

City of Boston

Massachusetts

Basic Financial Statements and Required Supplementary Information

For the Fiscal Year Ended June 30, 2010

Thomas M. Menino, Mayor

Meredith Weenick, Acting Director of Administration and Finance

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Prepared by the City of Boston Auditing Department

City of Boston, Massachusetts
Basic Financial Statements and Required Supplementary Information
For the Fiscal Year Ended June 30, 2010

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston (the City), Massachusetts, as of and for the year ended June 30, 2010, 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 3.1% and 2.7% of the assets and revenues of the aggregate remaining fund information, respectively, and 23.7% and 23.5% of the assets and revenues of the discretely presented component units, respectively. 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*. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston, Massachusetts, as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.



In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 15 and the schedules of funding progress and employers' contributions on page 70 are not required parts of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Boston, Massachusetts
November 19, 2010

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Management's Discussion and Analysis
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The City of Boston (the City) provides this Management's Discussion and Analysis to present additional information to the readers of the City's basic financial statements. This narrative overview and analysis of the financial activities of the City is for the fiscal year ended June 30, 2010. 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 and other postemployment benefit (OPEB) plan information. The components of the financial statements are described in the following sections.

Basic Financial Statements

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

Government-wide Financial Statements

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

- The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the City.

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

- *Governmental Activities* – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal and state grants). Most services normally associated with city government fall into this category, including general government, human services, public safety, public works, property and development, parks and recreation, library, schools, county, public health programs, state and district assessments, and debt service.
- *Business-type Activities* – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the City include the activities related to the City's Convention Center Bond Fund and Hospital Bond Fund.
- *Discretely Presented Component Units* – These are operations for which the City has financial accountability but function independent of the City. For the most part, these entities operate similar to private-sector businesses and the business-type activities described above. The City's four discretely presented major component units are the Boston Public Health Commission, the Boston Redevelopment Authority, the Economic Development Industrial Corporation, and the 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 Financial Statements. All of the funds of the City can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

Governmental Funds – 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

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near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach, revenues are recorded when cash is received or when susceptible to accrual. Expenditures are recorded when liabilities are incurred and due. These statements provide a detailed short-term view of the City's finances to assist in determining whether there will be adequate financial resources available to meet the current needs of the City.

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

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

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

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

Proprietary Funds – 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

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Proprietary Fund Financial Statements. The basic Proprietary Funds Financial Statements can be found immediately following the Governmental Fund Financial Statements.

Fiduciary Funds— 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, the OPEB Trust Fund, which is an irrevocable trust established for the accumulation of assets to reduce the unfunded actuarial liability associated with the City's obligation to other postemployment benefits, and the Private Purpose Trust Funds, which includes money held and administered by the City on behalf of third parties.

The Fiduciary Funds Financial Statements can be found immediately following the Proprietary Fund Financial Statements.

Notes to the Financial Statements

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

Required Supplementary Information

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

CURRENT YEAR FINANCIAL IMPACTS

- Due to amendments in Massachusetts General Law, the funding mechanism for Boston Teachers' Pensions changed in fiscal year 2010. Consequently, the legislation eliminates the City's role in the funding of teachers' pension allowances and transfers pension fund assets held by the SBRS allocable to teachers' pension liabilities to the Pension Reserves Investment Trust (PRIT) Fund. As a result of the change in legislation, in fiscal year 2010 the City did not receive reimbursement of \$118.8 million in teachers' pension expense that was accrued for at the end of fiscal year 2009. This change caused a dramatic, one-time impact on the City's financial statements that is evident at the both the government-wide and fund levels, as will be highlighted in subsequent sections.
- In fiscal year 2010, the City of Boston's OPEB obligation continues to play an integral role in the government-wide financial results. With each passing year, the City is required to recognize an additional portion of its unfunded actuarial accrued liability, which will only continue to add to the deficit in unrestricted net assets.

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GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Government-wide Highlights

Net Assets – Primary Government – The total assets of the City exceeded its liabilities at fiscal year ended June 30, 2010 by \$555.1 million (presented as net assets). At year end, the city had a deficit in unrestricted net assets in the amount of \$106.3 million. This represents the City's election to fund certain long term liabilities as they come due, rather than as they are incurred.

Changes in Net Assets – Primary Government – The City's total net assets decreased by \$224.9 million in fiscal year 2010. Net assets of governmental activities decreased by \$230.5 million, while net assets of the business-type activities increased by \$5.6 million.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets (governmental and business-type activities) totaled \$555.1 million at the end of 2010, compared to \$780.1 million at the end of the previous year.

The components of net assets comprise the following: the investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related debt used to acquire that asset that is still outstanding – this amount is \$427.1 million indicating that the net book value of the City's capital assets exceeds the amount of capital debt outstanding. The City uses these capital assets to provide services to citizens; consequentially, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City's governmental activities net assets, \$234.3 million or 40%, represents restricted net assets, or resources that are subject to external restrictions on how they may be used. Internally imposed designations of resources are not presented as restricted net assets. The remaining balance of net assets represents the deficit in unrestricted net assets. Unrestricted net assets decreased \$284.9 million from 2009. This decrease is largely due to the previously mentioned teachers' pension funding change and the increase in the OPEB actuarial liability which is discussed.

At the end of the current fiscal year, the City is reporting a positive net asset balance for the government as a whole. The negative net asset balance reported for business-type activities is offset by the positive balance reported for governmental activities. The negative balance in business-type activities is a result of special obligation bonds outstanding at year-end. These costs are intended to be covered by user charges, grants, and lease receipts from third parties.

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Net Assets (Deficit) – Primary Government
(In thousands)

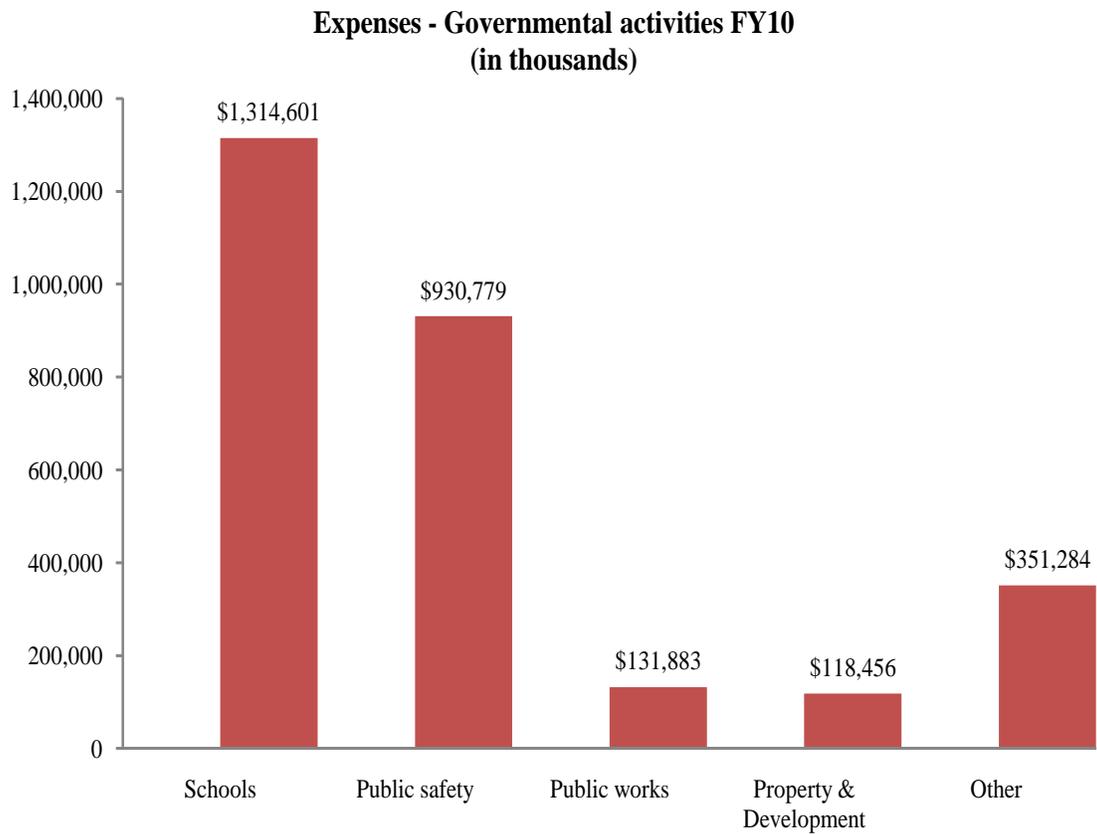
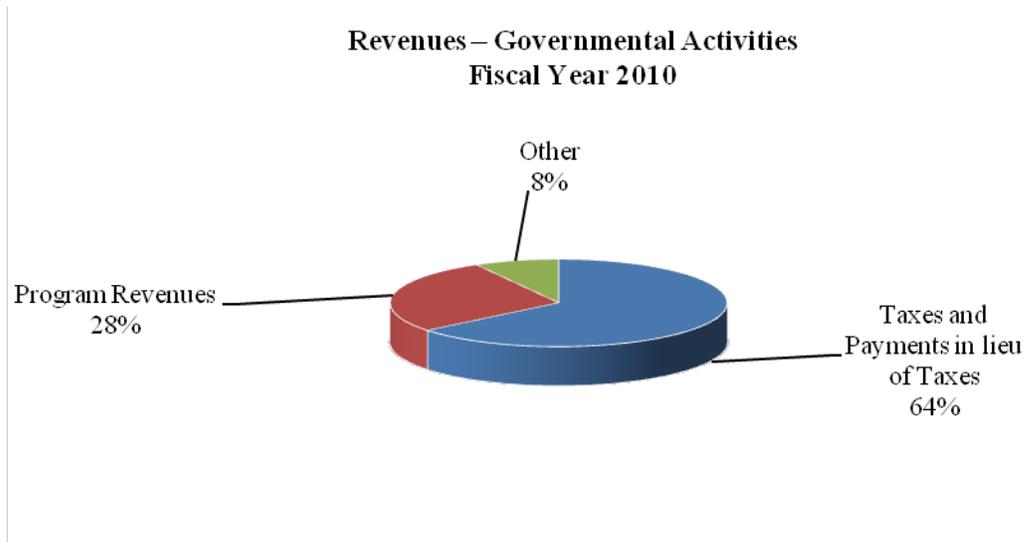
	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Current assets	\$ 1,423,188	1,472,556	66,457	64,289	1,489,645	1,536,845
Capital assets	1,348,199	1,285,270	0	0	1,348,199	1,285,270
Other assets	129,424	130,984	74,581	82,298	204,005	213,282
Total assets	\$ 2,900,811	2,888,810	141,038	146,587	3,041,849	3,035,397
Noncurrent liabilities	\$ 1,685,794	1,520,738	164,652	176,126	1,850,446	1,696,864
Current liabilities	622,705	545,195	13,554	13,264	636,259	558,459
Total liabilities	\$ 2,308,499	2,065,933	178,206	189,390	2,486,705	2,255,323
Invested in capital assets net of related debt	\$ 427,097	384,389	0	0	427,097	384,389
Restricted	234,339	217,070	0	0	234,339	217,070
Unrestricted	(69,124)	221,418	(37,168)	(42,803)	(106,292)	178,615
Total net assets (deficit)	\$ 592,312	822,877	(37,168)	(42,803)	555,144	780,074

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Changes in Net Assets (Deficit) – Primary Government
(In thousands)

