

City of Boston

Massachusetts



***Basic Financial
Statements***

Fiscal Year Ended June 30, 2012

Thomas M. Menino, Mayor

Meredith Weenick, Chief Financial Officer & Collector Treasurer

Sally D. Glora, City Auditor

Prepared by the City of Boston Auditing Department



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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, Massachusetts (the City), as of and for the year ended June 30, 2012, 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 the City's Permanent Funds, which represent 1.2% and 0.1% of the assets and revenues of the governmental activities, respectively, and 0.7% and 0.6% of the assets and revenues of the aggregate remaining fund information, respectively. We also did not audit the financial statements of the City's OPEB Trust Fund and Private-Purpose Trust Funds, which represent 4.7% and 30.8% of the assets and revenues of the aggregate remaining fund information, respectively. Further, we did not audit the financial statements of the Trustees of the Public Library of the City of Boston and the Economic Development and Industrial Corporation of Boston, which represent 26.6% and 17.5% of the assets and revenues of the aggregate discretely presented component units, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions on the financial statements, insofar as they relate to the amounts included for these funds and component units, are based on the reports of the other auditors. The prior year Budgetary Basis General Fund – Budget and Actual Statement of Revenues and Expenditures comparative information has been derived from the City's 2011 financial statements and, in our report dated December 21, 2011, we expressed an unqualified opinion on the Budgetary Basis General Fund – Budget and Actual Statement of Revenues and Expenditures.

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. 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the



respective budgetary comparison for the City's 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 December 18, 2012 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.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages A-3 through A-15 and schedules of funding progress and schedules of employer contributions on page A-64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Boston, Massachusetts
December 18, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

The City of Boston (the City) provides this Management's Discussion and Analysis to present additional information to the readers of the City's basic financial statements. This narrative overview and analysis of the financial activities of the City is for the fiscal year ended June 30, 2012. 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*. The *Notes to the Basic Financial Statements* supplement the financial statement information and clarify line-items that are part of the financial statements.

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.

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, 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. The business-type activities of the City include the activities related to the City’s Hospital Bond Fund.
- *Discretely Presented Component Units* – These are legally separate entities 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 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 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 (i.e., measurable and available to liquidate liabilities of the current period). Expenditures are generally recorded when liabilities are incurred, except for those related to long-term liabilities, which are recorded when due and payable. 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 non-major 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 after the governmental fund financial statements. This statement provides a comparison of the General Fund original and final budget and the actual expenditures for the current and prior year on a budgetary basis.

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. Like the Government-wide Financial Statements, Proprietary Fund Financial Statements use the economic resources measurement focus and accrual basis of accounting. No reconciliation is needed between the Government-wide Financial Statements for business-type activities and the Proprietary Fund Financial Statements. There are two types of proprietary funds – enterprise funds and internal service funds. Enterprise funds charge fees for services provided to outside customers including local governments. Enterprise Funds provide the same type of information as the Business-type activities of the Government-wide Financial Statements within governmental activities, only in more detail. The City's sole enterprise fund was the Hospital Bond Fund which was terminated during the fiscal year upon the defeasance of the City's Hospital Revenue Bonds. The internal service fund provides health insurance services predominantly to other funds, departments or agencies of the City. Therefore, its activities are included in the Government-wide financial statements within governmental activities. The 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 economic resources measurement focus and 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 Other Postemployment Benefits (OPEB) Liability 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 for other postemployment benefits; and the Private Purpose Trust and Agency Funds, which include 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 and the City's OPEB Trust Fund.

CURRENT YEAR FINANCIAL IMPACTS

- The City of Boston's OPEB obligation significantly impacts the government-wide financial results. Each year, the City is required to recognize an additional portion of its unfunded actuarial accrued liability. The most recent valuation of the City's OPEB obligations as of June 30, 2011, estimated that the total OPEB unfunded actuarial accrued liability of the City decreased by \$1.64 billion to \$2.91 billion. This decrease was largely as a result of changes to the discount rate based on the City's funding policy.
- In FY12, the City's contribution to the OPEB Trust Fund (\$180.5 million) for retiree health benefits is close to the annual required contribution (ARC) of \$181.7 million. In FY13, the City has appropriated \$40.0 million in advance funding toward reducing the unfunded actuarial accrued liability.
- The proceeds of the 2012 Series C bonds issued in May 2012, together with other funds available to the City, were applied to advance refund the City's outstanding \$73.1 million BCH Hospital bonds. The defeasance of the Hospital Fund bonds also resulted in the close-out of the Hospital Bond Fund, which was included in business-type activities. In 2012, the City has reported the final activity of the fund.
- In FY12, the City funded a total of \$16.0 million in the Collective Bargaining Reserve to reflect the wage pattern that has been accepted by several of the City's civilian unions and has been offered to all unions.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This analysis is based on the Statement of Net Assets and the Statement of Activities found directly after Management's Discussion and Analysis.

