—	—	62,296	58,848
County	109,817	110,020	—	—	109,817	110,020
State and district assessments	115,894	111,061	—	—	115,894	111,061
Repairs and maintenance	10,134	12,378	—	—	10,134	12,378
Interest on long-term debt	35,877	39,042	—	—	35,877	39,042
Convention center	—	—	6,165	38,541	6,165	38,541
Hospital	—	—	5,104	5,285	5,104	5,285
Total program expenses	<u>2,215,914</u>	<u>2,095,242</u>	<u>11,269</u>	<u>43,826</u>	<u>2,227,183</u>	<u>2,139,068</u>
Excess before special items and transfers	86,165	167,256	23,172	9,928	109,337	177,184
Special items	348,427	—	—	—	348,427	—
Transfers	18,000	17,000	(18,000)	(17,000)	—	—
Change in net assets	<u>452,592</u>	<u>184,256</u>	<u>5,172</u>	<u>(7,072)</u>	<u>457,764</u>	<u>177,184</u>
Net assets – beginning	<u>507,558</u>	<u>323,302</u>	<u>(89,654)</u>	<u>(82,582)</u>	<u>417,904</u>	<u>240,720</u>
Net assets – ending	<u>\$ 960,150</u>	<u>507,558</u>	<u>(84,482)</u>	<u>(89,654)</u>	<u>875,668</u>	<u>417,904</u>

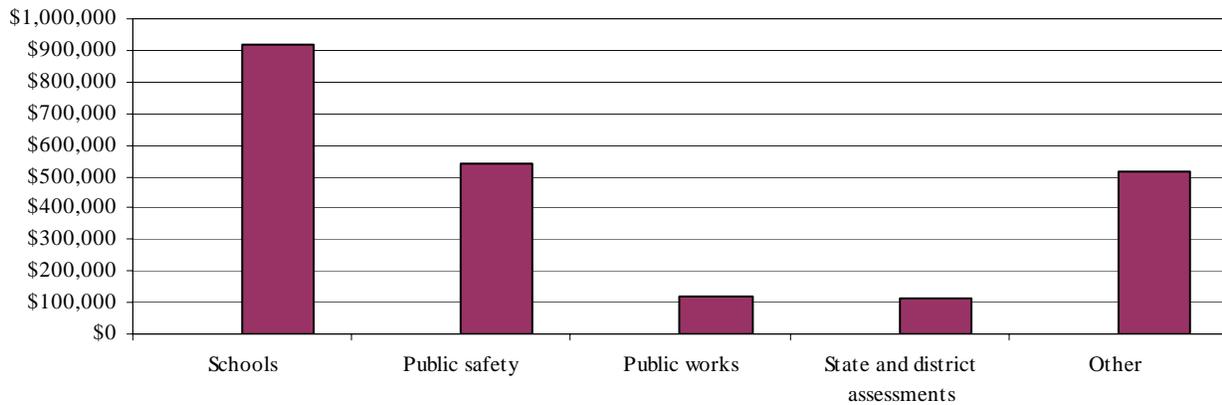
**CITY OF BOSTON, MASSACHUSETTS**

Required Supplementary Information  
Management's Discussion and Analysis  
June 30, 2005

**Revenues – Governmental Activities  
Fiscal Year 2005**



**Expenses – Governmental Activities  
Fiscal Year 2005  
(In thousands)**



## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2005

#### **Governmental Activities**

The City's governmental activities net assets increased by \$452.6 million over the prior fiscal year. The following net changes occurred during the course of operations in fiscal 2005. Increases in assets included: cash and investments increased by \$49.2 million, receivables increased by \$342.2 million, and capital assets increased by \$33.4 million. Changes in the liability accounts included: increases in warrants payable of \$22.9 million, and current long term debt of \$43.7 million, with \$2.9 million and \$20.1 million decreases in deferred revenue and accrued liabilities, respectively.

The City's largest sources of revenues were property and excise taxes and payments in lieu of taxes of \$1.28 billion and \$760.8 million of program revenues. Approximately 55.6% of the City's total revenue came from taxes and payments in lieu of taxes, while 33.0% resulted from program revenues. Interest, unrestricted grants and contributions, and other miscellaneous revenues totaled \$261.7 million. The City's expenses cover a range of services. The largest expenses were for schools (\$921.3 million), public safety (\$542.5 million), public works (\$121.5 million), state and district assessments (\$115.9 million), general government (\$113.3), county (\$109.8 million), and property and development (\$89.2 million). In 2005, governmental activities expenses exceeded program revenues (i.e., user charges, operating grants and capital grants) by \$1.46 billion. This shortfall was covered primarily through taxes (\$1.28 billion) and grants and contributions not restricted (\$231.3 million).

Significant changes in revenues, specifically property tax revenue and federal and state grant revenue, allowed for increased spending in expense categories such as schools, public safety, and public works. Comparative data on these revenues and expenses are summarized in the table "*City of Boston Changes in Net Assets – Primary Government*" on page 9.

#### **Business-Type Activities**

Net assets from business-type activities increased by \$5.2 million during fiscal 2005. This change in net assets resulted primarily from an increase in excise tax revenues.

#### **Financial Analysis of the City's Individual Funds**

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

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

#### ***Fund Highlights***

*Governmental Funds – Fund Balances* – As of the close of fiscal year 2005, the City's governmental funds reported a combined ending fund balance of \$857.3 million, an increase of \$25.1 million from the prior year. Of this total amount, \$435.9 million represents the "unreserved and undesignated fund balances," with \$415.2 million of this amount in the general fund.

## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2005

#### **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 2005 was \$415.2 million, which represents approximately 21.9% 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 Department of Revenue that is available for appropriation and is generated when actual revenues, on a cash basis, exceeded budgeted amounts and encumbrances are less than appropriations, or both.

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

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

The general fund budgetary highlights include ending fiscal year 2005 with a \$8.3 million dollar surplus. This represents the City's 20th consecutive year with a balanced budget. Changes to the original budget resulted in an increase of \$89 thousand to the overall budget. These two supplemental appropriations, totaling \$89 thousand, were for the School Department. These appropriations were used for salary and wage increases. These supplemental appropriations were funded from available revenue sources. During the year, revenues exceeded budgetary estimates, thus eliminating the need to draw from the existing fund balance.

*Special Revenue – 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 2005 special revenue fund balance is reported at \$181.3 million, a \$22.4 million increase from fiscal year 2004.

*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

## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2005

funds. The fiscal year 2005 capital projects fund balance is \$18.6 million. The \$36.6 million decrease from fiscal year 2004 is attributable to the timing of borrowing of General Obligation Bond Sales.

*Other Governmental Funds – Fund Balance* – Other governmental funds account for assets held by the City in permanent trust funds. The fiscal year 2005 other governmental funds fund balance is \$44.3 million, a \$499 thousand decrease from fiscal year 2004.

#### **Proprietary Funds**

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities. This information is presented on the same basis of accounting, but in more detail.

The City's proprietary funds net assets for fiscal year 2005 are a negative \$84.5 million. As stated in the discussion on the government-wide financial statements, the negative balance in the proprietary funds is a result of the Convention Center Special Obligation Bonds and Hospital Special Obligation Bonds outstanding at year end.

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

##### *Capital Assets*

The City's investment in capital assets for its governmental activities as of June 30, 2005 included \$2.08 billion of cost and accumulated depreciation of \$1.06 billion, leaving a net book value of \$1.02 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 about 3.4% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$81.3 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 \$47.9 million. Additional information on the City's capital assets can be found in note 8 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 \$835.7 million in General Obligations Bonds principal outstanding – a decrease of 6.5% over last year.

The key factors in this decrease were the issuance of the February 1, 2005 Series A \$127.8 million General Obligation Bonds, \$52.8 million of which were Refunding Bonds.

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.

**CITY OF BOSTON, MASSACHUSETTS**

Required Supplementary Information  
Management's Discussion and Analysis

June 30, 2005

*Notes Payable and Other Long-Term Obligations* – The City's general long-term notes and other obligations increased by \$26.5 million, or 7.1%, during the current fiscal year. The key factors were net increases in workers' compensation of \$19.6 million and compensated absences of \$6.5 million.

Additional information on the City's long-term debt obligations can be found in note 10 of the notes to basic financial statements.

**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. This financial report seeks to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: City of Boston, Auditing Department, Boston City Hall, Room M-4, Boston, MA 02201.