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 157,049	169,826	0	0	157,049	169,826
Operating grants and contributions	547,812	594,914	5,567	1,116	553,379	596,030
Capital grants and contributions	12,555	56,517	0	0	12,555	56,517
General revenues:						
Taxes:						
Property taxes, levied for general purposes	1,468,340	1,389,218	0	0	1,468,340	1,389,218
Excises	123,121	115,237	43,887	36,605	167,008	151,842
Payment in lieu of taxes	67,265	56,686	0	0	67,265	56,686
Grants and contributions not restricted	171,174	230,475	0	0	171,174	230,475
Investment income	17,221	22,584	3,567	6,299	20,788	28,883
Miscellaneous	21,901	12,107	0	0	21,901	12,107
Total revenues	<u>2,586,438</u>	<u>2,647,564</u>	<u>53,021</u>	<u>44,020</u>	<u>2,639,459</u>	<u>2,691,584</u>
Program expenses:						
General government	106,435	103,420	0	0	106,435	103,420
Human services	52,310	48,896	0	0	52,310	48,896
Public safety	930,779	920,790	0	0	930,779	920,790
Public works	131,883	145,867	0	0	131,883	145,867
Property and development	118,456	105,581	0	0	118,456	105,581
Parks and recreation	31,204	30,026	0	0	31,204	30,026
Library	50,050	52,881	0	0	50,050	52,881
Schools	1,314,601	1,316,314	0	0	1,314,601	1,316,314
Public health programs	71,453	71,618	0	0	71,453	71,618
Interest on long-term debt	39,832	28,041	0	0	39,832	28,041
Convention center	0	0	13,751	4,902	13,751	4,902
Hospital	0	0	3,635	3,924	3,635	3,924
Total program expenses	<u>2,847,003</u>	<u>2,823,434</u>	<u>17,386</u>	<u>8,826</u>	<u>2,864,389</u>	<u>2,832,260</u>
Excess (deficiency) before special items and transfers	(260,565)	(175,870)	35,635	35,194	(224,930)	(140,676)
Transfers	<u>30,000</u>	<u>27,000</u>	<u>(30,000)</u>	<u>(27,000)</u>	<u>0</u>	<u>0</u>
Change in net assets	(230,565)	(148,870)	5,635	8,194	(224,930)	(140,676)
Net assets (deficit) – beginning of year	822,877	975,247	(42,803)	(50,997)	780,074	924,250
Prior year adjustment – implementation of GASB49	<u>0</u>	<u>(3,500)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(3,500)</u>
Net assets (deficit) – end of year	<u>\$ 592,312</u>	<u>822,877</u>	<u>(37,168)</u>	<u>(42,803)</u>	<u>555,144</u>	<u>780,074</u>

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Governmental Activities

The City's governmental activities net assets decreased by \$230.5 million over the prior fiscal year. The following net changes occurred during the course of operations in fiscal year 2010: In the assets accounts, cash and investments increased by \$5.6 million, receivables decreased by \$187.9 million, and capital assets increased by \$62.9 million. In the liability accounts, there were increases in warrants and accounts payable of \$29.6 million, unearned revenue of \$11.6 million, and accrued liabilities of \$35.6 million. Additionally, an increase of \$105.6 million was recorded relative to the City's other postemployment obligation in 2010.

During fiscal year 2010, the City's revenues decreased by 2.3%. The City's largest sources of revenues were property taxes, excise taxes, and payment in lieu of taxes of \$1.66 billion (63.4% of total revenue) and \$717.4 million of program revenues (27.4% of total revenue). The primary factors for the increase in tax revenue were an increase in property tax, meals excise, and hotel room occupancy excise. The decrease in program revenue is attributable to decreases in MSBA reimbursements as well as building permit revenues. Investment income and other miscellaneous revenues for fiscal year 2010 totaled \$39.1 million, up \$4.4 million from fiscal year 2009. The primary cause of the increase is the result of a transfer of sale of surplus property revenue in fiscal year 2010, whereas fiscal year 2009 had no such transfer.

The City's expenses cover a range of services. The largest expenses were for schools (\$1.31 billion), public safety (\$930.8 million), public works (\$131.9 million), property and development (\$118.5 million), general government (\$106.4 million), public health programs (\$71.5 million), and human services (\$52.3 million). Despite a slight increase in expenses of \$23.6 million from 2009, the City was aggressive in containing costs in 2010 as a result of decreases in state funding. All categories of government continue to experience an increase in expenses due to the recognition of the City's OPEB expense, which increased \$105.6 million in 2010.

In 2010, governmental activities expenses exceeded program revenues (i.e., user charges, operating grants, and capital grants) by \$2.1 billion. This shortfall was covered primarily through taxes (\$1.66 billion) and unrestricted grants and contributions (\$171.2 million).

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

Business-type Activities

Net assets from business-type activities increased \$5.6 million during fiscal year 2010. This change in net assets resulted primarily from hotel/motel excise tax collections exceeding program expenses.

FINANCIAL ANALYSIS OF THE CITY'S FUND STATEMENTS

This analysis is based on the Governmental and Proprietary Fund Financial Statements on pages 20 through 27. As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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Fund Highlights

Governmental Funds – Fund Balances – As of the close of fiscal year 2010, the City's governmental funds reported a combined ending fund balance of \$963.2 million, a decrease of \$112.6 million from the prior year. Of this total amount, \$606.0 million represents the "unreserved and undesignated fund balances" with \$547.3 million of this amount in the General Fund. The decrease in fund balance is largely due to the previously mentioned change in teachers' pension funding.

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 2010 was \$547.3 million, which represents approximately 22.6% of GAAP General Fund operating expenditures.

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

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

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

Special Revenue Fund – Fund Balance – The Special Revenue Fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for predefined purposes. The fiscal year

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2010 Special Revenue Fund balance is reported at \$173.1 million, a \$7.7 million decrease from fiscal year 2009. This decrease is due to increased expenditures in federal grants.

Capital Projects Fund – Fund Balance – The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds and trust funds. The fiscal year 2010 Capital Projects Fund balance is \$45.3 million, a \$15.3 million increase from fiscal year 2009. The increase in fund balance is attributable to the excess balance of unspent bond proceeds from the issuance of general obligation bonds to fund capital projects.

Other Governmental Funds – Fund Balance – Other Governmental Funds account for assets held by the City in permanent trust funds. The fiscal year 2010 Other Governmental Funds fund balance is \$37.6 million, a \$1.3 million increase from fiscal year 2009. The increase in fund balance is largely due to the improvement in investment returns during fiscal year 2010.

Proprietary Funds

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

The City's proprietary funds net deficit for fiscal year 2010 was \$37.2 million. The net deficit in the proprietary funds is a result of the convention center special obligation bonds outstanding at year-end.

Budgetary Highlights

General Fund budgetary highlights include ending fiscal year 2010 with a \$9.1 million surplus. This represents the City's 25th consecutive year with a balanced budget. One significant change from the original budget to the final amended budget was in the area of public safety expenditures. The final amended budget reflects additional amounts required to fund the firefighter's retro-active pay, pursuant to an arbitration agreement between the City and the local firefighters union.

Although the budgetary estimates for revenue exceeded actual receipts in fiscal year 2010, the revenue deficit is due to a large decrease in state aid of \$131.9. This number is skewed by the change in funding structure of the teachers' pension. When the change to teachers' pension is considered, the decrease in state aid was only \$5.1 million. Favorable results were reported for other General Fund revenue sources. Departmental and other revenue posted a \$4.6 million favorable variance, while excises taxes posted a \$15.4 million favorable variance, largely due to an increase in meals and hotel room excise receipts.

The overall expenditure surplus of \$113.3 million is also the result of the funding change in teachers' pension, which is represented in the \$126.4 million favorable variance for retirement costs. Additionally, public works saw a \$4.3 million surplus, largely attributable decreased costs for snow removal. However, there was overspending in public safety and judgments and claims. Public safety deficits of \$10.3 million are generally due to overtime spending in the Police Department. Judgments and claims saw an increase in settled claims creating a \$12.5 million deficit.

Required Supplementary Information
Management's Discussion and Analysis
June 30, 2010
(Unaudited)

CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital Assets

The City's investment in capital assets for its governmental activities, as of June 30, 2010, has a net book value of \$1.35 billion, made up of costs totaling \$2.69 billion less accumulated depreciation of \$1.34 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and have value only to the City, such as roads, bridges, streets, sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the City's investment in capital assets for the current fiscal year was approximately 4.9% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$136.5 million for the year. Most of this amount was used for the purpose of constructing or reconstructing buildings and building improvements. Depreciation charges for the year totaled \$72.7 million. Additional information on the City's capital assets can be found in note 8 of the Notes to the Financial Statements.

Long-Term Obligations

Debt Administration – The authority of the City to incur debt is governed by federal and state laws that restrict the amounts and purposes for which a municipality can incur debt. At year-end, the City had \$952.8 million in General Obligations Bonds principal outstanding – an increase of \$36.0 million over last year.

The key factor in this increase was the issuance of the March 18, 2010 Series A general obligation bonds totaling \$40.0 million exceeding principal repayments and the net effect of refundings. Further, \$68.4 million Series B was issued for the purpose of refunding certain outstanding general obligations of the City. Additionally, the City took advantage of Federal programs made available by the American Recovery and Reinvestment Act (ARRA) of 2009, by issuing the 2009 QSCB Series A and 2010 Series C-E bonds. The table below presents a summary of the savings from the ARRA bonds, versus a traditional, tax-exempt issuance.

	2009 Qualified School Construction Bond Series A	2010 Series C Taxable Build America Bonds	2010 Series D Taxable Recovery Zone Bonds	2010 Series E Taxable Qualified School Construction Bonds
Pricing Date	October 28, 2009	March 18, 2010	March 18, 2010	March 25, 2010
Par Amount	\$20,000,000	\$30,905,000	\$16,685,000	\$17,415,000
Debt Service Savings	\$4,940,843	\$965,419	\$2,700,573	\$8,175,982
PV of Debt Service Savings	\$3,651,130	\$733,825	\$2,266,309	\$6,402,105
Average Annual Savings	\$308,803	\$48,271	\$135,029	\$510,999

In March 2010, in conjunction with the City's annual bond offering, the rating service bureaus Moody's Investors Service and Standard & Poor's reaffirmed the City's bond ratings at Aa1 and AA+, respectively. Furthermore, in April 2010 Moody's Investors Services began the recalibration of its long-term U.S. municipal ratings to its global rating scale, in order to be more in line with the ratings it issues

Required Supplementary Information
Management's Discussion and Analysis
June 30, 2010
(Unaudited)

for corporate debt. Accordingly, the City of Boston's bond rating has been recalibrated from Aa1 to Aaa by Moody's on this new global ratings scale. General Obligation Bonds are backed by the full faith and credit of the City, including the City's power to levy additional taxes to ensure repayment of the debt. Accordingly, all general obligation debt currently outstanding has been approved by a vote of the City Council.

Notes and Leases Payable and Other Long-Term Obligations – The City's general long-term notes and leases and other long-term obligations increased by \$147.9 million, or 19.2%, during the current fiscal year. As in 2009, the key factor for this increase is the recognition of additional OPEB of \$105.6 million.

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

NEW ACCOUNTING STANDARDS

During the fiscal year ended June 30, 2010, the City adopted GASB Statement No. 51 (GASB 51), *Accounting and Financial Reporting for Intangible Assets*, establishing accounting and financial reporting for intangible assets. Examples of intangible assets are easements, patents, computer software either purchased or internally generated. As with other capital assets, the useful life of an intangible asset must be greater than one year. Intangible assets are classified as capital assets and are included in note 8. The City has recognized intangible assets in the statement of net assets in accordance with GASB 51.