Government-wide Highlights

Net Assets – Primary Government – The total assets of the City exceeded its liabilities at fiscal year ended June 30, 2012 by \$524.6 million (presented as net assets). At year end, the City had a deficit in governmental activities unrestricted net assets in the amount of \$46.0 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 increased by \$58.9 million in fiscal year 2012. Net assets of governmental activities increased by \$73.7 million, while net assets of the business-type activities decreased by \$14.8 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 \$524.6 million at the end of 2012, compared to \$465.7 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 those assets that are still outstanding – this amount is \$442.8 million indicating that the net book value of the City's capital assets exceeds the amount of related 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, \$127.8 million or 24.4%, 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. The deficit in unrestricted net assets decreased \$62.8 million from 2011.

Net Assets (Deficit) – Primary Government

(In thousands)

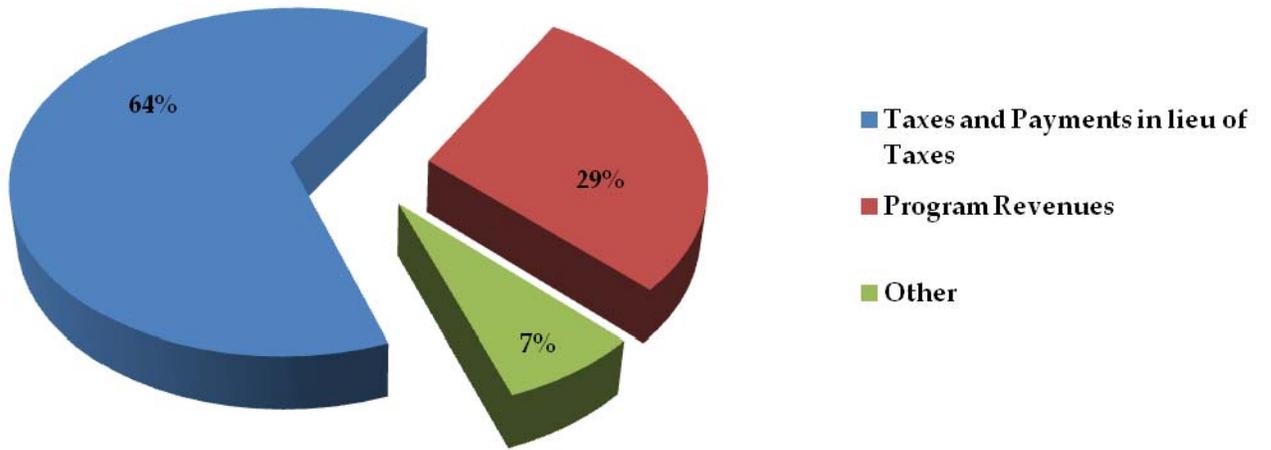
	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
ASSETS:						
Current assets.....	\$ 1,459,833	\$ 1,348,075	\$ -	\$ 31,807	\$ 1,459,833	\$ 1,379,882
Capital assets.....	1,479,237	1,364,414	-	-	1,479,237	1,364,414
Other assets.....	133,171	119,766	-	59,094	133,171	178,860
Total assets.....	3,072,241	2,832,255	-	90,901	3,072,241	2,923,156
LIABILITIES:						
Noncurrent liabilities.....	1,896,612	1,795,736	-	66,818	1,896,612	1,862,554
Current liabilities.....	651,032	585,664	-	9,251	651,032	594,915
Total liabilities.....	2,547,644	2,381,400	-	76,069	2,547,644	2,457,469
NET ASSETS:						
Invested in capital assets, net of related debt.....	442,778	402,646	-	-	442,778	402,646
Restricted	127,843	156,989	-	14,832	127,843	171,821
Unrestricted.....	(46,024)	(108,780)	-	-	(46,024)	(108,780)
Total net assets	\$ 524,597	\$ 450,855	\$ -	\$ 14,832	\$ 524,597	\$ 465,687