**CITY OF BOSTON, MASSACHUSETTS**

Statement of Net Assets

June 30, 2005

(In thousands)

	Primary government			Component units
	Governmental activities	Business-type activities	Total	
<b>Assets:</b>				
Current assets:				
Cash and investments	\$ 878,754	—	878,754	144,771
Cash and investments held by trustees	46,973	50,010	96,983	17,946
Receivables, net:				
Property taxes	15,716	—	15,716	—
Intergovernmental	303,693	—	303,693	—
Other	29,531	—	29,531	28,043
Other assets	4,748	2,987	7,735	16,319
Internal balances	18,000	(18,000)	—	—
Due from BMC	—	—	—	1,302
Due from primary government	—	—	—	84
Due from component units	10,106	—	10,106	—
Total current assets	<u>1,307,521</u>	<u>34,997</u>	<u>1,342,518</u>	<u>208,465</u>
Noncurrent assets:				
Intergovernmental receivables	146,491	—	146,491	—
Notes and other receivables	75,439	—	75,439	83,957
Other assets	—	—	—	141,923
Capital assets:				
Nondepreciable	335,467	—	335,467	21,186
Depreciable, net	677,567	—	677,567	36,566
Due from component units	—	110,370	110,370	—
Total noncurrent assets	<u>1,234,964</u>	<u>110,370</u>	<u>1,345,334</u>	<u>283,632</u>
Total assets	<u>2,542,485</u>	<u>145,367</u>	<u>2,687,852</u>	<u>492,097</u>
<b>Liabilities:</b>				
Current liabilities:				
Warrants and accounts payable	112,973	—	112,973	17,620
Accrued liabilities – current:				
Tax abatement liability	27,100	—	27,100	—
Compensated absences	39,889	—	39,889	—
Judgments and claims	7,375	—	7,375	—
Payroll and related costs	102,332	—	102,332	—
Deposits and other	67,293	2,946	70,239	2,665
Current portion of long-term debt and leases	180,894	9,220	190,114	12,492
Due to component units	84	—	84	—
Due to BMC	—	—	—	16,268
Due to primary government	—	—	—	120,435
Deferred revenue	11,932	—	11,932	44,716
Total current liabilities	<u>549,872</u>	<u>12,166</u>	<u>562,038</u>	<u>214,196</u>
Noncurrent liabilities:				
Bonds due in more than one year	779,674	217,683	997,357	—
Notes and leases payable due in more than one year	58,687	—	58,687	137,011
Other noncurrent liabilities	194,102	—	194,102	5,109
Total noncurrent liabilities	<u>1,032,463</u>	<u>217,683</u>	<u>1,250,146</u>	<u>142,120</u>
Total liabilities	<u>1,582,335</u>	<u>229,849</u>	<u>1,812,184</u>	<u>356,316</u>
<b>Net assets:</b>				
Investment in capital assets, net of related debt	108,924	—	108,924	38,572
Restricted for:				
Capital projects	18,632	—	18,632	—
Expendable trust	44,299	—	44,299	—
Other purposes	231,522	—	231,522	58,269
Unrestricted (note 18)	556,773	(84,482)	472,291	38,940
Total net assets	<u>\$ 960,150</u>	<u>(84,482)</u>	<u>875,668</u>	<u>135,781</u>

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**

Statement of Activities  
Year ended June 30, 2005  
(In thousands)

Functions/programs	Expenses	Program revenues			Net (expense) revenue and changes in net assets			Component units
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total	
<b>Primary government:</b>								
<b>Governmental activities:</b>								
General government	\$ 113,255	10,129	32,799	5,949	(64,378)		(64,378)	
Human services	36,413	20	10,470	—	(25,923)		(25,923)	
Public safety	542,512	112,585	21,209	—	(408,718)		(408,718)	
Public works	121,513	15,114	—	8,050	(98,349)		(98,349)	
Property and development	89,213	4,685	67,156	2,025	(15,347)		(15,347)	
Parks and recreation	19,801	301	953	743	(17,804)		(17,804)	
Library	37,878	333	5,449	462	(31,634)		(31,634)	
Schools	921,311	15,308	338,508	3,850	(563,645)		(563,645)	
Public health programs	62,296	—	—	—	(62,296)		(62,296)	
County	109,817	38	104,676	—	(5,103)		(5,103)	
State and district assessments	115,894	—	—	—	(115,894)		(115,894)	
Repairs and maintenance	10,134	—	—	—	(10,134)		(10,134)	
Interest on long-term debt	35,877	—	—	—	(35,877)		(35,877)	
Total governmental activities	<u>2,215,914</u>	<u>158,513</u>	<u>581,220</u>	<u>21,079</u>	<u>(1,455,102)</u>		<u>(1,455,102)</u>	
<b>Business-type activities:</b>								
Convention Center	6,165	—	297	—	—	(5,868)	(5,868)	
Hospital Bonds	5,104	—	—	—	—	(5,104)	(5,104)	
Total business-type activities	<u>11,269</u>	<u>—</u>	<u>297</u>	<u>—</u>	<u>—</u>	<u>(10,972)</u>	<u>(10,972)</u>	
Total primary government	<u>\$ 2,227,183</u>	<u>158,513</u>	<u>581,517</u>	<u>21,079</u>	<u>(1,455,102)</u>	<u>(10,972)</u>	<u>(1,466,074)</u>	
<b>Component units:</b>								
Boston Public Health Commission	\$ 114,915	—	102,909	1,289				(10,717)
Boston Redevelopment Authority	19,918	11,246	4,085	—				(4,587)
Trustees of the Public Library of the City of Boston	13,865	970	11,051	—				(1,844)
Economic Development and Industrial Corporation of Boston	34,177	14,354	17,316	—				(2,507)
Total component units	<u>\$ 182,875</u>	<u>26,570</u>	<u>135,361</u>	<u>1,289</u>				<u>(19,655)</u>
<b>General revenues:</b>								
<b>Taxes:</b>								
Property taxes, levied for general purposes					1,136,487	—	1,136,487	—
Excises					100,888	28,028	128,916	—
Payments in lieu of taxes					42,218	—	42,218	—
Grants and contributions not restricted					231,258	—	231,258	—
Investment income					28,072	6,116	34,188	7,249
Miscellaneous					2,344	—	2,344	18,457
Special items (note 18)					348,427	—	348,427	—
Transfers					18,000	(18,000)	—	—
Total general revenues, special items, and transfers					<u>1,907,694</u>	<u>16,144</u>	<u>1,923,838</u>	<u>25,706</u>
Change in net assets					452,592	5,172	457,764	6,051
Net assets – beginning of year					507,558	(89,654)	417,904	129,696
Prior period adjustment					—	—	—	34
Net assets – end of year					<u>\$ 960,150</u>	<u>(84,482)</u>	<u>875,668</u>	<u>135,781</u>

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**

Balance Sheet – Governmental Funds

June 30, 2005

(In thousands)

<b>Assets</b>	<b>General</b>	<b>Special revenue</b>	<b>Capital projects</b>	<b>Other governmental funds</b>	<b>Total governmental funds</b>
Cash and investments	\$ 692,679	123,608	31,910	2	848,199
Cash and investments held by trustees	—	—	2,429	44,544	46,973
Receivables, net:					
Property taxes	15,716	—	—	—	15,716
Intergovernmental	343,686	103,493	3,005	—	450,184
Departmental and other	29,082	75,439	—	336	104,857
Total receivables	388,484	178,932	3,005	336	570,757
Due from other funds	20,690	1,363	—	—	22,053
Due from component units	10,065	—	—	—	10,065
Total assets	<u>\$ 1,111,918</u>	<u>303,903</u>	<u>37,344</u>	<u>44,882</u>	<u>1,498,047</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Warrants and accounts payable	\$ 94,107	14,752	3,493	583	112,935
Accrued liabilities:					
Payroll and related costs	100,798	1,534	—	—	102,332
Deposits and other	4,508	28,162	15,219	—	47,889
Deferred revenue	297,452	75,439	—	—	372,891
Due to other funds	1,945	2,690	—	—	4,635
Due to component units	84	—	—	—	84
Total liabilities	<u>498,894</u>	<u>122,577</u>	<u>18,712</u>	<u>583</u>	<u>640,766</u>
Fund balances (deficit):					
Reserved for:					
Encumbrances	33,155	51,090	84,471	462	169,178
Future appropriations	—	—	43,724	—	43,724
Unreserved:					
Designated for subsequent years expenditures	164,621	—	—	—	164,621
Undesignated	415,248	130,236	(109,563)	—	435,921
Reported in permanent funds	—	—	—	43,837	43,837
Total fund balance	<u>613,024</u>	<u>181,326</u>	<u>18,632</u>	<u>44,299</u>	<u>857,281</u>
Total liabilities and fund balances	<u>\$ 1,111,918</u>	<u>303,903</u>	<u>37,344</u>	<u>44,882</u>	<u>1,498,047</u>

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**

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

June 30, 2005

(In thousands)

Total fund balance – Governmental funds	\$ <u>857,281</u>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:	
Land	15,866
Land improvements	79,463
Buildings and improvements	1,177,761
Furniture and equipment	176,628
Infrastructure	308,062
Construction in progress	319,601
Less accumulated depreciation	<u>(1,064,347)</u>
	<u>1,013,034</u>
Adjust deferred revenues and receivables to record revenues on an accrual basis	360,959
Internal service funds are included in the government-wide statements	26,660
Bond issuance costs are capitalized in the government-wide statements	2,875
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	(985,293)
Capital leases	(13,413)
Bond issue premiums	(31,876)
Deferred bond gains (losses)	11,327
Accrued interest on bonds	(19,403)
Compensated absences	(174,664)
Landfill	(14,489)
Judgments and claims	(45,748)
Tax abatements	<u>(27,100)</u>
	<u>(1,300,659)</u>
Net assets of governmental activities	\$ <u><u>960,150</u></u>