The City has also adopted GASB Statement No. 53 (GASB 53), *Accounting and Financial Reporting for Derivative Instruments*, as of June 30, 2010. SBRS adopted GASB 53 as of December 31, 2009. The adoption of this new standard did not have an effect on the City's or SBRS' beginning or ending net assets.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

REQUESTS FOR INFORMATION

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



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Statement of Net Assets

June 30, 2010

(In thousands)

	Primary government			Component units
	Governmental activities	Business-type activities	Total	
Assets:				
Current assets:				
Cash and investments	\$ 1,132,772	11,326	1,144,098	96,911
Cash and investments held by trustees	39,960	83,079	123,039	46,392
Receivables, net:				
Property taxes	14,191	0	14,191	0
Intergovernmental	153,699	0	153,699	0
Other	40,472	0	40,472	25,822
Other assets	6,185	2,052	8,237	12,402
Internal balances	30,000	(30,000)	0	0
Due from primary government	0	0	0	542
Due from component units	5,909	0	5,909	0
Total current assets	1,423,188	66,457	1,489,645	182,069
Noncurrent assets:				
Intergovernmental receivables	63,685	0	63,685	0
Notes and other receivables	65,739	0	65,739	90,260
Other assets	0	0	0	98,501
Capital assets:				
Nondepreciable	76,097	0	76,097	30,260
Depreciable, net	1,272,102	0	1,272,102	53,556
Due from component units	0	74,581	74,581	0
Total noncurrent assets	1,477,623	74,581	1,552,204	272,577
Total assets	2,900,811	141,038	3,041,849	454,646
Liabilities:				
Current liabilities:				
Warrants and accounts payable	125,136	0	125,136	16,463
Accrued liabilities – current:				
Tax abatement liability	27,400	0	27,400	0
Compensated absences	47,462	0	47,462	0
Judgments and claims	63,080	0	63,080	0
Payroll and related costs	153,495	0	153,495	0
Deposits and other	67,401	2,304	69,705	2,973
Current portion of long-term debt and leases	107,393	11,250	118,643	1,398
Due to component units	542	0	542	0
Due to BMC	0	0	0	1,378
Due to primary government	0	0	0	10,238
Unearned revenue	30,796	0	30,796	5,384
Total current liabilities	622,705	13,554	636,259	37,834
Noncurrent liabilities:				
Bonds due in more than one year	892,558	164,652	1,057,210	21,045
Notes and leases payable due in more than one year	60,086	0	60,086	0
Other noncurrent liabilities	196,798	0	196,798	157,707
Other postemployment benefits obligation	536,352	0	536,352	45,857
Unearned revenue	0	0	0	37,794
Due to primary government	0	0	0	70,252
Total noncurrent liabilities	1,685,794	164,652	1,850,446	332,655
Total liabilities	2,308,499	178,206	2,486,705	370,489
Net assets (deficit):				
Investment in capital assets, net of related debt	427,097	0	427,097	51,900
Restricted for:				
Capital projects	24,108	0	24,108	0
Expendable trust	37,098	0	37,098	51,895
Federal and state grants	173,133	0	173,133	0
Unrestricted	(69,124)	(37,168)	(106,292)	(19,638)
Total net assets (deficit)	\$ 592,312	(37,168)	555,144	84,157

See accompanying notes to basic financial statements.

Statement of Activities
Year ended June 30, 2010
(In thousands)

Functions/programs	Expenses	Program revenues		
		Charges for services	Operating grants and contributions	Capital grants and contributions
Primary government:				
Governmental activities:				
General government	\$ 106,435	31,818	1,704	1,874
Human services	52,310	24	11,471	0
Public safety	930,779	85,305	87,809	552
Public works	131,883	12,190	0	6,440
Property and development	118,456	6,213	68,147	309
Parks and recreation	31,204	416	291	1,125
Library	50,050	765	3,474	724
Schools	1,314,601	20,318	374,916	1,531
Public health programs	71,453	0	0	0
Interest on long-term debt	39,832	0	0	0
Total governmental activities	<u>2,847,003</u>	<u>157,049</u>	<u>547,812</u>	<u>12,555</u>
Business-type activities:				
Convention Center	13,751	0	5,567	0
Hospital Bonds	3,635	0	0	0
Total business-type activities	<u>17,386</u>	<u>0</u>	<u>5,567</u>	<u>0</u>
Total primary government	<u>2,864,389</u>	<u>157,049</u>	<u>553,379</u>	<u>12,555</u>
Component units:				
Boston Public Health Commission	138,163	8,598	44,637	753
Boston Redevelopment Authority	28,713	7,897	13,863	0
Trustees of the Public Library of the City of Boston	12,289	1,497	7,798	0
Economic Development and Industrial Corporation of Boston	35,122	15,369	16,583	0
Total component units	<u>214,287</u>	<u>33,361</u>	<u>82,881</u>	<u>753</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				
Excises				
Payments in lieu of taxes				
Grants and contributions not restricted				
Investment income				
City appropriation				
Miscellaneous				
Gain on disposal				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets (deficit) – beginning of year				
Net assets (deficit) – end of year				

See accompanying notes to basic financial statements.

Net (expense) revenue and changes in net assets			
Primary government			
Governmental activities	Business-type activities	Total	Component units
(71,039)	0	(71,039)	0
(40,815)	0	(40,815)	0
(757,113)	0	(757,113)	0
(113,253)	0	(113,253)	0
(43,787)	0	(43,787)	0
(29,372)	0	(29,372)	0
(45,087)	0	(45,087)	0
(917,836)	0	(917,836)	0
(71,453)	0	(71,453)	0
(39,832)	0	(39,832)	0
<u>(2,129,587)</u>	<u>0</u>	<u>(2,129,587)</u>	<u>0</u>
0	(8,184)	(8,184)	0
0	(3,635)	(3,635)	0
<u>0</u>	<u>(11,819)</u>	<u>(11,819)</u>	<u>0</u>
<u>(2,129,587)</u>	<u>(11,819)</u>	<u>(2,141,406)</u>	<u>0</u>
0	0	0	(84,175)
0	0	0	(6,953)
0	0	0	(2,994)
0	0	0	(3,170)
<u>0</u>	<u>0</u>	<u>0</u>	<u>(97,292)</u>
1,468,340	0	1,468,340	0
123,121	43,887	167,008	0
67,265	0	67,265	0
171,174	0	171,174	0
17,221	3,567	20,788	7,395
0	0	0	70,000
21,901	0	21,901	6,107
0	0	0	3,638
30,000	(30,000)	0	0
<u>1,899,022</u>	<u>17,454</u>	<u>1,916,476</u>	<u>87,140</u>
(230,565)	5,635	(224,930)	(10,152)
<u>822,877</u>	<u>(42,803)</u>	<u>780,074</u>	<u>94,309</u>
<u>\$ 592,312</u>	<u>(37,168)</u>	<u>555,144</u>	<u>84,157</u>

Balance Sheet – Governmental Funds**June 30, 2010**

(In thousands)

Assets	General	Special revenue	Capital projects	Other governmental funds	Total governmental funds
Cash and investments	\$ 880,912	132,917	62,006	229	1,076,064
Cash and investments held by trustees	0	0	2,341	37,619	39,960
Receivables, net:					
Property taxes	14,191	0	0	0	14,191
Intergovernmental	86,549	119,160	11,674	0	217,383
Departmental and other	34,039	65,831	0	153	100,023
Total receivables	134,779	184,991	11,674	153	331,597
Due from other funds	30,000	3,787	1,846	0	35,633
Due from component units	5,909	0	0	0	5,909
Total assets	<u>\$ 1,051,600</u>	<u>321,695</u>	<u>77,867</u>	<u>38,001</u>	<u>1,489,163</u>
Liabilities and Fund Balances					
Liabilities:					
Warrants and accounts payable	\$ 63,593	32,203	18,948	417	115,161
Accrued liabilities:					
Payroll and related costs	151,554	1,941	0	0	153,495
Deposits and other	22,468	34,716	2,427	0	59,611
Deferred revenue	100,196	79,703	11,174	0	191,073
Due to other funds	6,054	0	0	0	6,054
Due to component unit	542	0	0	0	542
Total liabilities	<u>344,407</u>	<u>148,563</u>	<u>32,549</u>	<u>417</u>	<u>525,936</u>
Fund balances:					
Reserved for:					
Encumbrances	36,808	49,418	86,234	486	172,946
Future appropriations	0	0	24,108	0	24,108
Unreserved:					
Designated for subsequent years' expenditures	123,103	0	0	0	123,103
Undesignated	547,282	123,714	(65,024)	0	605,972
Reported in permanent funds	0	0	0	37,098	37,098
Total fund balances	<u>707,193</u>	<u>173,132</u>	<u>45,318</u>	<u>37,584</u>	<u>963,227</u>
Total liabilities and fund balances	<u>\$ 1,051,600</u>	<u>321,695</u>	<u>77,867</u>	<u>38,001</u>	<u>1,489,163</u>

See accompanying notes to basic financial statements.

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

June 30, 2010

(In thousands)

Total fund balance – governmental funds	\$	963,227
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land		25,128
Construction in progress		50,969
Land improvements		159,016
Buildings and improvements		1,720,283
Furniture and equipment		257,865
Infrastructure		475,567
Less accumulated depreciation		<u>(1,340,629)</u>
		<u>1,348,199</u>
Adjust deferred revenues and receivables to record revenues on an accrual basis		160,223
Internal service funds are included in the governmentwide statements		51,773
Bond issuance costs are capitalized in the governmentwide statements		6,185
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		(993,115)
Capital leases		(35,504)
Bond issue premiums/discounts net		(45,726)
Deferred bond gains (losses)		14,308
Accrued interest on bonds		(11,993)
Compensated absences		(176,480)
Landfill		(8,795)
Judgments and claims		(115,738)
Other postemployment benefits		(536,352)
Tax abatements		(27,400)
Pollution remediation		<u>(500)</u>
		<u>(1,937,295)</u>
Net assets of governmental activities	\$	<u><u>592,312</u></u>

See accompanying notes to basic financial statements.

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

Year ended June 30, 2010

(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	\$ 1,467,605	0	0	0	1,467,605
Excises	121,120	0	0	0	121,120
Payments in lieu of taxes	67,265	0	0	0	67,265
Fines	70,627	22	0	0	70,649
Investment income	3,246	25	0	5,636	8,907
Licenses and permits	32,907	0	0	0	32,907
Departmental and other	74,861	14,381	0	2,226	91,468
Intergovernmental	404,619	327,213	10,632	0	742,464
Total revenues	<u>2,242,250</u>	<u>341,641</u>	<u>10,632</u>	<u>7,862</u>	<u>2,602,385</u>
Expenditures:					
Current:					
General government	70,514	3,165	0	4,469	78,148
Human services	29,324	8,690	0	0	38,014
Public safety	511,365	12,150	0	0	523,515
Public works	96,641	8,482	0	0	105,123
Property and development	30,247	87,147	0	0	117,394
Parks and recreation	16,818	716	0	0	17,534
Library	29,853	3,578	0	0	33,431
Schools	815,694	147,009	0	0	962,703
Public health programs	70,000	1,214	0	0	71,214
County	0	69,040	0	0	69,040
Judgments and claims	10,181	0	0	0	10,181
Retirement costs	235,282	0	0	0	235,282
Other employee benefits	224,156	0	0	0	224,156
State and district assessments	146,323	0	0	0	146,323
Capital outlays	734	5,485	120,449	0	126,668
Debt service	129,670	3,414	0	0	133,084
Total expenditures	<u>2,416,802</u>	<u>350,090</u>	<u>120,449</u>	<u>4,469</u>	<u>2,891,810</u>
Excess (deficiency) of revenues under expenditures	<u>(174,552)</u>	<u>(8,449)</u>	<u>(109,817)</u>	<u>3,393</u>	<u>(289,425)</u>
Other financing sources (uses):					
Long-term debt and capital leases issued	0	11,360	133,132	0	144,492
Refunding bonds issued	0	0	68,345	0	68,345
Payments to escrow agent	0	(5,384)	(68,256)	0	(73,640)
Premiums on long-term debt issued	0	9,805	(2,171)	0	7,634
Transfers in (out)	53,058	(15,000)	(5,979)	(2,079)	30,000
Total other financing sources (uses)	<u>53,058</u>	<u>781</u>	<u>125,071</u>	<u>(2,079)</u>	<u>176,831</u>
Net change in fund balances	<u>(121,494)</u>	<u>(7,668)</u>	<u>15,254</u>	<u>1,314</u>	<u>(112,594)</u>
Fund balance – beginning of year	<u>828,687</u>	<u>180,800</u>	<u>30,064</u>	<u>36,270</u>	<u>1,075,821</u>
Fund balance – end of year	\$ <u><u>707,193</u></u>	<u><u>173,132</u></u>	<u><u>45,318</u></u>	<u><u>37,584</u></u>	<u><u>963,227</u></u>

See accompanying notes to basic financial statements.