Changes in Net Assets (Deficit) – Primary Government

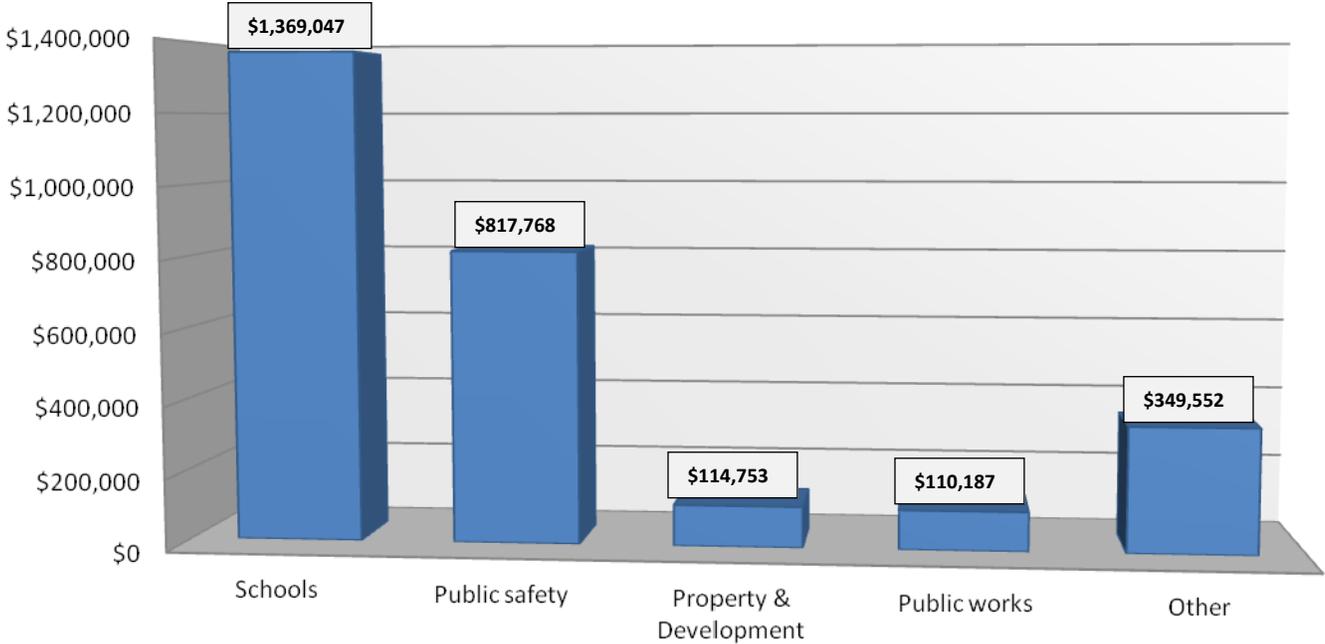
(In thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services.....	\$ 210,260	\$ 144,375	\$ -	\$ -	\$ 210,260	\$ 144,375
Operating grants and contributions.....	574,653	622,731	-	1,172	574,653	623,903
Capital grants and contributions.....	35,337	33,338	-	-	35,337	33,338
General revenues:						
Taxes.....	1,841,355	1,713,354	-	58,508	1,841,355	1,771,862
Grants and contributions not restricted.....	188,895	187,322	-	-	188,895	187,322
Investment income.....	10,887	21,724	2,688	3,561	13,575	25,285
Miscellaneous.....	7,084	23,195	-	-	7,084	23,195
Total revenues.....	2,868,471	2,746,039	2,688	63,241	2,871,159	2,809,280
Program expenses:						
General government.....	108,499	80,968	-	-	108,499	80,968
Human services.....	48,103	49,974	-	-	48,103	49,974
Public safety.....	817,768	875,111	-	-	817,768	875,111
Public works.....	110,187	133,830	-	-	110,187	133,830
Property and development.....	114,753	117,871	-	-	114,753	117,871
Parks and recreation.....	34,651	31,956	-	-	34,651	31,956
Library.....	44,526	47,320	-	-	44,526	47,320
Schools.....	1,369,047	1,438,398	-	-	1,369,047	1,438,398
Public health programs.....	73,975	70,619	-	-	73,975	70,619
Interest on long-term debt.....	39,798	40,329	-	-	39,798	40,329
Convention center.....	-	-	-	9,025	-	9,025
Hospital.....	-	-	2,523	3,336	2,523	3,336
Total program expenses.....	2,761,307	2,886,376	2,523	12,361	2,763,830	2,898,737
Excess (deficiency) before transfers.....	107,164	(140,337)	165	50,880	107,329	(89,457)
Transfers.....	(44,872)	(1,120)	44,872	1,120	-	-
Special item.....	11,450	-	(59,612)	-	(48,162)	-
Loss on extinguishment of debt.....	-	-	(257)	-	(257)	-
Change in net assets.....	73,742	(141,457)	(14,832)	52,000	58,910	(89,457)
Net assets (deficit) – beginning of year.....	450,855	592,312	14,832	(37,168)	465,687	555,144
Net assets – end of year.....	\$ 524,597	\$ 450,855	\$ -	\$ 14,832	\$ 524,597	\$ 465,687

Revenues - Governmental Activities Fiscal Year 2012



Expenses - Governmental Activities FY12 (in thousands)



Governmental Activities

The City's governmental activities net assets increased by \$73.7 million over the prior fiscal year. The following net changes occurred during the course of operations in fiscal year 2012: In the assets accounts, cash and investments increased by \$141.3 million, receivables decreased by \$30.4 million, and capital assets increased by \$114.8 million. In the liability accounts, there were increases in warrants and accounts payable of \$63.2 million and accrued liabilities of \$12.9 million. Additionally, an increase of \$15.7 million was recorded relative to the City's other postemployment obligation in 2012.