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**

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

Year ended June 30, 2005

(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	\$ 1,138,254	—	—	—	1,138,254
Excises	93,906	—	—	—	93,906
Payments in lieu of taxes	42,218	—	—	—	42,218
Fines	65,280	17	—	—	65,297
Investment income	17,970	282	—	70	18,322
Licenses and permits	33,491	74	—	—	33,565
Departmental and other	60,704	52,882	3,065	5,949	122,600
Intergovernmental	460,898	332,331	8,800	—	802,029
Total revenues	<u>1,912,721</u>	<u>385,586</u>	<u>11,865</u>	<u>6,019</u>	<u>2,316,191</u>
Expenditures:					
Current:					
General government	57,471	22,548	—	4,489	84,508
Human services	23,821	8,678	—	—	32,499
Public safety	457,541	24,338	—	—	481,879
Public works	106,749	2,719	—	—	109,468
Property and development	29,836	57,154	—	—	86,990
Parks and recreation	15,708	1,001	—	—	16,709
Library	27,594	5,579	—	—	33,173
Schools	673,009	134,992	—	—	808,001
Public health programs	60,586	1,710	—	—	62,296
County	—	101,832	—	—	101,832
Judgments and claims	6,620	—	—	—	6,620
Retirement costs	59,419	—	—	—	59,419
Other employee benefits	142,721	—	—	—	142,721
State and district assessments	115,894	—	—	—	115,894
Capital outlays	2,683	805	87,974	—	91,462
Debt service	115,769	3,879	—	—	119,648
Total expenditures	<u>1,895,421</u>	<u>365,235</u>	<u>87,974</u>	<u>4,489</u>	<u>2,353,119</u>
Excess (deficiency) of revenues over expenditures	<u>17,300</u>	<u>20,351</u>	<u>(76,109)</u>	<u>1,530</u>	<u>(36,928)</u>
Other financing sources (uses):					
Long-term debt and capital leases issued	—	1,381	83,228	—	84,609
Issuance of refunding bonds	—	—	52,775	—	52,775
Payments to refunded bonds escrow agent	(1,025)	(6,180)	(96,539)	—	(103,744)
Premiums on long-term debt issued	—	10,409	—	—	10,409
Transfers in (out)	23,529	(3,500)	—	(2,029)	18,000
Total other financing sources (uses)	<u>22,504</u>	<u>2,110</u>	<u>39,464</u>	<u>(2,029)</u>	<u>62,049</u>
Net change in fund balances	39,804	22,461	(36,645)	(499)	25,121
Fund balance – beginning	573,220	158,865	55,277	44,798	832,160
Fund balance – ending	\$ <u>613,024</u>	<u>181,326</u>	<u>18,632</u>	<u>44,299</u>	<u>857,281</u>

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**

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

Year ended June 30, 2005

Net change in fund balances – total governmental funds	\$	25,121
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 (\$81,260) exceeded depreciation expense (\$47,888).		33,372
Tax revenues in the statement of activities that are not reported as revenues in the governmental funds.		(11,150)
Proceeds of long-term debt (\$137,384) increase long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Repayment of bond principal (\$195,010) is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds.		57,626
Bond premiums net (\$8,233) increase the long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Bond issuance costs net (\$2,053) are expenditures in the governmental funds, before deferred assets in the statement of assets. This is the amount by which premiums exceeded issuance costs.		(6,180)
Special items related to legislative changes and changes in estimates of uncollectible receivables		348,427
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 (\$6,510), judgments and claims (\$20,280), and interest payable (\$1,830) offset by a decrease in landfill liabilities, \$58, payroll settlements, \$21,305, and property and development expense, \$2,505.		(4,752)
Net income from the internal service fund which is presented in the statement of activities, but not in the governmental funds.		<u>10,128</u>
Change in net assets of governmental activities	\$	<u><u>452,592</u></u>

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**

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

Year ended June 30, 2005  
(with comparative actual amounts for 2004)

(In thousands)

	<u>Original budget</u>	<u>2005 Final budget</u>	<u>Actual</u>	<u>Variance over (under)</u>	<u>2004 Actual</u>
Revenues and other available funds:					
Real and personal property taxes, net	\$ 1,105,029	1,105,029	1,106,336	1,307	1,052,067
Excises	98,950	98,950	118,657	19,707	94,269
Commonwealth of Massachusetts	523,342	523,342	537,655	14,313	521,232
Departmental and other revenue	38,393	38,482	53,142	14,660	50,959
Fines	61,844	61,844	65,280	3,436	66,342
Payments in lieu of taxes	39,999	39,999	42,218	2,219	42,373
Investment income	7,300	7,300	17,787	10,487	7,792
Licenses and permits	25,350	25,350	33,821	8,471	34,820
Other available funds	28,905	28,905	5,529	(23,376)	22,933
<b>Total revenues and other available funds</b>	<b>1,929,112</b>	<b>1,929,201</b>	<b>1,980,425</b>	<b>51,224</b>	<b>1,892,787</b>
Expenditures:					
General government	56,911	60,435	59,837	598	75,926
Human services	24,516	23,986	23,853	133	22,945
Public safety	409,149	408,662	429,376	(20,714)	393,827
Public works	91,122	92,452	106,699	(14,247)	87,639
Property and development	22,475	25,480	25,425	55	26,400
Parks and recreation	14,485	15,471	15,179	292	13,436
Library	25,739	26,601	26,600	1	24,086
Schools	680,118	680,207	680,181	26	656,539
Boston Public Health Commission	60,388	60,568	60,568	—	58,762
Judgments and claims	3,500	3,500	10,884	(7,384)	18,842
Other employee benefits	146,289	146,155	147,803	(1,648)	133,206
Retirement costs	151,463	151,463	151,463	—	141,867
State and district assessments	121,079	115,869	115,894	(25)	111,061
Debt requirements	121,878	118,352	118,330	22	123,866
<b>Total expenditures</b>	<b>1,929,112</b>	<b>1,929,201</b>	<b>1,972,092</b>	<b>(42,891)</b>	<b>1,888,402</b>
<b>Excess of revenues and other available funds over expenditures</b>	<b>\$ —</b>	<b>—</b>	<b>8,333</b>	<b>94,115</b>	<b>4,385</b>

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**

Statement of Net Assets – Proprietary Funds

June 30, 2005

(In thousands)

	<b>Enterprise funds</b>			<b>Internal service</b>
	<b>Convention center bonds</b>	<b>Hospital revenue bonds</b>	<b>Total</b>	
<b>Assets:</b>				
<b>Current assets:</b>				
Cash and investments	\$ —	—	—	30,555
Cash and investments held by trustees	30,044	19,966	50,010	—
Receivables, net	—	—	—	154
<b>Total current assets</b>	<b>30,044</b>	<b>19,966</b>	<b>50,010</b>	<b>30,709</b>
<b>Noncurrent assets:</b>				
Due from other funds	—	—	—	582
Due from component units	—	110,370	110,370	—
Other assets	1,369	1,618	2,987	1,873
<b>Total noncurrent assets</b>	<b>1,369</b>	<b>111,988</b>	<b>113,357</b>	<b>2,455</b>
<b>Total assets</b>	<b>31,413</b>	<b>131,954</b>	<b>163,367</b>	<b>33,164</b>
<b>Liabilities:</b>				
<b>Current liabilities:</b>				
Warrants and accounts payable	—	—	—	39
Accrued liabilities	—	—	—	6,465
Due to other funds	18,000	—	18,000	—
Accrued interest payable	892	2,054	2,946	—
Current portion of long-term debt	2,915	6,305	9,220	—
<b>Total current liabilities</b>	<b>21,807</b>	<b>8,359</b>	<b>30,166</b>	<b>6,504</b>
<b>Noncurrent liabilities:</b>				
Special obligation bonds	106,785	—	106,785	—
Revenue bonds	—	110,898	110,898	—
<b>Total noncurrent liabilities</b>	<b>106,785</b>	<b>110,898</b>	<b>217,683</b>	<b>—</b>
<b>Total liabilities</b>	<b>128,592</b>	<b>119,257</b>	<b>247,849</b>	<b>6,504</b>
<b>Net assets:</b>				
Unrestricted	(97,179)	12,697	(84,482)	26,660
<b>Total net assets</b>	<b>\$ (97,179)</b>	<b>12,697</b>	<b>(84,482)</b>	<b>26,660</b>

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**

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

Year ended June 30, 2005

(In thousands)

	<b>Enterprise funds</b>			<b>Internal service</b>
	<b>Convention center bonds</b>	<b>Hospital revenue bonds</b>	<b>Total</b>	
Operating revenues:				
Contributions	\$ —	—	—	92,812
State aid – pledged for debt service	28,028	—	28,028	—
Departmental and other	—	—	—	—
Total operating revenues	<u>28,028</u>	<u>—</u>	<u>28,028</u>	<u>92,812</u>
Operating expenses:				
Payments made on behalf of State	84	—	84	—
Health benefits	—	—	—	82,684
Total operating expenses	<u>84</u>	<u>—</u>	<u>84</u>	<u>82,684</u>
Operating income	<u>27,944</u>	<u>—</u>	<u>27,944</u>	<u>10,128</u>
Nonoperating revenue (expense):				
Intergovernmental – state grants	297	—	297	—
Investment earnings – pledged for debt service	—	5,293	5,293	—
Investment earnings – other	823	—	823	—
Interest expense	(6,081)	(5,104)	(11,185)	—
Total nonoperating revenue (expense)	<u>(4,961)</u>	<u>189</u>	<u>(4,772)</u>	<u>—</u>
Income before transfers	22,983	189	23,172	10,128
Transfer to general fund	(18,000)	—	(18,000)	—
Change in net assets	4,983	189	5,172	10,128
Total net assets – beginning	<u>(102,162)</u>	<u>12,508</u>	<u>(89,654)</u>	<u>16,532</u>
Total net assets – ending	\$ <u>(97,179)</u>	<u>12,697</u>	<u>(84,482)</u>	<u>26,660</u>