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

Year ended June 30, 2010

(In thousands)

Net change in fund balances – total governmental funds	\$	(112,594)
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 (\$136,529) exceeded depreciation expense (\$72,656) and disposals (\$944).		62,929
Tax revenues in the statement of activities that are not reported as revenues in the governmental funds		2,737
Proceeds of long-term debt (\$212,837) increase long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Repayment of bond, note, and lease principal (\$106,998) and payment to the escrow agent (\$73,640) are expenditures in the governmental funds, but reduce long-term liabilities in the statement of net assets. This is the amount by which proceeds exceed repayments and escrow payments.		(32,189)
Bond premiums net (\$4,011) increase the long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Deferred losses on refunding (\$1,819) decrease long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Bond issuance costs, net (\$649) are expenditures in the governmental funds, but are deferred assets in the statement of assets. This is the amount by which premiums and deferred losses on refundings exceeded issuance costs.		(5,181)
Intergovernmental revenues decrease receivables on the statement of net assets, but are included in the operating statement of governmental funds		(3,359)
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 judgements and claims (\$36,670), compensated absences (\$3,676), other postemployment benefits (\$105,558) offset by a decrease in liabilities for pollution remediation (\$1,500), interest payable (\$989), and the landfill liability (\$124).		(143,291)
Net income from the internal service fund, which is presented in the statement of activities, but not in the governmental funds		383
Change in net assets of governmental activities	\$	<u><u>(230,565)</u></u>

See accompanying notes to basic financial statements.

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

**Year ended June 30, 2010
(with comparative actual amounts for 2009)**

(In thousands)

	2010		Actual	Variance over (under)	2009 Actual
	Original budget	Final budget			
Revenues and other available funds:					
Real and personal property taxes, net	\$ 1,429,325	1,429,325	1,440,193	10,868	1,365,272
Excises	124,275	128,654	144,034	15,380	149,776
Commonwealth of Massachusetts	545,126	545,126	413,209	(131,917)	573,278
Departmental and other revenue	64,120	64,120	68,706	4,586	75,661
Fines	73,015	73,015	70,376	(2,639)	70,053
Payments in lieu of taxes	57,350	57,350	60,920	3,570	56,493
Investment income	6,500	6,500	3,182	(3,318)	17,835
Licenses and permits	31,260	31,260	30,558	(702)	41,008
Other available funds	72,088	72,088	72,088	0	53,219
Total revenues and other available funds	<u>2,403,059</u>	<u>2,407,438</u>	<u>2,303,266</u>	<u>(104,172)</u>	<u>2,402,595</u>
Expenditures:					
General government	105,220	92,096	90,932	1,164	113,114
Human services	28,784	29,468	29,466	2	29,734
Public safety	476,773	497,269	507,558	(10,289)	504,717
Public works	101,520	101,419	97,138	4,281	112,420
Property and development	27,651	29,485	29,485	0	31,178
Parks and recreation	16,414	16,945	16,916	29	17,490
Library	29,715	29,862	29,862	0	31,211
Schools	817,882	817,882	817,830	52	810,006
Boston Public Health Commission	70,000	70,000	70,000	0	69,446
Judgments and claims	3,500	3,500	15,970	(12,470)	4,806
Other employee benefits	205,189	205,322	205,242	80	195,612
Retirement costs	239,035	239,035	112,608	126,427	217,378
Debt requirements	131,148	124,848	124,848	0	119,294
State and district assessments	150,228	150,307	146,323	3,984	142,055
Total expenditures	<u>2,403,059</u>	<u>2,407,438</u>	<u>2,294,178</u>	<u>113,260</u>	<u>2,398,461</u>
Excess of revenues and other available funds over expenditures	\$ <u>0</u>	<u>0</u>	<u>9,088</u>	<u>9,088</u>	<u>4,134</u>

See accompanying notes to basic financial statements.

Statement of Net Assets – Proprietary Funds

June 30, 2010

(In thousands)

	Enterprise funds			Internal service
	Convention center bonds	Hospital revenue bonds	Total	
Assets:				
Current assets:				
Cash and investments	\$ 11,326	0	11,326	56,708
Cash and investments held by trustees	59,810	23,269	83,079	0
Receivables, net	0	0	0	134
Total current assets	71,136	23,269	94,405	56,842
Noncurrent assets:				
Due from other funds	0	0	0	421
Due from component units	0	74,581	74,581	0
Other assets	1,058	994	2,052	1,042
Total noncurrent assets	1,058	75,575	76,633	1,463
Total assets	72,194	98,844	171,038	58,305
Liabilities:				
Current liabilities:				
Accrued liabilities	0	0	0	6,532
Due to other funds	30,000	0	30,000	0
Accrued interest payable	758	1,546	2,304	0
Current portion of long-term debt	3,725	7,525	11,250	0
Total current liabilities	34,483	9,071	43,554	6,532
Noncurrent liabilities:				
Special obligation bonds	89,780	0	89,780	0
Revenue bonds	0	74,872	74,872	0
Total noncurrent liabilities	89,780	74,872	164,652	0
Total liabilities	124,263	83,943	208,206	6,532
Net assets (deficits):				
Unrestricted	(52,069)	14,901	(37,168)	51,773
Total net assets (deficits)	\$ (52,069)	14,901	(37,168)	51,773

See accompanying notes to basic financial statements.

Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds**Year ended June 30, 2010**

(In thousands)

	Enterprise funds			Internal service
	Convention center bonds	Hospital revenue bonds	Total	
Operating revenues:				
Contributions	\$ 0	0	0	86,504
State aid – pledged for debt service	43,887	0	43,887	0
Total operating revenues	<u>43,887</u>	<u>0</u>	<u>43,887</u>	<u>86,504</u>
Operating expenses:				
Payments on behalf of the State	9,022	0	9,022	0
Health benefits	0	0	0	86,121
Total operating expenses	<u>9,022</u>	<u>0</u>	<u>9,022</u>	<u>86,121</u>
Operating income	<u>34,865</u>	<u>0</u>	<u>34,865</u>	<u>383</u>
Nonoperating revenue (expense):				
Intergovernmental – state grants	5,567	0	5,567	0
Investment earnings – pledged for debt service	0	3,567	3,567	0
Interest expense	(4,729)	(3,635)	(8,364)	0
Total nonoperating revenue (expense)	<u>838</u>	<u>(68)</u>	<u>770</u>	<u>0</u>
Income (loss) before transfers	35,703	(68)	35,635	383
Transfer to general fund	<u>(30,000)</u>	<u>0</u>	<u>(30,000)</u>	<u>0</u>
Change in net assets	5,703	(68)	5,635	383
Total net assets (deficit) – beginning of year	<u>(57,772)</u>	<u>14,969</u>	<u>(42,803)</u>	<u>51,390</u>
Total net assets (deficit) – end of year	<u>\$ (52,069)</u>	<u>14,901</u>	<u>(37,168)</u>	<u>51,773</u>

See accompanying notes to basic financial statements.

Statement of Cash Flows – Proprietary Fund Types
Year ended June 30, 2010

(In thousands)

	Enterprise funds			Internal service
	Convention center bonds	Hospital revenue bonds	Total	
Cash flows from operating activities:				
Cash received from other governments	\$ 43,887	0	43,887	0
Cash received from employees and employer	0	0	0	86,582
Cash paid to vendors	0	0	0	(85,635)
Cash payments on behalf of the state	(9,022)	0	(9,022)	0
Net cash provided by operations	<u>34,865</u>	<u>0</u>	<u>34,865</u>	<u>947</u>
Cash flows from noncapital financing activities:				
Grants received from state	5,567	0	5,567	0
Interest paid on debt	(4,691)	(3,856)	(8,547)	0
Transfers to other funds	(27,000)	0	(27,000)	0
Repayment of long-term debt	(3,580)	(7,235)	(10,815)	0
Net cash used in noncapital financing activities	<u>(29,704)</u>	<u>(11,091)</u>	<u>(40,795)</u>	<u>0</u>
Cash flows from investing activities:				
Investment income	0	536	536	0
Principal received on note	0	7,718	7,718	0
Interest received on note	0	3,032	3,032	0
Net cash provided by investing activities	<u>0</u>	<u>11,286</u>	<u>11,286</u>	<u>0</u>
Increase in cash and cash equivalents	5,161	195	5,356	947
Cash and cash equivalents, beginning of year	<u>65,975</u>	<u>23,074</u>	<u>89,049</u>	<u>55,761</u>
Cash and cash equivalents, end of year	<u>\$ 71,136</u>	<u>23,269</u>	<u>94,405</u>	<u>56,708</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 34,865	0	34,865	383
Adjustments to reconcile operating income to net cash provided by operating activities:				
Changes in operating assets and liabilities:				
Accounts receivable	0	0	0	36
Other assets	0	0	0	461
Due from component units	0	0	0	42
Accounts payable and accrued liabilities	0	0	0	25
Net cash provided by operating activities	<u>\$ 34,865</u>	<u>0</u>	<u>34,865</u>	<u>947</u>

See accompanying notes to basic financial statements.

Statement of Fiduciary Net Assets – Fiduciary Funds
June 30, 2010
(Except for Employee Retirement Plan, which is as of December 31, 2009)
(In thousands)

	<u>Employee retirement plan</u>	<u>OPEB trust fund</u>	<u>Private purpose trusts</u>	<u>Agency funds</u>
Assets:				
Cash and cash equivalents	\$ 24,063	0	82,639	5,834
Receivables:				
Interest and dividends	21,347	5	0	0
Securities sold	8,253	0	0	0
Employer contributions	111,057	0	0	0
Other	15,576	2	1,891	0
Total receivables	<u>156,233</u>	<u>7</u>	<u>1,891</u>	<u>0</u>
Investments, at fair value:				
Short-term:				
Domestic	28,242	11,901	0	0
International	7,363	1,437	0	0
Equity:				
Domestic	1,584,752	1,057	0	0
International	744,093	864	0	0
Fixed-income:				
Domestic	571,266	4,701	0	0
International	232,311	0	0	0
Real estate	232,953	0	0	0
Venture capital funds	447,731	0	0	0
Total investments	<u>3,848,711</u>	<u>19,960</u>	<u>0</u>	<u>0</u>
Securities lending short-term collateral				
Investment pool	299,975	0	0	0
Other Assets	0	0	30	0
Total assets	<u>4,328,982</u>	<u>19,967</u>	<u>84,560</u>	<u>5,834</u>
Liabilities:				
Accounts payable, accrued expenses and other liabilities	20,355	7	1,135	5,834
Securities purchased	8,866	0	0	0
Collateral held on securities lending	299,975	0	0	0
Total liabilities	<u>329,196</u>	<u>7</u>	<u>1,135</u>	<u>\$ 5,834</u>
Net assets – held in trust for pension benefits and other purposes	<u>\$ 3,999,786</u>	<u>19,960</u>	<u>83,425</u>	

See accompanying notes to basic financial statements.