During fiscal year 2012, the City's revenues increased by 4.5%. The City's largest sources of revenues were property taxes, excise taxes, and payment in lieu of taxes of \$1.84 billion (64.2% of total revenues) and \$820.3 million of program revenues (28.6% of total revenues). Taxes increased by \$127.9 million from the previous year. Program revenues increased by \$19.8 million for fiscal year 2012. This is largely due to increases in building permits, aircraft fuel, parking meter revenues and hotel and motel excise taxes recorded in the general fund.

The City's expenses cover a range of services. The largest expenses were for schools (\$1.4 billion), public safety (\$817.8 million), property and development (\$114.8 million), public works (\$110.2 million), general government (\$108.5 million), public health programs (\$74.0 million), and human services (\$48.1 million). Expenditure surpluses in Snow Removal and State and District Assessments allowed for coverage of deficit spending in Public Safety and Judgments and Claims.

In 2012, governmental activities expenses exceeded program revenues (i.e., user charges, operating grants, and capital grants) by \$1.94 billion. This shortfall was covered primarily through taxes (\$1.84 billion) and unrestricted grants and contributions (\$188.9 million).

Comparative data on these revenues and expenses is itemized in the reporting of the Changes in Net Assets (Deficit) – Primary Government earlier in this Management Discussion and Analysis.

Business type Activities

Net assets from business-type activities decreased \$14.8 million during fiscal year 2012. This change in net assets resulted from the close-out of the Hospital Bond Fund subsequent to the defeasance of the City's Hospital Revenue Bonds.

FINANCIAL ANALYSIS OF THE CITY'S FUND STATEMENTS

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

Fund Highlights

Governmental Funds – Fund Balances – As of the close of fiscal year 2012, the City's governmental funds reported a combined ending fund balance of \$970.9 million, an increase of \$36.7 million from the prior year. Of this total amount, \$511.8 million represents the unassigned fund balance. The increase in fund balance is largely due to the aforementioned increases in revenues.

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, unassigned 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 unassigned fund balance in the General Fund that is 10%, or higher, of GAAP General Fund operating expenditures for the fiscal year. The GAAP unassigned fund balance at the end of fiscal year 2012 was \$511.8 million, which represents approximately 20.7% 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 unassigned 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 unassigned 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 unassigned 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 restricted or committed to expenditures for predefined purposes. The fiscal year 2012 Special Revenue Fund balance is reported at \$171.5 million, a \$808 thousand decrease from fiscal year 2011. This decrease is due to a slight reduction in intergovernmental revenue and an increase in spending in Public Safety and School 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 2012 Capital Projects Fund balance is \$69.7 million, a \$1.3 million increase from fiscal year 2011. The increase in fund balance is attributable to unspent bond proceeds.

Other Governmental Funds – Fund Balance – Other Governmental Funds account for assets held by the City in permanent trust funds. The fiscal year 2012 Other Governmental Funds fund balance is \$40.1 million, a \$546 thousand decrease from fiscal year 2011. The decrease in fund balance is largely due to investment returns during fiscal year 2012.

Enterprise Funds

The City's enterprise 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.

As of June 30, 2012, there are no Enterprise Fund net assets due to the close-out of the Hospital Bond Fund. For the year ended June 30, 2012, the Hospital Fund reported residual activity related to the Hospital Revenue Bond refunding.

Budgetary Highlights

General Fund budgetary highlights include ending fiscal year 2012 with a \$12.0 million surplus. This represents the City's 27th consecutive year with a balanced budget. There were no significant variances between the original budget and final budget amounts. Significant unfavorable variances from the final budget to actual results were in the areas of judgments and claims and public safety. Public safety saw an unfavorable variance of \$17.6 million due to an increase in overtime expenditures.

Favorable results were reported for General Fund revenue sources, including \$29.2 million in excises, \$18.2 million in licenses and permits, and \$16.1 million in Departmental and other revenue. Other financing sources shows a revenue deficit of \$47.1 million, however, this is a result of not using one time revenue from fund balance and other revenue sources that were not needed.

CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital Assets

The City's investment in capital assets for its governmental activities, as of June 30, 2012, has a net book value of \$1.48 billion, made up of costs totaling \$2.96 billion less accumulated depreciation of \$1.48 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 8.5% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$197.2 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 \$80.7 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 \$1.07 billion in General Obligations Bonds principal outstanding – an increase of \$44.4 million over last year.