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**  
Statement of Cash Flows – Proprietary Fund Types  
Year ended June 30, 2005  
(In thousands)

	<b>Enterprise funds</b>			<b>Internal service</b>
	<b>Convention center bonds</b>	<b>Hospital revenue bonds</b>	<b>Total</b>	
Cash flows from operating activities:				
Cash received from State aid	\$ 28,028	—	28,028	92,953
Other cash received	—	—	—	—
Cash paid to vendors	—	—	—	(82,100)
Cash payments on behalf of State	(84)	—	(84)	—
Net cash provided in operations	27,944	—	27,944	10,853
Cash flows from noncapital financing activities:				
Grants received from State	297	—	297	—
Interest paid on debt	(6,042)	(5,281)	(11,323)	—
Lease receipts	—	11,664	11,664	—
Transfers to other funds	(17,000)	—	(17,000)	—
Repayment of long-term debt	(2,780)	(6,125)	(8,905)	—
Net cash provided (used) by noncapital financing activities	(25,525)	258	(25,267)	—
Cash flows from investing activities:				
Investment income	823	—	823	—
Net cash provided by investing activities	823	—	823	—
Increase in cash and cash equivalents	3,242	258	3,500	10,853
Cash and cash equivalents, beginning of year	26,802	19,708	46,510	19,702
Cash and cash equivalents, end of year	\$ 30,044	19,966	50,010	30,555

**CITY OF BOSTON, MASSACHUSETTS**  
Statement of Cash Flows – Proprietary Fund Types  
Year ended June 30, 2005  
(In thousands)

	<b>Enterprise funds</b>			<b>Internal service</b>
	<b>Convention center bonds</b>	<b>Hospital revenue bonds</b>	<b>Total</b>	
Reconciliation of operating income to cash provided by operating activities:				
Operating income	\$ 27,944	—	27,944	10,128
Reconciliation of operating income to net cash provided by operating activities:				
Changes in operating assets and liabilities:				
Accounts receivable	—	—	—	141
Other assets	—	—	—	107
Due (to) from other funds	—	—	—	104
Accounts payable and accrued liabilities	—	—	—	373
Net cash provided by operating activities	<u>\$ 27,944</u>	<u>—</u>	<u>27,944</u>	<u>10,853</u>

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**

Statement of Fiduciary Net Assets – Fiduciary Funds

June 30, 2005

(In thousands)

	<u>Employee retirement plans</u>	<u>Private purpose trusts</u>	<u>Agency funds</u>
Assets:			
Cash and cash equivalents	\$ 2,438	74,201	1,278
Receivables:			
Interest and dividends	7,053	—	—
Securities sold	56,841	—	—
Other	91,286	2,452	—
Total receivables	<u>155,180</u>	<u>2,452</u>	<u>—</u>
Investments, at fair value:			
Short-term:			
Domestic	326,386	—	—
International	15,090	—	—
Equity:			
Domestic	1,598,379	—	—
International	623,624	—	—
Fixed income:			
Domestic	493,104	—	—
International	216,935	—	—
Real estate	170,789	—	—
Venture capital funds	229,230	—	—
Total investments	<u>3,673,537</u>	<u>—</u>	<u>—</u>
Securities lending short-term collateral investment pool	219,129	—	—
Other assets	—	30	—
Total assets	<u>4,050,284</u>	<u>76,683</u>	<u>1,278</u>
Liabilities:			
Accounts payable	13,294	2,209	—
Securities purchased	270,021	—	—
Collateral held on securities lending	219,129	—	—
Refunds payable and other	—	—	1,278
Total liabilities	<u>502,444</u>	<u>2,209</u>	<u>\$ 1,278</u>
Net assets:			
Held in trust for pension benefits and other purposes	\$ <u>3,547,840</u>	<u>74,474</u>	

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**

Statement of Changes in Fiduciary Net Assets –  
Fiduciary Funds

Year ended June 30, 2005

(In thousands)

	<b>Employee retirement plans</b>	<b>Private purpose trusts</b>
	<u>                    </u>	<u>                    </u>
Additions:		
Contributions:		
Employers	\$ 170,043	—
Employees	106,577	—
Donations and other	—	20,656
Total contributions	<u>276,620</u>	<u>20,656</u>
Investment earnings:		
Net appreciation in the fair value of investments	292,331	—
Interest and dividends	85,043	599
Less investment expenses	(9,740)	—
Net investment earnings	<u>367,634</u>	<u>599</u>
From securities lending activities:		
Securities lending income	3,070	—
Less borrower rebates and fees	(2,748)	—
Net income from securities lending activities	<u>322</u>	<u>—</u>
Total net investment income	367,956	599
Intergovernmental	14,670	
Total additions	<u>659,246</u>	<u>21,255</u>
Deductions:		
Benefits	321,603	—
Reimbursement to other systems	9,449	—
Refunds of contributions	14,042	—
Administrative expenses	3,128	18,600
Total deductions	<u>348,222</u>	<u>18,600</u>
Change in net assets	311,024	2,655
Net assets, beginning of year	3,236,816	71,819
Net assets, end of year	\$ <u>3,547,840</u>	<u>74,474</u>

See accompanying notes to basic financial statements.

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2005

### (1) The Financial Reporting Entity

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

#### (a) *Primary Government*

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

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

#### (b) *Blended Component Unit Disclosure*

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

**State-Boston Retirement System (SBRS)** – The SBRS is a defined benefit contributory retirement system created under state statute. It is administered by a Retirement Board comprised of five members: the City Auditor, who serves *ex officio*; two individuals elected by participants in the system; a fourth member appointed by the Mayor; and a fifth member chosen by the other members. The SBRS provides pension benefits to retired City employees.

A complete set of financial statements for SBRS for the fiscal year ended December 31, 2003 can be obtained through the City Auditor's office, Room M-4, City Hall Plaza, Boston, Massachusetts 02201.

#### (c) *Discretely Presented Component Units Disclosure*

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

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

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2005

**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, 2005.

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

**(d) Related Organizations**

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

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

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

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

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

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2005

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

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

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

#### **Governmental Fund Financial Statements**

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

The City applies the susceptible to accrual criteria to property taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, resources must be expended on the specific purpose or project before any amounts will be reimbursed to the City; therefore, revenues are recognized based upon the amount of expenditures incurred. In the other, resources are virtually unrestricted and are usually revocable by the grantor only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year end.

## CITY OF BOSTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2005

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

#### **Proprietary Fund, Fiduciary Fund, and Component Unit Financial Statements**

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

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

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

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

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

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

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

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

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

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

The *private-purpose trust fund* is used to account for resources legally held in trust for the benefit of individuals, private organizations, or other governments.

## CITY OF BOSTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2005

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

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

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

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

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

**(c) *Cash Equivalents***

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

**(d) *Basis of Investment Valuation***

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

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

**(e) *Interfund Receivables and Payables***

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

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

**(f) *Uncollectible Tax and Other Receivables***

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

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

**(g) Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$25,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Any significant construction commitments are encumbered at year-end in the City's Capital Project Fund.

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

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

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

**(h) Compensated Absences**

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination, or death, certain employees are compensated for unused sick and vacation leave (subject to certain limitations) at their then current rates of pay. The portion of the liability related to unused sick and vacation time that has matured or is due as of June 30, 2005 is related to the voluntary retirement incentive and is recorded in the governmental fund financial statements. The unamortized portion is presented in the government-wide statement of net assets. The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on the amount accumulated at the balance sheet date (vesting method). The liability for both amounts is calculated based on the pay or salary rates in effect at the balance sheet date.

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

**Premiums, Discounts, and Issue Costs** – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type

## CITY OF BOSTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2005

activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**Arbitrage Rebate** – Rebatable arbitrage earnings are calculated for the City by third parties and is accounted for as a liability in the general fund to the extent it is “due and payable.” At June 30, 2005, an accumulated arbitrage rebate liability of \$1.9 million was recorded in the general fund.

**(j) Fund Equity**

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

**(k) Tax Abatement Refunds**

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

**(l) Landfill Closure and Postclosure Care Costs**

State and federal regulations require the City to place a final cover on its Gardner Street landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. At June 30, 2005, 100% of the Gardner Street landfill site had been used and had not accepted solid waste for several years. The City has completed the covering of this site in accordance with applicable laws and regulations.

The total current cost of landfill closure and postclosure care is an estimate, subject to changes resulting from inflation, deflation, technology or other changes in applicable laws or regulations. Such costs are recognized as expenditures in the general fund to the extent that they are due or matured and are expected to be paid with expendable available financial resources. The total liability is reported in the government-wide statement of net assets. Expenditures related to the Gardner Street landfill site closure and postclosure care in fiscal year 2004 were approximately \$58 thousand.

**(m) Use of Estimates**

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2005

assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### (3) Short-Term Debt

During fiscal year 2005, the City had no short-term debt issued or outstanding.

### (4) Budgetary Data

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

Original and supplemental appropriations are submitted by the Mayor, approved by the City Council and lapse at year-end unless encumbered. The legal level of control over appropriations is at the department level. Amendments to the original budget must be approved by the City Council, except for a reallocation of appropriations of up to \$3 million, which the Mayor may approve. Further, the City Auditor, with the approval of the Mayor, may make transfers from any appropriation to any other appropriation for purposes of eliminating deficits before closing the books for the fiscal year. After the close of the fiscal year, the City Auditor may, with the approval of the Mayor, apply any income, taxes, and funds not disposed of and make transfers from any appropriation to any other appropriation for the purpose of closing the accounts for the fiscal year. There were no supplemental appropriations, other than the aforementioned transfers, for the fiscal year ended June 30, 2005.