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

Year ended June 30, 2010

(Except for Employee Retirement Plan, which is for the year ended December 31, 2009)

(In thousands)

	<u>Employee retirement plan</u>	<u>OPEB trust fund</u>	<u>Private purpose trusts</u>
Additions:			
Contributions:			
Employers	\$ 257,348	19,992	0
Employees	127,528	0	0
Donations and other	0	0	19,071
Total contributions	<u>384,876</u>	<u>19,992</u>	<u>19,071</u>
Investment (loss) earnings:			
Realized and unrealized losses on investments	550,551	(194)	3,116
Investment Income	0	190	1,327
Interest and dividends	85,921	2	193
Less investment expenses	<u>(10,972)</u>	<u>(30)</u>	<u>0</u>
Net investment (loss) earnings	<u>625,500</u>	<u>(32)</u>	<u>4,636</u>
Securities lending activities:			
Securities lending income	3,456	0	0
Less borrower rebates and fees	<u>(1,278)</u>	<u>0</u>	<u>0</u>
Net income from securities lending activities	<u>2,178</u>	<u>0</u>	<u>0</u>
Total net investment (loss) income	627,678	(32)	4,636
Intergovernmental	<u>14,914</u>	<u>0</u>	<u>0</u>
Total additions	<u>1,027,468</u>	<u>19,960</u>	<u>23,707</u>
Deductions:			
Benefits	415,756	0	0
Reimbursement to other systems	9,203	0	0
Refunds of contributions	14,098	0	0
Administrative expenses and other	5,514	0	19,482
Total deductions	<u>444,571</u>	<u>0</u>	<u>19,482</u>
Change in net assets	582,897	19,960	4,225
Net assets, beginning of year	<u>3,416,889</u>	<u>0</u>	<u>79,200</u>
Net assets, end of year	\$ <u>3,999,786</u>	<u>19,960</u>	<u>83,425</u>

See accompanying notes to basic financial statements.

Notes to Basic Financial Statements**June 30, 2010****(1) The Financial Reporting Entity**

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

(a) Primary Government

The City of Boston (the City), incorporated as a town in 1630 and as a city in 1822, now exists under Chapter 486 of the Act of 1909 and Chapter 452 of the Acts of 1948 of the Commonwealth of Massachusetts (the Commonwealth), which, as amended, constitute the City's Charter. The Mayor is elected to a four-year term and serves as chief executive officer of the City. The Mayor has general supervision of and control over the City's boards, commissions, officers, and departments. The legislative body of the City is the City Council, which consists of 13 elected members serving two-year terms.

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

(b) Retirement System

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

(c) Discretely Presented Component Units Disclosure

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

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

Notes to Basic Financial Statements

June 30, 2010

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, 2010.

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

(a) Government-wide and Fund Financial Statements

The Government-wide Financial Statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on

Notes to Basic Financial Statements**June 30, 2010**

fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

Separate financial statements are provided for Governmental Funds, Proprietary Funds, and Fiduciary Funds, even though the latter are excluded from the Government-wide Financial Statements. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the Fund Financial Statements.

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation**Government-wide Financial Statements**

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

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

Governmental Fund Financial Statements

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

The City applies the susceptible to accrual criteria to property taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, resources must be expended on the specific purpose or project before any amounts will

Notes to Basic Financial Statements

June 30, 2010

be reimbursed to the City; therefore, revenues are recognized based upon the amount of expenditures incurred. In the other, resources are virtually unrestricted and are usually revocable by the grantor only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year-end.

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

Proprietary Fund, Fiduciary Fund, and Component Unit Financial Statements

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

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

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

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

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

The *Capital Projects Fund* accounts for bond proceeds and grant revenues used for the acquisition or construction of the City capital facilities.

Notes to Basic Financial Statements

June 30, 2010

Proprietary Funds – The City reports the following major Proprietary Funds:

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

The *Hospital Revenue Bond Fund* accounts for the activities related to the Boston City Hospital Revenue Bonds. These Bonds are payable solely from the mortgage note payments received from the PHC. These Bonds are repaid from a pledged revenue source from PHC.

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

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

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

The *OPEB Liability Trust Fund*, is an irrevocable trust fund established for other postemployment benefits. The assets are appropriated from the General Fund and accumulate to reduce the unfunded actuarial liability of health care and other postemployment benefits. This fund is currently not used for payments of benefits.

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

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

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

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

Notes to Basic Financial Statements

June 30, 2010

(c) Cash Equivalents

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

(d) Basis of Investment Valuation

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

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

(e) Interfund Receivables and Payables

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

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

(f) Uncollectible Tax and Other Receivables

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

(g) Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and intangible assets such as easements, land use rights, computer software, trademarks and patents. Capital assets 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.

Notes to Basic Financial Statements

June 30, 2010

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

Capital assets 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
Intangible assets, computer software and licenses	5
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, 2010 is recorded in the Governmental Fund Financial Statements. The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on the amount accumulated at the balance sheet date (vesting method). The liability for both amounts is calculated based on the pay or salary rates in effect at the balance sheet date.

(i) Long-Term Obligations and Related Costs

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

In the Fund Financial Statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are

Notes to Basic Financial Statements

June 30, 2010

reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(j) Fund Equity

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

(k) Tax Abatement Refunds

Matured tax abatement refunds that are due and payable at June 30 have been recorded as a liability in the General Fund. Other refunds have been recorded in the Government-wide Statement of Net Assets.

(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, 2010, 100% of the Gardner Street landfill site had been used and had not accepted solid waste for several years. While most of the landfill closure construction was completed in prior years, there still remains 12 acres of the landfill to be capped as of June 30, 2010.

The total current cost of landfill closure and postclosure care is an estimate, subject to changes resulting from inflation, deflation, technology, or other changes in applicable laws or regulations. Such costs are recognized as expenditures in the General Fund to the extent that they are due or matured and are expected to be paid with expendable available financial resources. The total liability is reported in the Government-wide Statement of Net Assets. Expenditures related to the Gardner Street landfill site postclosure care in fiscal year 2010 were \$124 thousand.

(m) Use of Estimates

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

(n) Adoption of New Accounting Pronouncements

During the fiscal year ended June 30, 2010, the City adopted GASB Statement No. 51 (GASB 51), *Accounting and Financial Reporting for Intangible Assets*, establishing accounting and financial reporting for intangible assets. Examples of intangible assets are easements, patents, computer software either purchased or internally generated. As with

Notes to Basic Financial Statements**June 30, 2010**

other capital assets, the useful life of an intangible asset must be greater than one year. Intangible assets are classified as capital assets and are included in note 8. The City has recognized intangible assets in the statement of net assets in accordance with GASB 51.

The City has also adopted GASB Statement No. 53 (GASB 53), *Accounting and Financial Reporting for Derivative Instruments*, as of June 30, 2010. SBRS adopted GASB 53 as of December 31, 2009. The adoption of this new standard did not have an effect on the City's or SBRS' beginning or ending net assets.

(3) Short-Term Debt

During fiscal year 2010, 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 was one supplemental appropriation in the amount of \$4.4 million required to fund firefighters retro-active pay, pursuant to an arbitration agreement between the City and the local firefighters union.

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

Notes to Basic Financial Statements

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separate reserve fund of 1% to 2-1/2% of the current year appropriation of the School Department to be applied to over expenditures in that department.

The City’s General Fund budget is prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The “actual” results column in the Statement of Revenues and Expenditures – Budgetary Basis – General Fund is presented on a “budgetary basis” to provide a meaningful comparison of actual results with the budget. The major differences between the budget and GAAP basis, where applicable, are that:

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

In addition, there are certain differences in classifications between revenues, expenditures, and transfers. The following reconciliation summarizes the differences between budgetary and GAAP basis accounting principles for the year ended June 30, 2010 (in thousands):

	Revenue	Expenditures	Other financing sources, net	Excess (deficiency) of revenue and other financing sources
As reported on a budgetary basis	\$ 2,303,266	2,294,178	0	9,088
Adjustments:				
Revenues to modified accrual basis	(7,958)	0	0	(7,958)
Expenditures, encumbrances, and accruals, net	0	3,783	0	(3,783)
Reclassifications:				
State-funded teachers’ retirement costs	0	118,841	0	(118,841)
Convention Center fund transfer	(30,000)	0	30,000	0
Other transfers	(23,058)	0	23,058	0
As reported on a GAAP basis	\$ 2,242,250	2,416,802	53,058	(121,494)

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(5) Deposits and Investments

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

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

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

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

Primary Government (except the pension trust fund)

(a) Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned. The City carries deposits that are fully insured by FDIC insurance, collateralized and deposits that are not collateralized and are uninsured. As of June 30, 2010, the bank balances of uninsured and uncollateralized deposits totaled approximately \$386,000. All of the City's investments are held by third parties in the City's name.

(b) Investment Policy

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

Notes to Basic Financial Statements

June 30, 2010

domain are fixed by Massachusetts General Laws (M.G.L.) c. 44, sec. 55, which prohibits Massachusetts communities from investing in certain categories of high-risk investments; limits the amount of the City's bank deposits in any one financial institution; and establishes qualifying criteria for banking institutions. Further, all investments held by third parties are to be held in the City's name.

(c) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The following is a listing of the City's fixed income investments (in thousands) and related maturity schedule (in years) as of June 30, 2010:

<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 – 5</u>
External investment pool	\$ 535,056	535,056	0
Mutual funds	152,004	141,937	10,067
U.S. Treasury notes and bonds	7,953	0	7,953
Domestic corporate	9,263	0	9,263
Repurchase Agreements	476,245	476,245	0
	<u>\$ 1,180,521</u>	<u>1,153,238</u>	<u>27,283</u>

(d) Credit Risk

The City's fixed income investments as of June 30, 2010 were rated by S & P and/or an equivalent national rating organization, and the ratings are presented below using the S & P rating scale (in thousands):

<u>Investment type</u>	<u>Fair value</u>	<u>Rating</u>
Mutual funds	\$ 152,004	Not Rated to AAAm
External investment pool	535,056	Not Rated
Domestic corporate	9,263	AAA to BBB+
	<u>\$ 696,323</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.

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(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. As of June 30, 2010 the City held one international equity mutual fund valued at \$2.9 million.

State-Boston Retirement System (SBRS or the System)

(a) Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the System's deposits may not be returned. The System carries deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC) insurance or collateralized with securities held by the System or the System's agent in the System's name. The System also carries deposits that are not collateralized and are uninsured. As of December 31, 2009, all of the System's deposits were insured or collateralized.

(b) Investment Policy

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

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

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

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(c) Interest Rate Risk

The following is a listing of the System’s fixed income investments (in thousands) and related maturity schedule (in years) as of December 31, 2009:

<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	\$ 32,483	0	4,615	11,595	16,273
U.S. agencies	30,269	0	2,327	12,548	15,394
Domestic corporate	401,593	1,660	211,699	149,889	38,345
International corporate	87,181	8,839	26,163	25,535	26,644
International government	145,130	808	71,996	50,495	21,831
Short-term investment funds	35,605	35,605	0	0	0
Asset-backed:					
CMOs	31,265	0	0	772	30,493
Mortgage-backed	58,227	0	16	8,140	50,071
Other	17,429	0	8,037	5,335	4,057
	<u>\$ 839,182</u>	<u>46,912</u>	<u>324,853</u>	<u>264,309</u>	<u>203,108</u>

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

The collateralized mortgage obligations (CMOs) held by the System as of December 31, 2009 are highly sensitive to changes in interest rates.