The key factor in this increase was the issuance of the April 2, 2012 Series A general obligation bonds totaling \$122.0 million which were issued to finance various capital projects in the City. Further, \$83.1 million Series B were issued for the purpose of advance refunding prior debt. Additionally, \$26.9 million Series C were issued to refund the Boston City Hospital Special Obligation Bonds.

In March 2012, in conjunction with the City's annual bond offering, the rating service bureaus Moody's Investors Service and Standard & Poor's assigned the City's bond ratings at Aaa and AA+, respectively. General Obligation Bonds are backed by the full faith and credit of the City, including the City's power to levy additional taxes to ensure repayment of the debt. Accordingly, all general obligation debt currently outstanding has been approved by a vote of the City Council.

Notes and Leases Payable and Other Long Term Obligations – The City's general long term notes and leases and other long term obligations increased \$31.9 million, or 3.3%, during the current fiscal year. Key factors for this increase are the increase in OPEB liability of \$15.7 million as well as an increase in the workers' compensation liability of \$7.3 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

There were no new accounting standards adopted for the fiscal year ending June 30, 2012.

FUTURE PRONOUNCEMENTS

In June 2012, the Governmental Accounting Standards Board (GASB) issued two new standards that will substantially change the accounting and financial reporting of public employee pensions by state and local governments. Statement No. 67, *Financial Reporting for Pension Plans*, revises existing guidance for the financial reports of most pension plans. Statement No. 68, *Accounting and Financial Reporting for Pensions*, revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Statement No. 68 will be effective for the City's fiscal year ending June 30, 2015 and Statement No. 67 will be effective for the State-Boston Retirement System (SBRS) for its fiscal year ending December 31, 2014. The effects of such standards on the City's financial statements have not been determined.

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, 2012

(Amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS:				
Current Assets:				
Cash and investments.....	\$ 1,235,972	\$ -	\$ 1,235,972	\$ 80,559
Cash and investments held by trustees.....	41,757	-	41,757	7,678
Receivables, net:				
Property and other taxes.....	24,398	-	24,398	-
Intergovernmental.....	130,809	-	130,809	-
Other.....	23,622	-	23,622	41,383
Other assets.....	-	-	-	7,650
Due from primary government.....	-	-	-	4
Due from component units.....	3,275	-	3,275	-
Total current assets.....	<u>1,459,833</u>	<u>-</u>	<u>1,459,833</u>	<u>137,274</u>
Noncurrent Assets:				
Intergovernmental receivables.....	45,003	-	45,003	-
Cash and investments held by Trustee.....	-	-	-	48,792
Notes and other receivables.....	64,004	-	64,004	151,090
Other assets.....	11,367	-	11,367	2,892
Capital assets:				
Nondepreciable.....	33,743	-	33,743	28,916
Depreciable, net.....	1,445,494	-	1,445,494	53,386
Due from component units.....	12,797	-	12,797	-
Total noncurrent assets.....	<u>1,612,408</u>	<u>-</u>	<u>1,612,408</u>	<u>285,076</u>
Total assets	<u>3,072,241</u>	<u>-</u>	<u>3,072,241</u>	<u>422,350</u>
LIABILITIES:				
Current Liabilities:				
Warrants and accounts payable.....	165,442	-	165,442	21,815
Accrued liabilities - current:				
Tax abatement liability.....	32,200	-	32,200	-
Compensated absences.....	50,512	-	50,512	-
Judgments and claims.....	62,384	-	62,384	-
Payroll and related costs.....	141,970	-	141,970	-
Deposits and other.....	77,141	-	77,141	6,139
Current portion of long-term debt and leases.....	114,128	-	114,128	1,435
Due to component units.....	4	-	4	-
Due to primary government.....	-	-	-	3,275
Unearned revenue.....	7,251	-	7,251	8,932
Total current liabilities.....	<u>651,032</u>	<u>-</u>	<u>651,032</u>	<u>41,596</u>
Noncurrent Liabilities:				
Bonds due in more than one year.....	1,040,365	-	1,040,365	-
Notes and leases payable due in more than one year.....	58,255	-	58,255	17,624
Other noncurrent liabilities.....	204,969	-	204,969	157,239
Other postemployment benefits obligation.....	593,023	-	593,023	68,143
Unearned revenue.....	-	-	-	38,667
Due to primary government.....	-	-	-	12,797
Total noncurrent liabilities.....	<u>1,896,612</u>	<u>-</u>	<u>1,896,612</u>	<u>294,470</u>
Total liabilities	<u>2,547,644</u>	<u>-</u>	<u>2,547,644</u>	<u>336,066</u>
NET ASSETS:				
Investment in capital assets, net of related debt.....	442,778	-	442,778	52,341
Restricted for:				
Capital projects.....	26,371	-	26,371	-
Nonexpendable trust.....	4,974	-	4,974	58,706
Expendable trust.....	32,914	-	32,914	-
Debt service.....	2,182	-	2,182	-
Federal and state grants.....	61,402	-	61,402	-
Unrestricted.....	(46,024)	-	(46,024)	(24,763)
Total net assets	<u>\$ 524,597</u>	<u>\$ -</u>	<u>\$ 524,597</u>	<u>\$ 86,284</u>