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

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

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

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 which 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, 2005 (in thousands):

	<u>Revenue</u>	<u>Expenditures</u>	<u>Other financing sources (uses), net</u>	<u>Excess of revenue and other financing sources</u>
As reported on a budgetary basis	\$ 1,980,425	1,972,092	—	8,333
Adjustments:				
Revenues to modified accrual basis	31,321	—	—	31,321
Expenditures, encumbrances, and accruals, net	—	(150)	—	150
Reclassifications:				
State-funded teachers’ retirement costs	(76,521)	(76,521)	—	—
Convention Center fund revenue	(18,000)	—	18,000	—
Transfers	(4,504)	—	4,504	—
As reported on a GAAP basis	<u>\$ 1,912,721</u>	<u>1,895,421</u>	<u>22,504</u>	<u>39,804</u>

**(5) Deposits and Investments**

State and local statutes place certain limitations on the nature of deposits and investments available to the City. Deposits, including demand deposits, money markets and certificates of deposit in any one financial

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2005

institution, may not exceed certain levels unless collateralized by the financial institution involved. Investments may be made in unconditionally guaranteed U.S. Government obligations having maturities of a year or less from the date of purchase, or through repurchase agreements with maturities of no greater than 90 days in which the underlying securities consist of such obligations. Other allowable investments include authorized bonds of all states, bankers' acceptances, commercial paper rated within the three highest classifications established by rating agencies, and units in the Massachusetts Municipal Depository Trust (MMDT). The Treasurer of the Commonwealth of Massachusetts oversees the financial management of the MMDT, a local investment pool for cities, towns, and other state and local agencies within the Commonwealth. The City's fair value of its investment in the MMDT represents their value of the pool's shares.

For the year ended June 30, 2005, the City and its blended component unit adopted Government Accounting Standards Board Statement (GASB) No. 40, *Deposit and Investment Risk Disclosures*. The standard requires that entities disclose essential risk information about deposits and investments.

### **Primary Government (except the pension trust fund)**

#### **(a) Custodial Credit Risk**

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned. The City carries deposits and investments that are fully insured by FDIC insurance, collateralized and deposits that are not collateralized and are uninsured. As of June 30, 2005, the bank balances of uninsured and uncollateralized deposits totaled approximately \$3.7 million.

#### **(b) Investment Policy**

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

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

**(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 as of June 30, 2005:

<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1-5</u>
External investment pool	\$ 620	620	—
Mutual funds	45,960	45,960	—
U.S. Treasury notes and bonds	10,670	—	10,670
Domestic corporate	4,472	—	4,472
	<u>\$ 61,722</u>	<u>46,580</u>	<u>15,142</u>

**(d) Credit Risk**

The City's fixed income investments as of June 30, 2005 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below (in thousands) using the Standard and Poor's rating scale:

<u>Investment type</u>	<u>Fair value</u>	<u>Rating</u>
Mutual funds	\$ 45,960	AAA
External investment pool	620	Not rated
Domestic corporate	4,472	AAA to BBB+
	<u>\$ 51,052</u>	

**(e) Concentration Risk**

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

**State-Boston Retirement System (SBRS or the System)**

**(a) Custodial Credit Risk**

Custodial credit risk is the risk that in the event of bank failure, the System's deposits may not be returned. The System carries deposits that are fully insured by FDIC insurance or collateralized with securities held by the System or the System's agent in the System's name. The System also carries deposits that are not collateralized and are uninsured. As of December 31, 2004, the bank balances of uninsured and uncollateralized deposits totaled approximately \$3,950,000.

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

**(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 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**

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 System's fixed income investments (in thousands) and related maturity schedule (in years) as of December 31, 2004:

<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	\$ 28,693	6,460	7,563	—	14,670
U.S. agencies	76,200	4,958	51,153	20,089	—
Domestic corporate	269,247	21,829	105,772	102,776	38,870
International corporate	89,145	8,928	47,801	28,256	4,160
International government	127,790	4,395	81,581	24,270	17,544
Asset-backed:					
CMOs	22,428	—	—	1,034	21,394
Mortgage-backed	67,762	—	864	264	66,634
Other	32,855	—	27,516	2,995	2,344
	<u>\$ 714,120</u>	<u>46,570</u>	<u>322,250</u>	<u>179,684</u>	<u>165,616</u>

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

The System has included approximately \$4,081,000 of U.S. Treasury notes in the above schedule that are classified as short-term investments on the statement of plan net assets.

The collateralized mortgage obligations (CMOs) held by the System as of December 31, 2004 are highly sensitive to changes in interest rates.

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

**(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, 2004 were rated by Standard and Poor’s and/or an equivalent national rating organization and the ratings are presented below (in thousands) using the Standard and Poor’s rating scale:

<u>Investment type</u>	<u>Fair value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>CCC</u>	<u>Not rated</u>
U.S. agencies	\$ 76,200	76,200	—	—	—	—	—	—	—
Domestic corporate	269,247	6,897	15,464	132,999	27,102	32,204	51,012	1,179	2,390
International corp.	89,145	42,348	1,629	4,167	11,965	9,302	1,645	—	18,089
International gov’t	127,790	84,240	21,178	1,086	1,153	3,873	—	—	16,260
Asset-backed:									
CMOs	22,428	18,603	—	—	—	—	—	—	3,825
Mortgage-backed	67,762	2,261	—	—	—	—	—	—	65,501
Other	32,855	27,100	861	2,443	2,451	—	—	—	—
	<u>\$ 685,427</u>	<u>257,649</u>	<u>39,132</u>	<u>140,695</u>	<u>42,671</u>	<u>45,379</u>	<u>52,657</u>	<u>1,179</u>	<u>106,065</u>

In addition to the above schedule, the System has approximately \$28,693,000 invested in U.S. government securities, which are not rated as they are explicitly guaranteed by the U.S. government.

**(e) Concentration Risk**

The System has no investments, at fair value, that exceed 5% of the System’s net assets held in trust for pension benefits as of December 31, 2004.

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

**(f) Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Similar to the investments in domestic equities, the System employs or encourages its investment advisor to employ diversification, asset allocation, and quality strategies. Currency hedging is permitted for defensive purposes. Currency hedging shall be effected through the use of forward currency contracts. At December 31, 2004, there were no open forward currency contracts.

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

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

<u>Currency</u>	<u>Short-term</u>	<u>Fixed income</u>	<u>Equity</u>	<u>Total</u>
Australian dollar	50	7,705	11,243	18,998
Canadian dollar	12	5,532	4,302	9,846
Danish krone	—	1,534	5,263	6,797
Euro currency	382	88,327	113,505	202,214
Hong Kong dollar	9	—	5,732	5,741
Japanese yen	104	50,166	77,326	127,596
Mexican peso	—	1,086	—	1,086
New Zealand dollar	3	1,111	236	1,350
Norwegian krone	—	1,371	2,955	4,326
Pound sterling	88	15,763	80,467	96,318
Singapore dollar	8	10,732	1,341	12,081
Swedish krona	—	9,217	8,727	17,944
Swiss franc	129	2,188	28,541	30,858
International equity pooled funds (various currencies)	458	—	273,556	274,014
Total securities subject to foreign currency risk	1,243	194,732	613,194	809,169
United States dollars (securities held by international investment managers)	13,847	22,203	10,430	46,480
Total international investment securities	15,090	216,935	623,624	855,649

**(6) Property Taxes**

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

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

Based on the City's experience, most property taxes are collected during the year in which they are assessed. Liening of properties on which taxes remain unpaid occurs annually. On July 27, all properties

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

with unpaid fiscal year 2004 property taxes were liened. The City ultimately has the right to foreclose on all properties where the taxes remain unpaid.

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

**(7) Receivables**

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

	<u>General</u>	<u>Special revenue</u>	<u>Capital projects</u>	<u>Other nonmajor funds</u>	<u>Internal service</u>	<u>Total</u>
Receivables:						
Property taxes	\$ 32,666	—	—	—	—	32,666
Other taxes	149,234	—	—	—	—	149,234
Intergovernmental	343,686	103,493	3,005	—	—	450,184
Other	<u>31,742</u>	<u>75,439</u>	<u>—</u>	<u>336</u>	<u>154</u>	<u>107,671</u>
Gross receivables	557,328	178,932	3,005	336	154	739,755
Less allowance for uncollectibles	<u>(168,844)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(168,844)</u>
Net total receivables	<u>\$ 388,484</u>	<u>178,932</u>	<u>3,005</u>	<u>336</u>	<u>154</u>	<u>570,911</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 (90% of total costs) to the City to build and/or renovate schools. As of June 30, 2005, under this program, the City was due funds totaling \$258.8 million.

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

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 as of June 30, 2005 (in thousands), through 2010, and in five-year increments after that:

<u>Fiscal year(s)</u>	<u>Anticipated revenue</u>
2006	\$ 112,272
2007	15,279
2008	15,163
2009	14,650
2010	14,407
2011-2015	53,744
2016-2020	33,248
Total	\$ <u>258,763</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, 2005, under this program, the City determined that \$75.4 million was collectible.