(d) Credit Risk

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

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June 30, 2010

The System's fixed income investments as of December 31, 2009 were rated by S & P and/or an equivalent national rating organization and the ratings are presented below (in thousands) using the S & P rating scale:

Investment type	Fair value	AAA	AA	A	BBB	BB	B	CCC	Not rated
U.S. agencies	\$ 30,269	20,942	2,034	2,118	365	0	0	0	4,810
Domestic corporate	401,593	7,300	34,476	129,725	35,028	40,769	63,324	4,846	86,125
International corp.	87,181	35,010	5,474	3,901	21,156	12,345	4,148	0	5,147
International gov't	145,130	95,329	31,342	5,547	3,483	1,321	0	0	8,108
Short-term investment funds	35,605	35,605	0	0	0	0	0	0	0
Asset-backed:									
CMOs	31,265	24,675	791	488	0	0	102	0	5,209
Mortgage-backed	58,227	58,227	0	0	0	0	0	0	0
Other	17,429	12,121	1,013	808	330	36	80	0	3,041
	<u>\$ 806,699</u>	<u>289,209</u>	<u>75,130</u>	<u>142,587</u>	<u>60,362</u>	<u>54,471</u>	<u>67,654</u>	<u>4,846</u>	<u>112,440</u>

In addition to the above schedule, the System has approximately \$32.5 million 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, 2009.

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.

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

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June 30, 2010

Currency	Cash and short-term				Total
	investments	Fixed income	Equity	Alternative	
Australian dollar	\$ 409	808	32,647	0	33,864
Brazilian real	13	0	15,030	0	15,043
Canadian dollar	1,018	5,710	7,802	0	14,530
Chilean pesa	0	0	0	0	0
Danish krone	0	0	3,432	0	3,432
Egyptian pound	0	0	0	0	0
Euro currency	7,837	81,290	197,047	5,174	291,348
Hong Kong dollar	143	0	18,843	0	18,986
Indian rupee	5	0	11,320	0	11,325
Indonesian rupiah	10	1,417	3,984	0	5,411
Israeli Shekel	0	0	455	0	455
Japanese yen	1,463	54,888	119,921	0	176,272
Malaysian ringgit	132	0	4,373	0	4,505
Mexican peso	160	2,967	3,993	0	7,120
New Taiwan dollar	288	0	1,594	0	1,882
New Zealand dollar	28	0	2,861	0	2,889
Norwegian krone	651	8,505	4,329	0	13,485
Polish zloty	3	0	474	0	477
Pound sterling	913	15,128	110,496	0	126,537
Singapore dollar	412	7,100	14,347	0	21,859
South African rand	91	0	6,325	0	6,416
South Korean won	56	0	10,430	0	10,486
Swedish krona	529	3,392	13,656	0	17,577
Swiss franc	201	0	43,622	0	43,823
Thailand baht	0	0	2,084	0	2,084
Turkish Lira	0	0	2,836	0	2,836
International equity pooled funds (various currencies)	0	0	87,461	0	87,461
Total securities subject to foreign currency risk \$	14,362	181,205	719,362	5,174	920,103
U.S. dollars (securities held by international investment managers)*	7,389	51,106	24,731	0	83,226
Total international investment securities \$	21,751	232,311	744,093	5,174	1,003,329

* Short-term investments include cash of approximately \$26.

Notes to Basic Financial Statements

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(g) Derivatives

The System trades financial instruments with off-balance-sheet risk in the normal course of its investing activities to assist in managing exposure to market risks. The financial instruments include foreign currency forward contracts and purchasing and selling of when issued securities. The fair value balances and notional amounts of derivative instruments outstanding at December 31, 2009, classified by type, and the changes in fair value of such derivatives for the year then ended as reported in the financial statements are as follows (in thousands; debit (credit)):

	Fair value		Notional	Fair value	
	Classification	Amount		Classification	Amount
Investment derivatives:					
Forward foreign currency contracts	Other Liabilities	\$ (375)	\$ 28,683	Realized/Unrealized Gains and Losses	\$ 553
When issued securities	Fixed income investments	(38)	12,473	Realized/Unrealized Gains and Losses	209

The fair value of the investment derivatives are based on market prices.

(6) Property Taxes

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

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

Based on the City's experience, most property taxes are collected during the year in which they are assessed. Liening of properties on which taxes remain unpaid occurs annually. On December 15, 2009, all properties with unpaid fiscal year 2009 property taxes were liened. The City ultimately has the right to foreclose on all properties where the taxes remain unpaid.

Notes to Basic Financial Statements

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

(7) Receivables

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

	General	Special revenue	Capital projects	Other nonmajor funds	Internal service	Total
Receivables:						
Property taxes	\$ 18,550	0	0	0	0	18,550
Other taxes	152,315	0	0	0	0	152,315
Intergovernmental	86,549	119,160	11,674	0	0	217,383
Other	34,039	65,831	0	153	134	100,157
Gross receivables	291,453	184,991	11,674	153	134	488,405
Less allowance for uncollectibles	(156,674)	0	0	0	0	(156,674)
Net total receivables	\$ 134,779	184,991	11,674	153	134	331,731

(a) Long-Term Receivable

The City participates in the Commonwealth’s school building assistance program, which is administered by the Massachusetts School Building Authority (MSBA). The MSBA provides financial assistance (up to 90% of total costs) to the City to build and/or renovate schools. As of June 30, 2010, under this program, the City was due funds totaling \$74.8 million.

In the General Fund, the receivable is offset by deferred revenue because the revenue is not considered available. The following is a schedule of the five-year paydown (in thousands) as of June 30, 2011 through 2015, and in five-year increments thereafter:

Notes to Basic Financial Statements

June 30, 2010

	Anticipated revenue
Fiscal year(s):	
2011	\$ 11,158
2012	9,848
2013	8,833
2014	8,475
2015	8,176
2016 – 2020	28,353
Total	\$ 74,843

(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, 2010, under this program, the City determined that \$65.7 million was collectible. This amount is recorded in the City's Special Revenue fund.

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):

	Unavailable	Unearned	Total
Delinquent taxes receivable (General Fund)	\$ 19,695	0	19,695
Due from component units	0	4,837	4,837
Section 108 receivable	65,739	0	65,739
School building assistance receivable	74,843	1,775	76,618
Chapter 90	0	9,399	9,399
Other	0	14,785	14,785
Total unavailable/unearned revenue for governmental funds	\$ 160,277	30,796	191,073

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(8) Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows (in thousands):

Primary Government

	Beginning balance	Increases	Decreases	Ending balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 25,064	64	0	25,128
Construction in progress	35,563	76,741	(61,335)	50,969
Total capital assets not being depreciated	60,627	76,805	(61,335)	76,097
Capital assets being depreciated:				
Land improvements	151,266	7,750	0	159,016
Buildings and improvements	1,679,952	40,331	0	1,720,283
Furniture and equipment	236,152	32,522	(10,809)	257,865
Infrastructure	435,111	40,456	0	475,567
Total capital assets being depreciated	2,502,481	121,059	(10,809)	2,612,731
Less accumulated depreciation for:				
Land improvements	30,784	7,913	0	38,697
Buildings and improvements	911,271	30,624	0	941,895
Furniture and equipment	184,633	19,374	(9,865)	194,142
Infrastructure	151,150	14,745	0	165,895
Total accumulated depreciation	1,277,838	72,656	(9,865)	1,340,629
Total capital assets being depreciated, net	1,224,643	48,403	(944)	1,272,102
Governmental activities capital assets, net	\$ 1,285,270	125,208	(62,279)	1,348,199

Notes to Basic Financial Statements

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

Governmental activities:		
General government	\$	1,943
Human services		1,734
Public safety		12,665
Public works, including depreciation of general infrastructure assets		15,847
Property and development		3,838
Parks and recreation		6,950
Library		3,436
Schools		25,766
Public health		239
County		238
Total depreciation expense – governmental activities	\$	<u>72,656</u>

(9) Interfund Receivable and Payable Balances

Individual fund and discrete component unit receivable and payable balances at June 30, 2010 are as follows (in thousands):

<u>Interfund balances</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 30,000	6,054
Special revenue	3,787	0
Capital projects	1,846	0
Convention Center	0	30,000
Internal service	421	0
Balances at June 30, 2010	<u>\$ 36,054</u>	<u>36,054</u>

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

<u>Discrete component unit balances</u>	<u>Receivable</u>	<u>Payable</u>
Primary government:		
General	\$ 5,909	542
Hospital revenue bond	74,581	0
	<u>80,490</u>	<u>542</u>
Discretely presented component units:		
TPL	0	820
PHC	542	79,670
	<u>542</u>	<u>80,490</u>
Balances at June 30, 2010	<u>\$ 81,032</u>	<u>81,032</u>

Notes to Basic Financial Statements

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(10) Long-Term Obligations

Governmental activities

The following is a summary of the long-term obligations of the governmental activities of the City as of June 30, 2010 (in thousands):

	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
Bonds Payable:						
General Obligation Bonds	2.0 - 5.75%	\$ 420,305	125,000	74,470	470,835	43,145
General Obligation Refunding Bonds	.125-5.0%	496,515	68,345	82,865	481,995	48,545
Total governmental general obligation bonds payable		\$ 916,820	193,345	157,335	952,830	91,690
Add (deduct):						
					45,726	
					(14,308)	
					(91,690)	
					\$ 892,558	
	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
Notes, Leases and Other long-term obligations:						
Notes payable	4.25-7.18%	\$ 32,611	11,360	3,686	40,285	3,683
Leases payable		39,545	8,132	12,173	35,504	12,020
Judgments and claims		2,925	28,444	12,904	18,465	17,420
Workers' compensation		76,143	53,153	32,023	97,273	39,133
Health and life claims		6,507	86,140	86,120	6,527	6,527
Compensated absences		172,804	69,119	65,443	176,480	47,462
Landfill closure and postclosure care costs		8,919	0	124	8,795	200
Pollution remediation		2,000	293	1,793	500	500
Other postemployment benefits		430,794	258,991	153,433	536,352	0
Total notes, leases, and other long-term obligations		\$ 772,248	515,632	367,699	920,181	126,945

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

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The annual debt service requirements of the City's general obligation bonds, notes and leases payable as of June 30, 2010 are as follows (in thousands):

General obligation bonds:	<u>Principal</u>	<u>Interest</u>	<u>Subsidy</u>	<u>Total</u>
Year(s) ending June 30:				
2011	\$ 91,690	41,092	(1,720)	131,062
2012	88,805	37,036	(1,720)	124,121
2013	83,525	33,211	(1,720)	115,016
2014	75,215	29,550	(1,720)	103,045
2015	69,390	26,163	(1,720)	93,833
2016-2020	278,800	88,068	(8,236)	358,632
2021-2025	194,935	36,865	(5,996)	225,804
2026-2030	70,470	7,726	(1,202)	76,994
	<u>\$ 952,830</u>	<u>299,711</u>	<u>(24,034)</u>	<u>1,228,507</u>

Notes Payable:

Year(s) ending June 30:				
2011	\$ 3,683	1,610	0	5,293
2012	3,231	1,667	0	4,898
2013	3,745	1,477	0	5,222
2014	4,016	1,285	0	5,301
2015	2,110	1,117	0	3,227
2016-2020	11,301	3,856	0	15,157
2021-2025	4,705	2,134	0	6,839
2026-2030	7,494	1,194	0	8,688
	<u>\$ 40,285</u>	<u>14,340</u>	<u>0</u>	<u>54,625</u>

Leases Payable:

Year(s) ending June 30:				
2011	\$ 12,020	984	0	13,004
2012	9,813	631	0	10,444
2013	5,569	375	0	5,944
2014	3,568	219	0	3,787
2015	2,177	117	0	2,294
2016-2017	2,357	75	0	2,432
	<u>\$ 35,504</u>	<u>2,401</u>	<u>0</u>	<u>37,905</u>

On October 28, 2009, the City issued \$20,000,000 of Qualified School Construction Bonds (QSCBs) offered under the American Recovery and Reinvestment Act (ARRA), which allows the City to issue the bonds at a tax credit against their federal income tax liability. The principal of the bonds are payable quarterly, until maturity in fiscal year 2024, and are net of a \$302,500 quarterly tax credit.