See accompanying notes to the basic financial statements

Statement of Activities
Year Ended June 30, 2012
 (Amounts in thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government.....	\$ 108,499	\$ 41,483	\$ 5,604	\$ 2,541
Human services.....	48,103	40	7,740	-
Public safety.....	817,768	134,384	27,920	1,207
Public works.....	110,187	19,515	26	25,754
Property and development.....	114,753	5,871	52,689	394
Parks and recreation.....	34,651	769	6,111	692
Library.....	44,526	359	360	-
Schools.....	1,369,047	7,839	474,203	4,749
Public health programs.....	73,975	-	-	-
Interest on long-term debt.....	39,798	-	-	-
Total governmental activities.....	<u>2,761,307</u>	<u>210,260</u>	<u>574,653</u>	<u>35,337</u>
Business-type activities:				
Hospital bonds.....	2,523	-	-	-
Total business-type activities.....	<u>2,523</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total primary government.....	<u>\$ 2,763,830</u>	<u>\$ 210,260</u>	<u>\$ 574,653</u>	<u>\$ 35,337</u>
Component Units:				
Boston Public Health Commission.....	199,657	59,395	48,082	1,036
Boston Redevelopment Authority.....	20,357	8,836	4,428	-
Trustees of the Public Library of the City of Boston.....	8,465	1,777	5,492	-
Economic Development and Industrial Corporation of Boston.....	30,245	17,968	14,927	-
Total component units	<u>\$ 258,724</u>	<u>\$ 87,976</u>	<u>\$ 72,929</u>	<u>\$ 1,036</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.....	
Special item - gain on sale of land.....	
Special item - loss on forgiveness of Note.....	
Loss on extinguishment of debt.....	
Transfers.....	
Total general revenues and transfers.....	
Change in net assets.....	
Net assets (deficit) - beginning of year.....	
Net assets - end of year.....	

Net (Expense) Revenue and Changes in Net Assets
Primary Government

Governmental Activities	Business-type Activities	Total	Component Units
\$ (58,871)	\$ -	\$ (58,871)	\$ -
(40,323)	-	(40,323)	-
(654,257)	-	(654,257)	-
(64,892)	-	(64,892)	-
(55,799)	-	(55,799)	-
(27,079)	-	(27,079)	-
(43,807)	-	(43,807)	-
(882,256)	-	(882,256)	-
(73,975)	-	(73,975)	-
(39,798)	-	(39,798)	-
<u>(1,941,057)</u>	<u>-</u>	<u>(1,941,057)</u>	<u>-</u>
-	(2,523)	(2,523)	-
-	(2,523)	(2,523)	-
(1,941,057)	(2,523)	(1,943,580)	-
-	-	-	(91,144)
-	-	-	(7,093)
-	-	-	(1,196)
-	-	-	-
-	-	-	2,650
-	-	-	(96,783)
1,586,988	-	1,586,988	-
191,301	-	191,301	-
63,066	-	63,066	-
188,895	-	188,895	-
10,887	2,688	13,575	1,232
-	-	-	71,111
7,084	-	7,084	8,154
11,450	-	11,450	-
-	(59,612)	(59,612)	-
-	(257)	(257)	-
(44,872)	44,872	-	-
2,014,799	(12,309)	2,002,490	80,497
73,742	(14,832)	58,910	(16,286)
450,855	14,832	465,687	102,570
\$ 524,597	\$ -	\$ 524,597	\$ 86,284

See accompanying notes to the basic financial statements

Balance Sheet

Governmental Funds

June 30, 2012

(Amounts in thousands)