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

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general fund)	\$ 26,757	—
Due from component units	—	10,065
Section 108 receivable	75,439	—
School building assistance receivable	258,763	—
Other	—	1,867
Total deferred/unearned revenue for governmental funds	\$ <u>360,959</u>	<u>11,932</u>

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

**(8) Capital Assets**

Capital asset activity for the year ended June 30, 2005 was as follows (in thousands):

**Primary Government**

	<b>Beginning balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending balance</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 14,466	1,400	—	15,866
Construction in progress	<u>507,546</u>	<u>72,227</u>	<u>(260,172)</u>	<u>319,601</u>
Total capital assets not being depreciated	<u>522,012</u>	<u>73,627</u>	<u>(260,172)</u>	<u>335,467</u>
Capital assets being depreciated:				
Land improvements	25,021	54,442	—	79,463
Buildings and improvements	1,024,418	153,378	(35)	1,177,761
Furniture and equipment	160,075	18,941	(2,388)	176,628
Infrastructure	<u>266,950</u>	<u>41,112</u>	<u>—</u>	<u>308,062</u>
Total capital assets being depreciated	<u>1,476,464</u>	<u>267,873</u>	<u>(2,423)</u>	<u>1,741,914</u>
Less accumulated depreciation for:				
Land improvements	7,634	1,107	—	8,741
Buildings and improvements	792,027	17,567	(2)	809,592
Furniture and equipment	125,079	20,076	(2,353)	142,802
Infrastructure	<u>94,074</u>	<u>9,138</u>	<u>—</u>	<u>103,212</u>
Total accumulated depreciation	<u>1,018,814</u>	<u>47,888</u>	<u>(2,355)</u>	<u>1,064,347</u>
Total capital assets being depreciated, net	<u>457,650</u>	<u>219,985</u>	<u>(68)</u>	<u>677,567</u>
Governmental activities capital assets, net	\$ <u><u>979,662</u></u>	<u><u>293,612</u></u>	<u><u>(260,240)</u></u>	<u><u>1,013,034</u></u>

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

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

Governmental activities:		
General government	\$	9,247
Human services		463
Public safety		8,385
Public works, including depreciation of general infrastructure assets		9,649
Property and development		1,208
Parks and recreation		1,544
Library		1,152
Schools		16,105
County		135
Total depreciation expense – governmental activities	\$	<u><u>47,888</u></u>

**(9) Interfund Receivable and Payable Balances**

Individual fund and discrete component unit receivable and payable balances at June 30, 2005, are as follows (in thousands):

<b>Interfund balances</b>	<b>Receivable</b>	<b>Payable</b>
General	\$ 20,690	1,945
Special revenue	1,363	2,690
Convention Center	—	18,000
Internal service	582	—
Balances at June 30, 2005	\$ <u><u>22,635</u></u>	<u><u>22,635</u></u>

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

<b>Discrete component unit balances</b>	<b>Receivable</b>	<b>Payable</b>
Primary government:		
General	\$ 10,065	84
Hospital revenue bond	110,370	—
	<u>120,435</u>	<u>84</u>
Discretely presented component units:		
TPL	—	18
PHC	84	120,417
	<u>84</u>	<u>120,435</u>
Balances at June 30, 2005	\$ <u><u>120,519</u></u>	<u><u>120,519</u></u>

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

**(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, 2005 (in thousands):

	<u>Interest rates</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>	<u>Due within one year</u>
Bonds and notes payable:						
General obligation refunding bonds dated 2/1/05	2.5-5.0%	\$ —	127,775	—	127,775	5,125
General obligation refunding bonds dated 4/1/04	2.0-5.0%	42,330	—	5,325	37,005	6,530
General obligation refunding bonds dated 2/1/04	3.0-5.0%	100,870	—	3,800	97,070	5,090
General obligation refunding bonds dated 2/1/03	2.25-5.0%	155,150	—	8,540	146,610	9,010
General obligation refunding bonds dated 11/15/02	4.0-5.0%	28,800	—	7,895	20,905	4,790
General obligation refunding bonds dated 8/15/02	2.875-5.0%	47,795	—	270	47,525	275
General obligation bonds dated 2/1/02	3.0-5.0%	87,820	—	6,090	81,730	6,090
General obligation refunding bonds dated 4/11/01	3.50-5.0%	47,310	—	4,210	43,100	300
General obligation bonds dated 2/1/01	4.25-5.0%	94,920	—	8,360	86,560	8,360
General obligation bonds dated 2/1/00	5.0-5.75%	44,155	—	14,030	30,125	6,025
General obligation bonds dated 10/15/98	3.25-5.0%	81,450	—	40,775	40,675	6,685
General obligation refunding bonds dated 4/15/98	4.5-5.25%	50,815	—	9,995	40,820	4,960
General obligation bonds dated 1/15/98	4.5%	34,695	—	13,005	21,690	4,625
General obligation bonds dated 11/15/96	5.0%	21,200	—	10,400	10,800	5,400
General obligation bonds dated 10/15/95	5.0-5.25%	7,300	—	4,000	3,300	3,300
General obligation bonds dated 9/1/94	5.0-6.0%	5,040	—	5,040	—	—
General obligation refunding bonds dated 2/1/94	4.0-5.0%	43,835	—	43,835	—	—
		<u>\$ 893,485</u>	<u>127,775</u>	<u>185,570</u>	835,690	<u>76,565</u>
Add (deduct):						
Unamortized bond premiums					31,876	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(11,327)	
Current portion of long-term debt					<u>(76,565)</u>	
					<u>\$ 779,674</u>	

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

**(b) Notes 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, 2005 (in thousands):

	<u>Interest rates</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>	<u>Due within one year</u>
Notes and leases payable:						
MWPAT note payable	4.25-5.75%	\$ 8,418	—	884	7,534	448
Notes payable – Section 108	5.44-7.18%	46,258	1,381	1,570	46,069	2,808
Bond Anticipation Notes dated 2/02, due 2/06	3.5%	62,000	—	—	62,000	62,000
Bond Anticipation Notes dated 2/03, due 2/06	2.125%	34,000	—	—	34,000	34,000
Leases		12,600	8,228	7,415	13,413	5,073
		<u>163,276</u>	<u>9,609</u>	<u>9,869</u>	<u>163,016</u>	<u>104,329</u>
Total notes and leases payable						
Other long-term obligations:						
Judgments and claims		1,762	7,306	6,620	2,448	910
Workers' compensation		23,706	37,596	18,002	43,300	—
Compensated absences		168,154	57,151	50,641	174,664	39,889
Landfill postclosure care costs		14,547	—	58	14,489	—
		<u>208,169</u>	<u>102,053</u>	<u>75,321</u>	<u>234,901</u>	<u>40,799</u>
Total other long-term obligations						
Total notes, leases, and other long-term obligations		<u>\$ 371,445</u>	<u>111,662</u>	<u>85,190</u>	<u>397,917</u>	<u>145,128</u>

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

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

**(c) Business Type Activity Obligations**

Following is a summary of the business type long-term obligations of the City as of June 30, 2005 (in thousands):

	<u>Interest rates</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>	<u>Due within one year</u>
Convention Center fund:						
Special Obligation Bonds dated 4/1/02	4.0-5.25%	\$ 112,480	—	2,780	109,700	2,915
Hospital Bond fund:						
Special Obligation Refunding Bonds, Boston City Hospital, dated 8/1/02	2.0-5.0%	<u>120,415</u>	<u>—</u>	<u>6,125</u>	<u>114,290</u>	<u>6,305</u>
Total business type obligations		<u>\$ 232,895</u>	<u>—</u>	<u>8,905</u>	<u>223,990</u>	<u>9,220</u>
Add (deduct):						
Unamortized bond premiums					3,355	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(442)	
Current portion of long-term debt					<u>(9,220)</u>	
					<u>\$ 217,683</u>	

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

**A. General Obligation Bonds**

The annual debt service requirements of the City's general obligation governmental bonds outstanding as of June 30, 2005, are as follows (in thousands):

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Year ending June 30:			
2006	\$ 76,565	37,466	114,031
2007	76,045	34,851	110,896
2008	71,205	31,577	102,782
2009	69,080	28,234	97,314
2010	65,435	25,297	90,732
2011-2015	263,295	84,283	347,578
2016-2020	158,425	32,570	190,995
2021-2025	55,640	5,507	61,147
	\$ 835,690	279,785	1,115,475

On February 1, 2005, the City issued \$127.8 million of general obligation and refunding bonds, \$75.0 million for various municipal purposes, and \$52.8 million for the purpose of refunding certain outstanding general obligation bonds of the City. The proceeds of \$52.8 million were used to refund \$56.9 million of the City's general obligation bonds outstanding. Interest on the bond is payable semiannually each January 1, and July 1, until maturity in fiscal 2025 and 2018, respectively. The cash flow difference and economic gain (the difference between the present values of the debt service payments on old and new debt) obtained from this refunding were \$4.0 million and \$3.1 million, respectively.

***No Obligation Debt***

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

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

As of June 30, 2005, the City may issue \$2.8 billion of additional general obligation debt under the debt limit. General obligation debt of \$419.8 million, subject to the debt limit, and \$165.2 million, exempt from the debt limit, is authorized but unissued as of June 30, 2005.

**B. Notes Payable and Other Long-Term Obligations**

At June 30, 2005, the City had bond anticipation notes (BANs) and various other notes outstanding totaling \$149.6 million.