On March 18, 2010, the City of Boston sold its Series A through D, General Obligation Bonds and on March 25, 2010 sold its \$17,415,000 Series E QSCBs. Through the implementation of

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Federal programs made available by the American Recovery and Reinvestment Act of 2009, the City of Boston was able to issue the series C, D, and E taxable bond issues at attractive interest rates. In each of the programs, the City receives reimbursement from the federal government for some or all of the interest expense. The QSCB offered in October, 2009 and the Series C General Obligation bonds both require repayment through the establishment of sinking funds. The City will establish the sinking funds as required.

- \$39,995,000 General Obligation Bonds, 2010 Series A: The Series A Bonds were issued to finance various capital projects of the City. Interest payments between 2-5% on the bonds are payable semiannually each April 1 and October 1 until maturity in fiscal year 2030.
- \$68,345,000 General Obligation Bonds, 2010 Series B: The Series B Bonds were issued for the purpose of advance refunding certain outstanding general obligation bonds of the City totaling \$66,195,000. Interest payments between 2-4% on these bonds are payable semiannually on April 1 and October 1 until maturity in fiscal year 2023. The cash flow difference obtained was \$3.5 million and the economic gain (the difference between the present values of the debt service payments on old and new debt) was \$3.4 million.
- \$30,905,000 General Obligation Bonds, 2010 Series C (Build America Bonds - Federally Taxable - Direct Payment): Interest payments between 4.75-5.35% on the bonds are payable semiannually each April 1 and October 1 until maturity in fiscal year 2030. The City will receive a direct tax subsidy from the U.S. Treasury equaling 35% of the interest on the bonds, making the net interest rates .79-3.76%.
- \$16,685,000 General Obligation Bonds, 2010 Series D (Recovery Zone Economic Development Bonds - Federally Taxable - Direct Payment): Interest payments between 3.25-5.35% on the bonds are payable semiannually each April 1 and October 1 until maturity in fiscal year 2030. The City will receive a direct tax subsidy from the U.S. Treasury equaling 45% of the interest on the bonds, making the net interest rates .67-3.18%.
- On March 25, 2010, the City of Boston sold its \$17,415,000 General Obligation Bonds, 2010 Series E (Qualified School Construction Bonds - Federally Taxable - Direct Payment). The Series E Bonds are issued for the purpose of paying costs of capital projects for City schools. Interest payments between 4.8-5.3% on the bonds are payable semiannually each April 1 and October 1 until maturity in fiscal year 2026. The City will receive a direct tax subsidy from the U.S. Treasury equal to 100% of the interest on the bonds.

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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. The remaining payments for these leases as of June 30, 2010 are \$35.5 million. The City's commitment under operating leases is not significant.

Business-type activities

The following is a summary of the long-term obligations of the business-type activities of the City as of June 30, 2010 (in thousands):

Bonds payable:	<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%	\$ 97,085	0	3,580	93,505	3,725
Hospital Bond Fund:						
Special Obligation Refunding Bonds, Boston City Hospital, dated 8/1/02	2.0 – 5.0	87,840	0	7,235	80,605	7,525
Total business-type obligations		<u>\$ 184,925</u>	<u>0</u>	<u>10,815</u>	174,110	<u>11,250</u>
Add (deduct):						
Unamortized bond premiums						2,064
Unamortized excess of reacquisition price over net carrying amount of defeased bonds						(272)
Current portion of long-term debt						<u>(11,250)</u>
						<u>\$ 164,652</u>

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, 2010 are as follows (in thousands):

Year(s) ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 11,250	8,108	19,358
2012	11,700	7,652	19,352
2013	12,170	7,173	19,343
2014	12,665	6,669	19,334
2015	13,190	6,096	19,286
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>\$ 174,110</u>	<u>65,744</u>	<u>239,854</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 PHC.

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PHC expects to meet its obligation on the bonds through application of a portion of the rent payable to the PHC by the BMC for its lease of the former BCH. Under certain circumstances, including a default by BMC under the lease, City revenues may be required to satisfy the debt service requirements on the Series B bonds.

The City has pledged future mortgage note payments from the PHC, to repay \$127.8 million in special obligation refunding bonds issued in August 2002. Proceeds from the bonds originally provided financing for the construction of Boston City Hospital. The bonds are payable solely from mortgage note payments received from the PHC and are payable through 2019. Annual principal and interest payments on the bonds are expected to require 100 percent of the mortgage note repayments. The total principal and interest remaining to be paid on the bonds is \$99.3 million. Principal and interest paid for the current year and mortgage note repayments received were \$11.1 million and \$11.3, respectively.

The City has pledged future taxi medallion sales and state hotel/motel fees (pledged revenues) to repay \$116.9 million in special obligation bonds issued in April 2002. Proceeds from the bonds provided financing for the City's activities related to the financing for the construction of the state-owned convention center. The bonds are payable solely from the pledged revenues and are payable through 2027. Annual principal and interest payments on the bonds are expected to require 25 percent of the pledged revenues. The total principal and interest remaining to be paid on the bonds is \$140.6 million. Principal and interest paid for the current year and pledged revenue receipts received, net of the \$30.0 million transfer to the general fund, were \$8.3 million and \$13.9 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 charged against its general credit. This aggregate amount is immaterial to the financial statements.

Defeased Debt

The principal amount of debt refunded through in-substance defeasance transactions for both governmental and business-type activities and still outstanding at June 30, 2010 was approximately \$164.9 million.

Debt Capacity

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 Secretary of Administration and Finance.

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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, 2010, the City may issue \$4.04 billion of additional general obligation debt under the debt limit. General obligation debt of \$467.7 million, subject to the debt limit, and \$80.5 million, exempt from the debt limit, are authorized but unissued as of June 30, 2010.

(11) Retirement Plans

(a) Plan Description

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

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

On January 1, 2010, in accordance with Chapter 61 of the Acts of 2009, the Suffolk County Sheriff's Department and their respective retirement annuity savings funds were transitioned to the Commonwealth. Furthermore, retirees who retired as employees of the Suffolk County Sheriff's Department prior to January 1, 2010, will remain members of the System and the respective pension liability will remain the obligation of the City. Due to a collective bargaining agreement, a limited number of employees retain the ability to retire as members of the System until November 1, 2010.

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

The System is administered by a five person Board of Retirement consisting of the City Auditor, who serves as a member *ex officio*, two members who are elected by the participants, in or retired from the service of the System, a fourth member appointed by the Mayor, and a fifth member chosen by the other members. A complete set of financial statements for SBRS for the fiscal year ended December 31, 2009 can be obtained through the SBRS, Boston City Hall, Room 816, Boston, MA 02201.

(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.

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Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investments of the System are stated as follows:

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

(c) Membership

Membership in the System consisted of the following at December 31, 2009, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	13,894
Terminated plan members entitled to but not receiving benefits	10,172
Active plan members	20,909
Total membership	44,975
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 contributions of plan members and the participating employers are governed by Chapter 32 of the M.G.L. The City’s required and actual contributions to the System for the year ended June 30, 2010 was \$116 million. For years ended June 30, 2009 and 2008 the City’s required and actual contributions were \$213 million, \$203 million or \$108 million and \$105 million, net of teachers’ retirement, respectively.

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On May 22, 2010, the Commonwealth enacted Chapter 112 of the Acts of 2010 which resulted in significant changes in the funding of pension benefits and related assets held for the benefit of City of Boston Teachers (Boston Teachers) employee group and how that group is administered. The Legislation stipulated that the Commonwealth is now responsible for the Boston Teachers pension liability and the funding requirements thereto required. Further, the Legislation stipulated that the System was to continue administering the membership and retiree activities related to the Boston Teachers.

The Legislation also stipulated that the assets attributable to the Boston teachers would be invested in the Commonwealths Pension Reserves Investment Trust (PRIT) Fund. However, that investment would be considered an asset of the System. In order to fund this asset, the System was required to liquidate certain positions, rebalance the portfolio as necessary, and remit approximately \$1.04 billion to PRIT.

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

(e) Legally Required Reserve Accounts

The balance in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2009 is as follows (in thousands):

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity savings fund	\$ 1,386,917	Active members' contribution balance
Annuity reserve fund	426,582	Retired members' contribution account
Military service credit	49	Members' contribution account while on military leave
Pension reserve fund	1,971,798	Amounts appropriated to fund future retirement benefits
Pension fund	214,440	Remaining net assets
	<u>\$ 3,999,786</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

Notes to Basic Financial Statements

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lends certain securities owned by the System to other broker dealers and banks pursuant to a form of loan agreement. The System and the borrowers maintain the right to terminate all securities lending transactions on demand.

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

The System does not impose any restrictions on the amount of securities lent on its behalf by the custodian. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses from a default of the borrowers or the custodian for the year ended December 31, 2009. 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, 2009, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts owed to the System.

At December 31, 2009, the fair value of securities loaned by the System amounted to \$323.8 million, against which was held collateral of \$336.0 million as follows (in thousands):

Short-term collateral investment pool	\$	299,975
Noncash collateral		36,092
Total	\$	336,067

(g) Commitments

At December 31, 2009, the System had contractual commitments to provide approximately \$68 million of additional funding to venture capital funds.

(h) Funded Status and Funding Progress

The funded status of the System as of January 1, 2008, the most recent actuarial valuation date, with an updated liability projection as of January 1, 2010, is as follows (in thousands):

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Actuarially accrued liability (AAL)	\$	7,212,669
Actuarial value of plan assets		<u>4,292,504</u>
Unfunded AAL (UAAL)	\$	<u><u>2,920,165</u></u>
Funded ratio (actuarial value of plan assets/AAL)		59.5%
Covered payroll (active plan members)	\$	1,425,451
UAAL as a percentage of covered payroll		204.9%

In the January 1, 2008 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions included an 8.0% investment rate of return, projected salary increases of 5.0%, and cost-of-living adjustments of 3.0% up to \$12,000 annually. The actuarial value of assets was determined using the fair value of investments. The System's unfunded actuarial accrued liability is being amortized as a level percentage of pay on an open basis. The remaining amortization period at January 1, 2010 was 14 years.

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

(12) Other Postemployment Benefits (OPEB)

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

In addition to the pension benefits described in note 11, the City provides postemployment healthcare and life insurance benefits, in accordance with state statute and City ordinance, to participating retirees and their beneficiaries. Participating retirees are City retirees. As of June 30, 2009, the valuation date, approximately 14,000 retirees and 15,000 active members meet the eligibility requirements as put forth in Chapter 32B of M.G.L. The City sponsors and participates in an agent multi-employer defined benefit OPEB plan. The OPEB plan is administered by the City and does not issue a stand-alone financial report.

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

Notes to Basic Financial Statements

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Advantage plans offered by Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim HealthCare, and Tufts Health Plan.

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

(a) Funding Policy

Employer and employee contribution rates are governed by the respective collective bargaining agreements. The City currently funds the plan on a pay-as-you-go basis. The City and plan members share the cost of benefits. As of June 30, 2009, the valuation date, the plan members contribute 10% to 25% of the monthly premium cost, depending on the plan in which they are enrolled. The City contributes the balance of the premium cost.