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and investments.....	\$ 923,199	\$ 159,581	\$ 96,472	\$ 3,128	\$ 1,182,380
Cash and investments held by trustees.....	2,438	-	2,253	37,066	41,757
Receivables, net:					
Property and other taxes.....	24,398	-	-	-	24,398
Intergovernmental.....	58,086	107,892	9,834	-	175,812
Departmental and other.....	23,417	64,048	-	108	87,573
Total receivables.....	105,901	171,940	9,834	108	287,783
Due from other funds.....	27	1,855	67	-	1,949
Due from component units.....	16,072	-	-	-	16,072
Total assets.....	\$ 1,047,637	\$ 333,376	\$ 108,626	\$ 40,302	\$ 1,529,941
LIABILITIES					
Warrants and accounts payable.....	\$ 102,736	\$ 25,863	\$ 28,843	\$ 232	\$ 157,674
Accrued liabilities:					
Payroll and related costs.....	139,022	2,938	10	-	141,970
Deposits and other.....	19,561	46,329	406	-	66,296
Deferred revenue.....	94,695	86,786	9,654	-	191,135
Due to other funds.....	1,922	-	27	-	1,949
Due to component unit.....	4	-	-	-	4
Total liabilities.....	357,940	161,916	38,940	232	559,028
FUND BALANCES					
Nonspendable.....	-	-	-	4,974	4,974
Restricted.....	-	72,903	69,686	35,096	177,685
Assigned.....	177,942	98,557	-	-	276,499
Unassigned.....	511,755	-	-	-	511,755
Total fund balances.....	689,697	171,460	69,686	40,070	970,913
Total liabilities and fund balances.....	\$ 1,047,637	\$ 333,376	\$ 108,626	\$ 40,302	\$ 1,529,941

Reconciliation of the Balance Sheet

Governmental Funds to the Statement of Net Assets

June 30, 2012

(Amounts in thousands)

Total fund balance - governmental funds.....	\$ 970,913
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 governmental fund financial statements.....	1,479,237
Adjust deferred revenues to record revenues on an accrual basis.....	183,937
Internal service funds are included in the government-wide financial statements.....	42,060
Bond issuance costs are capitalized in the government-wide financial statements.....	9,517
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.....	(1,111,042)
Capital leases.....	(32,566)
Bond issue premiums/discounts, net.....	(76,654)
Deferred bond refunding losses.....	7,514
Accrued interest on bonds.....	(10,645)
Compensated absences.....	(178,582)
Landfill.....	(8,408)
Judgments and claims.....	(124,961)
Other postemployment benefits.....	(593,023)
Tax abatements.....	(32,200)
Pollution remediation.....	(500)
	<u>(2,161,067)</u>
Net assets of governmental activities.....	<u>\$ 524,597</u>

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds Year Ended June 30, 2012

(Amounts in thousands)

	General	Special Revenue	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Real and personal property taxes.....	\$ 1,591,998	\$ -	\$ -	\$ -	\$ 1,591,998
Excises.....	187,572	-	-	-	187,572
Payments in lieu of taxes.....	63,066	-	-	-	63,066
Fines.....	64,566	27	-	-	64,593
Investment income.....	982	26	-	3,129	4,137
Licenses and permits.....	48,753	85	-	-	48,838
Departmental and other.....	78,438	43,871	156	577	123,042
Intergovernmental.....	486,379	263,223	22,889	-	772,491
Total revenues.....	2,521,754	307,232	23,045	3,706	2,855,737
EXPENDITURES:					
Current:					
General government.....	68,828	10,689	-	6,434	85,951
Human services.....	28,604	6,802	-	-	35,406
Public safety.....	524,476	28,309	-	-	552,785
Public works.....	84,727	5,487	-	-	90,214
Property and development.....	30,089	79,618	-	-	109,707
Parks and recreation.....	16,653	6,142	-	-	22,795
Library.....	30,069	1,730	-	-	31,799
Schools.....	830,839	173,329	-	-	1,004,168
Public health programs.....	73,455	281	-	-	73,736
Judgments and claims.....	3,871	-	-	-	3,871
Retirement costs.....	220,340	-	-	-	220,340
Other employee benefits.....	251,194	-	-	-	251,194
State and district assessments.....	160,547	-	-	-	160,547
Capital outlays.....	6,950	3,239	178,188	-	188,377
Debt service.....	138,210	9	-	-	138,219
Total expenditures.....	2,468,852	315,635	178,188	6,434	2,969,109
Excess (deficiency) of revenues over (under) expenditures.....	52,902	(8,403)	(155,143)	(2,728)	(113,372)
OTHER FINANCING SOURCES (USES):					
Long-term debt and capital leases issued.....	-	7,010	139,825	-	146,835
Refunding bonds issued.....	-	-	110,100	-	110,100
Payments to escrow agents.....	-	(12,857)	(83,019)	-	(95,876)
Premiums on long-term debt issued.....	-	17,415	16,470	-	33,885
Transfers in (out).....	(16,136)	(3,973)	(26,945)	2,182	(44,872)
Total other financing sources (uses)...	(16,136)	7,595	156,431	2,182	150,072
Net change in fund balances.....	36,766	(808)	1,288	(546)	36,700
Fund balance - beginning of year.....	652,931	172,268	68,398	40,616	934,213
Fund balance - end of year.....	\$ 689,697	\$ 171,460	\$ 69,686	\$ 40,070	\$ 970,913