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

The annual debt of the City's notes payable as of June 30, 2005, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2006	\$ 99,256	5,414	104,670
2007	2,296	2,447	4,743
2008	3,799	2,355	6,154
2009	2,809	2,207	5,016
2010	2,676	2,088	4,764
2011-2015	28,518	7,559	36,077
2016-2020	8,345	1,664	10,009
2021-2025	1,904	250	2,154
	<u>\$ 149,603</u>	<u>23,984</u>	<u>173,587</u>

In prior years, the City issued two BANs totaling \$96 million to fund various school projects that are due in fiscal 2006. The City is expected to receive a lump-sum payment from the MSBA to pay down the BANs in fiscal year 2006; accordingly, they have been classified as current long-term obligations.

In fiscal year 2005, the Massachusetts Water Pollution Abatement Trust (MWPAT) refinanced its outstanding debt, which resulted in debt service savings passed through to the City via the MWPAT note. The loan provides funding for the closure and postclosure care costs relating to the City's Gardner Street Landfill. Proceeds are received on a reimbursement basis from MWPAT as expenditures are incurred by the City.

**C. Proprietary Fund Obligations**

The annual debt service requirements of the City's special obligation bonds and Boston City Hospital, Series B, revenue bonds, outstanding as of June 30, 2005 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2006	\$ 9,220	10,188	19,408
2007	9,565	9,843	19,408
2008	9,920	9,451	19,371
2009	10,360	9,009	19,369
2010	10,815	8,546	19,361
2011-2015	60,975	35,698	96,673
2016-2020	65,285	20,009	85,294
2021-2025	32,475	8,874	41,349
2026-2030	15,375	1,163	16,538
	<u>\$ 223,990</u>	<u>112,781</u>	<u>336,771</u>

The revenue refunding bonds of the Boston City Hospital (BCH) do not constitute general obligations of the City and the annual debt service of these bonds has been assumed by the Boston Public Health

## CITY OF BOSTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2005

Commission. The Boston Public Health Commission expects to meet its obligation on the bonds through application of a portion of the rent payable to the Boston Public Health Commission by the Boston Medical Center Corporation (BMC) for its lease of the former Boston City Hospital. Under certain circumstances, including a default by BMC under the lease, City revenues may be required to satisfy the debt service requirements on the Series B bonds.

The Boston Public Health Commission has assumed responsibility for paying to the City, an amount equal to current debt service on all outstanding general obligation bonds of the City issued for public health and hospital purposes, which amounted to \$9.9 million at June 30, 2005.

#### *Defeased Debt*

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

- On April 11, 2001, the City issued \$52.0 million in general obligation refunding bonds to advance refund \$49.9 million of 1991, 1994, and 1995 Series Bonds.
- In August 2002, \$127.8 million of bonds were issued to refund the Boston City Hospital, Series B Bonds dated June 1, 1993.
- On November 15, 2002, the City issued \$43.1 million of general obligation refunding bonds for the purpose of refunding \$45.1 million of outstanding general obligation bonds of the City, 2002 Series C.
- In February 2004, the City issued \$100.9 million of general obligation refunding bonds, of which \$65.0 million were general obligation and \$35.9 million was used to advance refund \$37.7 million of 1994, 1995, 1996, and 1998 Series Bonds.
- In February 2005, the City issued \$127.8 million of general obligation refunding bonds, of which \$75.0 million were general obligation and \$52.8 million was used to advance refund \$56.9 million of 1996, 1998, and 2000 Series Bonds.

The principal amount of debt refunded through in-substance defeasance transactions and still outstanding at June 30, 2005 was approximately \$160.0 million.

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

**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 2005 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>
July 21, 2002	\$ 695	—	695	—
December 20, 2002	7,119	—	3,626	3,493
April 21, 2004	4,786	—	2,182	2,604
November 5, 2004	—	7,178	912	6,266
March 11, 2005	—	1,050	—	1,050
	<u>\$ 12,600</u>	<u>8,228</u>	<u>7,415</u>	<u>13,413</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, 2005 are as follows (in thousands):

2006	\$ 5,398
2007	4,736
2008	2,237
2009	936
2010	416
2011	243
2012	120
Total minimum lease payments	<u>14,086</u>
Less amount representing interest	<u>673</u>
Total minimum principal lease payments	13,413
Less current portion	<u>5,073</u>
Long-term portion	<u>\$ 8,340</u>

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

## CITY OF BOSTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2005

#### (11) Retirement Plans

##### (a) *Plan Description*

The City contributes to the State-Boston Retirement System (the System), 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 & Sewer Commission
- (5) Boston Public Health Commission
- (6) Sheriff of Suffolk County

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

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

The City also participates in the Boston Retirement System (BRS) and made benefit payments of approximately \$6.3 million for the year ended June 30, 2005. The number of BRS plan participants was frozen in 1946. The financial statements of BRS are combined with the System's; however, disclosures for BRS are not material and, thus, are not presented separately.

##### (b) *Basis of Accounting*

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

Investments of the System are stated as follows:

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

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

**(c) Membership**

Membership in the System consisted of the following at December 31, 2004, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	13,878
Terminated plan members entitled to but not receiving benefits	10,542
Active plan members	20,882
Total membership	<u>45,302</u>
Total number of participating employers	6

**(d) Contributions**

Plan members are required to contribute to the System. Depending on their employment date, active members must contribute a range of 5% - 9% of their regular gross compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. Participating employers are required to pay into the System their share of the remaining system-wide actuarially determined contribution, which is apportioned among the employers based on active covered payroll. The Commonwealth of Massachusetts (the Commonwealth) reimburses the City for benefits paid to school teachers. The Commonwealth also reimbursed the System for a portion of benefit payments for cost of living increases granted before July 1, 1998. The contributions of plan members and the participating employers are governed by Chapter 32 of the MGL. The City's required and actual contributions to the System for the years ended June 30, 2005, 2004 and 2003 were \$147 million, \$137 million, and \$134 million, or \$71 million, \$78 million, and \$86 million, net of teachers' retirement, respectively.

During the fall of 1997, the System's Retirement Board, the City Council, and the Mayor approved the option for local funding of cost of living adjustments. As a result, a locally funded cost of living adjustment of 3.0% on the first \$12,000 of a retiree's annual payment was awarded in fiscal year 2002 and fiscal year 2001. These cost of living adjustments will be awarded by the Retirement Board each year, except in years in which the Retirement Board determines that such an adjustment would substantially impair the funding schedule.

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

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

The balances in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2004 are as follows (in thousands):

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity savings fund	\$ 1,104,962	Active members' contribution balance
Annuity reserve fund	370,986	Retired members' contribution account
Military service credit	48	Members' contribution account while on military leave
Pension reserve fund	1,433,298	Amounts appropriated to fund future retirement benefits
Pension fund	<u>638,546</u>	Remaining net assets
	<u>\$ 3,547,840</u>	

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

(f) ***Securities Lending***

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

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

The System does not impose any restrictions on the amount of securities lent on its behalf by the custodian. There were no failures by any borrowers to return loaned securities or pay distributions thereon, and there were no losses from a default of the borrowers or the custodian for the years ended December 31, 2004 and 2003. 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, 2004 and 2003, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts owed to the System. Borrower rebates and fees paid to the custodian during the years ended December 31, 2004 and 2003 were \$2.7 million and \$2.2 million, respectively.

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

At December 31, 2004 and 2003, the fair value of securities loaned by the System amounted to \$215.1 million and \$217.2 million, respectively, against which was held collateral of \$222.7 million and \$233.9 million, respectively, as follows (in thousands):

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Short-term collateral investment pool	\$ 219,129	205,489
Noncash collateral	3,539	18,387
Total	\$ 222,668	223,876

**(g) Commitments**

At December 31, 2004, the System had contractual commitments to provide approximately \$270 million of additional funding to venture capital funds.

**(12) Other Postemployment Benefit Disclosures**

In addition to the pension benefits described in note 11, the City provides postemployment health care and life insurance benefits, in accordance with state statute and City ordinance, to participating retirees. Approximately 12,600 retirees meet the eligibility requirements as put forth in Chapter 32B of MGL. The City pays 75% of Blue Cross/Blue Shield of Massachusetts (BC/BS) premiums and 90% of HMO premiums for medical and hospitalization incurred by retirees and their dependents. The City also pays 75% of BC/BS Medicare premiums for each Medicare eligible retiree. The City provides for 50% of the premiums for \$5,000 of life insurance for each eligible retiree.

Expenditures of approximately \$76.6 million for health care and life insurance benefits for retirees are accounted for on a pay-as-you-go basis in fiscal year 2005.

**(13) Transfers**

Transfers and their purposes during the year ended June 30, 2005 were as follows (in thousands):

	<b>Governmental funds</b>			<b>Proprietary fund</b>
	<b>General</b>	<b>Special revenue</b>	<b>Other governmental</b>	<b>Convention center</b>
Primary government:				
Excess hotel/motel excise taxes	\$ 18,000	—	—	(18,000)
Cemetery fees/fund appropriation	2,029	—	(2,029)	—
Parking meter fees/fund appropriation	3,500	(3,500)	—	—
Total	\$ 23,529	(3,500)	(2,029)	(18,000)

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

**(14) Excess of Expenditures over Budgets**

The City had expenditures in excess of their budgeted amounts for the year ended June 30, 2005 in the following categories (in thousands):

Public safety:		
Police Department	\$	9,679
Fire Department		11,162
Public works:		
Snow removal		14,270
Judgments and claims:		
Execution of courts		7,384
Other employee benefits:		
Worker's compensation fund		1,716
State and district assessments:		
School choice		25
	\$	<u>44,236</u>

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

**(15) Public Health System**

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

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

The PHC receives the majority of its funding from Federal and state grants, lease agreements with BMC and a City appropriation. During fiscal year 2005, the City appropriated \$60.6 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 \$61.3 million for the PHC for fiscal year 2006.