(b) Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of June 30, 2009 (in thousands):

ARC	\$	252,685
Interest on net OPEB obligation		22,616
Adjustment to ARC		(16,310)
Annual OPEB cost		258,991
Contributions made		(153,433)
Change in net OPEB obligation		105,558
Net OPEB obligation – beginning of year		430,794
Net OPEB obligation – end of year	\$	536,352

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

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Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 258,991	59%	\$ 536,352
2009	346,425	37%	430,794
2008	327,752	35%	212,823

(c) Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010, based on an actuarial valuation as of June 30, 2009, was as follows (in thousands):

AAL	\$ 4,553,816
Actuarial value of plan assets	<u>0</u>
UAAL	<u>\$ 4,553,816</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 1,008,004
UAAL as a percentage of covered payroll	452%

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

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

(d) Actuarial Methods and Assumptions

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

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The City also adopted M.G.L. Chapter 32B, Section 18A for future retirees effective July 1, 2010. This provision requires Medicare eligible retirees to enroll in a Medicare supplement plan upon reaching age 65. As a result, the actuarial assumptions for participation and coverage election changed, as presented in the following table, reducing the City's OPEB AAL by \$937 million from the June 30, 2007 valuation.

Participation and Coverage Election Assumptions

	Medicare Plans			Non-Medicare Plans	
	BCBS Master Medical Carveout <u>Plan</u>	Medicare Supplement <u>Plan</u>	Medicare Advantage Plan	Non-Medicare <u>plan</u>	Non-Medicare Master <u>Medical</u>
<u>June 30, 2009 Valuation</u>					
future retirees hired prior to 1986 and current retirees under age 65	65.0%	7.5%	7.5%	15.0%	5.0%
future retirees hired after 1986	80.0%	10.0%	10.0%	0.0%	0.0%
<u>June 30, 2007 Valuation</u>					
all future retirees and current retirees under age 65	50.0%	5.0%	5.0%	30.0%	10.0%

The projected unit credit cost method was used. The actuarial assumptions included a 5.25% investment rate of return and an annual healthcare cost trend rate of 10.0% to 11.0% initially, reduced by decrements to an ultimate rate of 5.0% after 5 – 6 years. The healthcare cost trend rate differs between the master medical and other healthcare plans. The actuarial value of assets was determined using the market value of investments. The City's UAAL is being amortized as a level percentage of pay on an open basis. The remaining amortization period at July 1, 2009 was 30 years.

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(13) Transfers

	Governmental funds				Proprietary fund
	General	Special revenue	Capital projects	Other governmental	Convention center
Primary government:					
Excess hotel/motel excise taxes	\$ 30,000	0	0	0	(30,000)
Cemetery fees/fund appropriation	2,079	0	0	(2,079)	0
Parking meter fees/fund appropriation payment	15,000	(15,000)	0	0	0
Sale of surplus property	5,979	0	(5,979)	0	0
Total	<u>\$ 53,058</u>	<u>(15,000)</u>	<u>(5,979)</u>	<u>(2,079)</u>	<u>(30,000)</u>

Transfers and their purposes during the year ended June 30, 2010 were as follows (in thousands):

(14) Excess of Expenditures over Budgets

The City had expenditures in excess of their budgeted amounts for the year ended June 30, 2010 in the following categories (in thousands):

Public safety:	
Police Department	\$ 11,538
Judgments and Claims:	
Execution of Courts	<u>12,470</u>
	<u>\$ 24,008</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, BCH and Boston Specialty and Rehabilitation Hospital (BSRH), were transferred to and assumed by PHC.

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

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

Notes to Basic Financial Statements

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the appropriation is used for administrative purposes and to support the various public health programs run by the PHC. The City has budgeted \$69.8 million for the PHC for fiscal year 2011.

Due from PHC/BMC

On July 1, 1996, in connection with the consolidation transaction described above, the PHC assumed a liability of \$149.8 million for a mortgage note due to the City. In August 2002, this note was refinanced such that the stream of payments made by the PHC on the new note will be used to pay the outstanding balance of \$122.9 million of the City's Special Obligation Refunding Bonds dated August 2002. The PHC receives funding for the note payments from the BMC under a lease agreement whereby the BMC leases portions of the former BCH for an initial period of 50 years. Rental payments received under this lease are equal to the debt service costs on the new note and on all City general obligation bonds allocable to BCH. In fiscal year 2010, the City received \$7.2 million in principal and \$3.9 million in interest for a total of \$11.1 million from PHC in payments for this note. These general obligation bonds were issued by the City between December 1967 and October 1995 and total \$7.5 million at June 30, 2010. 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 Risk Management Program focuses on a planned strategy of self-insurance, supported by strong prevention and cost reduction efforts, financial reserves and catastrophic insurance. The City is self-insured in most areas of risk including general liability, property and casualty, Workers' Compensation, certain employee health care costs and unemployment compensation.

The City's legal liabilities are capped per M.G.L. Chapter 258, and Corporation Counsel defends the City in any lawsuits that arise from the normal course of operations. For Workers' Compensation, the City is exempt from state insurance requirements per M.G.L. Chapter 152 Section 25B. The City's Workers' Compensation Division, as well as the Police and Fire Departments, manage employee injury claims internally. The City budgets for and funds legal claims and employee injury costs through the General Fund, charging specific departments for their share of costs in order to promote awareness and prevention efforts.

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The City purchases health insurance coverage for employees and retirees through a variety of health maintenance organizations (HMO's), in addition to offering three self-insured indemnity plans, which are administered by Blue Cross and Blue Shield of Massachusetts (BC/BS). HMO costs are funded through the General Fund, and the self-insured plans are financially managed through a trust fund established in compliance with M.G.L Chapter 32B Section 3A.

For unexpected large losses, the City maintains a catastrophic risk reserve, which has an available balance of \$12.5 million at the end of fiscal 2009. To further protect the City's assets and finances from adverse loss, commercial insurance is purchased strategically for certain exposures. A catastrophic property insurance policy provides \$100.0 million all risk protection after a \$10.0 million deductible. Boiler and machinery losses are insured up to \$10 million per incident, after a \$50,000 deductible.

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, 2010 and 2009 are as follows (in thousands):

	Internal service fund	
	2010	2009
Health and life claims, beginning of year	\$ 6,507	7,436
Incurred claims	86,140	86,351
Payments of claims attributable to events of both the current and prior fiscal years:		
Health and life	(86,120)	(87,280)
Health and life claims, end of year	<u>\$ 6,527</u>	<u>6,507</u>
	Government-wide statements	
	2010	2009
Judgments and claims, beginning of year	\$ 79,068	79,856
Incurred claims	88,263	44,190
Payments of claims attributable to events of both the current and prior fiscal years:		
Workers' compensation	(32,023)	(34,277)
Unemployment compensation	(6,666)	(3,544)
Court judgments	(12,904)	(7,157)
Judgments and claims, end of year	<u>\$ 115,738</u>	<u>79,068</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

Notes to Basic Financial Statements

June 30, 2010

basic financial statements resulting from such litigation would not materially affect the basic financial statements.

(17) Discretely Presented Component Units

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

Condensed Statements of Net Assets					
June 30, 2010					
(In thousands)					
	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Assets:					
Current assets:					
Cash and investments	\$ 31,649	47,395	8,473	9,394	96,911
Cash and investments held by trustee	0	0	44,224	2,168	46,392
Receivables, net:					
Other	12,743	4,736	1,473	6,870	25,822
Other assets	9,976	138	1,677	611	12,402
Due from primary government	<u>542</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>542</u>
Total current assets	<u>54,910</u>	<u>52,269</u>	<u>55,847</u>	<u>19,043</u>	<u>182,069</u>
Noncurrent assets:					
Notes receivable	5,467	84,769	24	0	90,260
Other assets	69,083	29,418	0	0	98,501
Capital assets:					
Nondepreciable	13,897	14,943	0	1,420	30,260
Depreciable	<u>18,638</u>	<u>3,662</u>	<u>664</u>	<u>30,592</u>	<u>53,556</u>
Total noncurrent assets	<u>107,085</u>	<u>132,792</u>	<u>688</u>	<u>32,012</u>	<u>272,577</u>
Total assets	<u>\$ 161,995</u>	<u>185,061</u>	<u>56,535</u>	<u>51,055</u>	<u>454,646</u>

Notes to Basic Financial Statements**June 30, 2010**

Condensed Statements of Net Assets

June 30, 2010

(In thousands)

	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Liabilities:					
Current liabilities:					
Warrants and accounts payable	\$ 10,821	2,281	718	2,643	16,463
Accrued liabilities:					
Other	782	0	272	1,919	2,973
Current portion of					
long-term debt and leases	256	0	0	1,142	1,398
Due to BMC	1,378	0	0	0	1,378
Due to primary government	9,418	0	820	0	10,238
Deferred revenue	2,438	2,254	0	692	5,384
	<u>25,093</u>	<u>4,535</u>	<u>1,810</u>	<u>6,396</u>	<u>37,834</u>
Total current liabilities					
Noncurrent liabilities:					
Bonds notes and leases due in more than one year	938	1,475	0	18,632	21,045
Other noncurrent liabilities	13,984	143,076	0	647	157,707
OPEB	42,748	3,109	0	0	45,857
Deferred revenue	6,617	31,177	0	0	37,794
Due to primary government	70,252	0	0	0	70,252
	<u>134,539</u>	<u>178,837</u>	<u>0</u>	<u>19,279</u>	<u>332,655</u>
Total noncurrent liabilities					
Total liabilities					
	<u>159,632</u>	<u>183,372</u>	<u>1,810</u>	<u>25,675</u>	<u>370,489</u>
Net assets:					
Invested in capital assets, net of related debt	30,231	6,599	664	14,406	51,900
Restricted	0	0	51,895	0	51,895
Unrestricted	(27,868)	(4,910)	2,166	10,974	(19,638)
	<u>2,363</u>	<u>1,689</u>	<u>54,725</u>	<u>25,380</u>	<u>84,157</u>
Total net assets					

Notes to Basic Financial Statements

June 30, 2010

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

Year ended June 30, 2010

(In thousands)

	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Expenses	\$ 138,163	28,713	12,289	35,122	214,287
Program revenues:					
Charges for services	8,598	7,897	1,497	15,369	33,361
Operating grants and contributions	44,637	13,863	7,798	16,583	82,881
Capital grants and contributions	753	0	0	0	753
Total program revenues	53,988	21,760	9,295	31,952	116,995
Net expenses	(84,175)	(6,953)	(2,994)	(3,170)	(97,292)
General revenues:					
Investment income	213	1,188	5,920	74	7,395
Sale of property	0	3,638	0	0	3,638
City appropriation	70,000	0	0	0	70,000
Miscellaneous income	3,288	1,992	0	827	6,107
Total general revenues	73,501	6,818	5,920	901	87,140
Change in net assets	(10,674)	(135)	2,926	(2,269)	(10,152)
Net assets – beginning of year	13,037	1,824	51,799	27,649	94,309
Net assets – end of year	\$ 2,363	1,689	54,725	25,380	84,157

**Required Supplementary Information
(Unaudited)**

(Dollar amounts in thousands)

Schedules of Funding Progress

Pension						
Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
01/01/10*	\$ 4,292,504	7,212,669	2,920,165	59.5%	\$ 1,425,451	204.9%
01/01/09*	4,089,989	6,900,229	2,810,240	59.3	1,364,068	206.0
01/01/08	4,458,002	6,596,148	2,138,146	67.6	1,299,112	164.6
01/01/07*	4,138,146	6,223,154	2,085,008	66.5	1,221,404	170.7
01/01/06	3,836,807	5,957,373	2,120,566	64.4	1,168,808	181.4
01/01/05*	3,587,118	5,664,288	2,077,170	63.3	1,115,529	186.2

*Liability and payroll estimated from prior year's valuations.

OPEB						
06/30/09	\$ —	4,553,816	4,553,816	—	\$ 1,008,004	451.8%
06/30/07	\$ —	5,490,836	5,490,836	—	\$ 919,662	597.0

Schedule of Employers' Contributions – Pension

Year ended December 31:	<u>Annual required contribution</u>	<u>Percentage contributed</u>
2009	\$ 253,996	100 %
2008	239,039	100
2007	221,865	100
2006	217,088	100
2005	191,132	100
2004	164,069	100

See accompanying independent auditor's report.