*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.

## CITY OF BOSTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2005

These general obligation bonds were issued by the City between December 1967 and October 1995 and total \$9.9 million at June 30, 2005. These bonds pertain to the property and operations of the BCH Campus, South Block Campus, BSRH Campus, Emergency Medical Services Operations, and the Long Island Campus.

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

#### *Payments to BMC*

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

#### **(16) Risk Management**

The City is self insured for general liability, property, and casualty (except for boiler and machinery losses up to \$2.5 million), worker injury, unemployment, and certain employee health claims. The City's Corporation Counsel defends the City in any lawsuits that arise from the normal course of operations, with exposure limited by a state tort cap under Chapter 258 of the MGL. Except for certain health care costs described below, judgments and claims are charged to the general fund.

The City's health insurance program, administered by the Health Insurance and Benefits Division, a program within Human Resources, provides coverage to the City's employees and retirees through a number of Health Maintenance Organizations (HMO) and Blue Cross/Blue Shield of Massachusetts (BC/BS). Costs to the City for the HMOs, of which 10% is paid by employees, are accounted for in the general fund and are capped at a defined premium payment per employee.

BC/BS acts as a third-party agent for the City in the payment of the various claim plans used by the City. Costs incurred for the operation of the BC/BS plans, of which 25% is paid by employees, are accounted for in a separate health insurance internal service fund.

The City has implemented a comprehensive risk financing strategy that includes establishing a catastrophic risk reserve, currently with a \$10 million balance available for future losses. The City has also improved systems for maximizing the receipt of Federal disaster funds. On August 28, 2004, the City's property insurance policy went into effect – a one-year, all-risk catastrophic policy covering all City property assets up to \$50 million, after a \$20 million retention. Any boiler and machinery-related property loss is additionally insured, after a \$50,000 deductible, for up to \$2.5 million.

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

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, 2005 and 2004 are as follows (in thousands):

	<b>Internal service fund</b>	
	<b>2005</b>	<b>2004</b>
Health and life claims, beginning of year	\$ 6,114	7,325
Incurred claims	83,035	74,515
Payments of claims attributable to events of both the current and prior fiscal years:		
Health and life	(82,684)	(75,726)
Health and life claims, end of year	<u>\$ 6,465</u>	<u>6,114</u>
	<b>Government-wide statements</b>	
	<b>2005</b>	<b>2004</b>
Judgments and claims, beginning of year	\$ 25,468	30,616
Incurred claims	48,777	21,273
Payments of claims attributable to events of both the current and prior fiscal years:		
Workers' compensation	(18,708)	(16,646)
Unemployment compensation	(3,164)	(6,605)
Court judgments	(6,625)	(3,170)
Judgments and claims, end of year	<u>\$ 45,748</u>	<u>25,468</u>

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

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

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

**(17) Discretely Presented Component Units**

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

Condensed Statement of Net Assets					
June 30, 2005					
(In thousands)					
	<b>PHC</b>	<b>BRA</b>	<b>TPL</b>	<b>EDIC</b>	<b>Total</b>
<b>Assets:</b>					
Current assets:					
Cash and investments	\$ 38,475	40,942	56,546	8,808	144,771
Cash and investments held by trustee	—	—	—	17,946	17,946
Receivables, net:					
Other	4,437	1,500	4,132	17,974	28,043
Other assets	8,384	—	2,025	5,910	16,319
Due from BMC	1,302	—	—	—	1,302
Due from primary government	84	—	—	—	84
<b>Total current assets</b>	<b>52,682</b>	<b>42,442</b>	<b>62,703</b>	<b>50,638</b>	<b>208,465</b>
Noncurrent assets:					
Notes receivable	4,167	79,790	—	—	83,957
Other assets	109,203	32,647	73	—	141,923
Capital assets:					
Nondepreciable	16,290	3,476	—	1,420	21,186
Depreciable	7,856	1,573	1,527	25,610	36,566
<b>Total noncurrent assets</b>	<b>137,516</b>	<b>117,486</b>	<b>1,600</b>	<b>27,030</b>	<b>283,632</b>
<b>Total assets</b>	<b>190,198</b>	<b>159,928</b>	<b>64,303</b>	<b>77,668</b>	<b>492,097</b>
<b>Liabilities:</b>					
Current liabilities:					
Warrants and accounts payable	9,539	1,648	1,490	4,943	17,620
Accrued liabilities:					
Other	—	—	162	2,503	2,665
Current portion of long-term debt and leases	218	—	—	12,274	12,492
Due to BMC	16,268	—	—	—	16,268
Due to primary government	120,417	—	18	—	120,435
Deferred revenue	3,354	33,902	349	7,111	44,716
<b>Total current liabilities</b>	<b>149,796</b>	<b>35,550</b>	<b>2,019</b>	<b>26,831</b>	<b>214,196</b>
Noncurrent liabilities:					
Due in more than one year	—	115,329	439	21,243	137,011
Other noncurrent liabilities	4,005	—	—	1,104	5,109
<b>Total noncurrent liabilities</b>	<b>4,005</b>	<b>115,329</b>	<b>439</b>	<b>22,347</b>	<b>142,120</b>
<b>Total liabilities</b>	<b>153,801</b>	<b>150,879</b>	<b>2,458</b>	<b>49,178</b>	<b>356,316</b>
<b>Net assets:</b>					
Invested in capital assets, net of related debt	21,308	3,574	1,088	12,602	38,572
Restricted	—	—	58,269	—	58,269
Unrestricted	15,089	5,475	2,488	15,888	38,940
<b>Total net assets</b>	<b>\$ 36,397</b>	<b>9,049</b>	<b>61,845</b>	<b>28,490</b>	<b>135,781</b>

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2005

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

Year ended June 30, 2005

(In thousands)

	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Expenses	\$ 114,915	19,918	13,865	34,177	182,875
Program revenues:					
Charges for services	—	11,246	970	14,354	26,570
Operating grants and contributions	102,909	4,085	11,051	17,316	135,361
Capital grants and contributions	1,289	—	—	—	1,289
Total program revenues	104,198	15,331	12,021	31,670	163,220
Net (expenses) revenues	(10,717)	(4,587)	(1,844)	(2,507)	(19,655)
General revenues:					
Investment income	2,482	248	3,544	975	7,249
Miscellaneous income	12,089	4,583	—	1,785	18,457
Total general revenues	14,571	4,831	3,544	2,760	25,706
Change in net assets	3,854	244	1,700	253	6,051
Net assets – beginning of year	32,543	8,805	60,111	28,237	129,696
Prior period adjustment	—	—	34	—	34
Net assets – end of year	\$ 36,397	9,049	61,845	28,490	135,781

**(18) Special Items**

**(a) Change in Legislation**

In July 2004, a change in State legislation, outside of the City's control, resulted in the recognition of a receivable from the Massachusetts School Building Authority (MSBA) related to the school building assistance program. Although the receivable of \$258.8 million at June 30, 2005 increases unrestricted net assets, amounts to be received represent reimbursements for prior school construction costs and coincide with the City's future debt service payments. In fiscal 2006, the City expects to receive \$112.3 million which will be used to repay related debt service.

**(b) Changes in Accounting Estimates**

In fiscal 2005, the City's estimate of the collectibility of certain construction, developer, and other loans receivables, totaling \$269 million, changed, resulting in an increase in net assets of the governmental activities at June 30, 2005 of approximately \$75.4 million. At June 30, 2005, a portion of this increase (\$29.4 million) is included in restricted net assets as it will be used for program purposes, while the remainder is expected to be used to repay outstanding debt of \$46.1 million.

## CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information  
(Unaudited)

(Dollar amounts in thousands)

## Schedule of Funding Progress

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
01/01/05	\$ 3,587,118	5,664,288	2,077,170	63.3%	\$ 1,115,529	186.2%
01/01/04	3,384,814	5,420,842	2,036,028	62.4	1,067,492	190.7
01/01/03	3,204,893	5,121,319	1,916,426	62.6	1,099,779	174.3
01/01/02	3,371,716	4,796,130	1,424,414	70.3	1,052,420	135.3
01/01/01	3,211,692	4,256,714	1,045,022	75.5	990,325	105.5
01/01/00	2,979,953	4,101,383	1,121,430	72.7	943,107	118.9

## Schedule of Employers' Contributions

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

## Notes to Schedules

Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2005
Actuarial cost method	Entry age normal cost
Amortization method	Payment increase at 4.5% per year
Remaining amortization period	19 years remaining as of January 1, 2004
Asset valuation method	Sum of actuarial value at the beginning of the year, contributions and investment earnings based on the actuarial interest assumption less benefit payments and operating expenses plus 20% of market value at the end of the year in excess of that sum, plus additional adjustment toward market value as necessary so that final actuarial value is within 20% of market value. A similar formula used for negative adjustment toward market value if actuarial value exceeds market value.

## Actuarial assumptions:

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

See accompanying independent auditors' report.