See accompanying notes to the basic financial statements

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Funds to the Statement of Activities Year Ended June 30, 2012

(Amounts in thousands)

Net change in fund balances - total governmental funds.....	\$ 36,700
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 (\$197,205) exceeded depreciation expense (\$80,724) and loss on disposals (\$1,658).....	114,824
Certain revenues in the statement of activities that are not reported as revenues in the governmental funds.....	41,187
Issuances of long-term debt (\$256,935) 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 (\$113,223) and payment to the escrow agent (\$95,876) are expenditures in the governmental funds, but reduce long-term liabilities in the statement of net assets. This is the amount by which issuances exceed repayments and escrow payments.....	(47,836)
Bond premiums net (\$29,486) increase the long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Deferred gain on refunding (\$2,251) increase long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Bond issuance costs, net (\$504) 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.....	(31,233)
Intergovernmental revenues decrease receivables on the statement of net assets, but are included in the operating statement of governmental funds.....	(7,567)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This amount represents the increase in liabilities for judgments and claims (\$7,266), compensated absences (\$1,909), other postemployment benefits (\$15,729) offset by a decrease in liabilities for Landfill closure and post closure costs (\$285) and interest payable (\$197).	(24,422)
Net loss from the internal service fund, which is presented in the statement of activities, but not in the governmental funds.....	(7,911)
Change in net assets of governmental activities.....	\$ 73,742

Statement of Revenues and Expenditures

Budgetary Basis

General Fund – Budget and Actual

Year Ended June 30, 2012 (with comparative actual amounts for 2011)

(Amounts in thousands)

	2012					2011 Actual
	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance		
REVENUES AND OTHER AVAILABLE FUNDS:						
Real and personal property taxes, net.....	\$ 1,575,373	\$ 1,575,373	\$ 1,577,253	\$ 1,880	\$ 1,504,566	
Excises.....	163,925	163,925	193,126	29,201	159,041	
Commonwealth of Massachusetts.....	385,877	385,877	390,475	4,598	395,201	
Departmental and other revenue.....	52,740	53,298	69,369	16,071	144,438	
Fines.....	64,155	64,155	64,338	183	65,051	
Payments in lieu of taxes.....	66,620	66,620	62,902	(3,718)	71,999	
Investment income.....	1,150	1,150	982	(168)	1,392	
Licenses and permits.....	33,750	33,750	51,932	18,182	39,887	
Other available funds.....	51,096	51,096	4,030	(47,066)	48,139	
Total revenues and other available funds.....	2,394,686	2,395,244	2,414,407	19,163	2,429,714	
EXPENDITURES:						
General government.....	81,287	90,500	88,998	1,502	75,879	
Human services.....	30,062	29,391	29,350	41	29,377	
Public safety.....	502,786	503,088	520,723	(17,635)	504,759	
Public works.....	100,699	103,933	92,152	11,781	106,239	
Property and development.....	27,359	30,426	30,302	124	30,145	
Parks and recreation.....	16,429	17,184	17,121	63	16,747	
Library.....	30,139	30,157	30,152	5	30,378	
Schools.....	830,908	831,467	831,343	124	821,375	
Boston Public Health Commission.....	72,903	72,903	72,903	-	69,808	
Judgments and claims.....	3,500	3,500	14,500	(11,000)	21,022	
Other employee benefits.....	264,341	254,376	253,592	784	243,624	
Retirement costs.....	130,746	130,680	130,530	150	195,998	
Debt requirements.....	137,042	131,154	130,227	927	126,410	
State and district assessments.....	166,485	166,485	160,547	5,938	152,043	
Total expenditures.....	2,394,686	2,395,244	2,402,440	(7,196)	2,423,804	
Excess of revenues and other available funds over expenditures.....	\$ -	\$ -	\$ 11,967	\$ 11,967	\$ 5,910	

Statement of Net Assets

Proprietary Funds

June 30, 2012

(Amounts in thousands)

	<u>Enterprise Fund</u>	
	<u>Hospital Revenue Bonds</u>	<u>Internal Service</u>
ASSETS:		
Current assets:		
Cash and investments.....	\$ -	\$ 53,592
Receivables, net.....	-	53
Total current assets.....	-	53,645
Noncurrent assets:		
Other assets.....	-	1,797
Total noncurrent assets.....	-	1,797
Total assets.....	-	55,442
LIABILITIES:		
Current liabilities:		
Warrants and accounts payable.....	-	7,768
Accrued liabilities	-	5,614
Total current liabilities.....	-	13,382
NET ASSETS:		
Unrestricted.....	-	42,060
Total net assets.....	\$ -	\$ 42,060

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

Year Ended June 30, 2012

(Amounts in thousands)

	<u>Enterprise Fund</u>	
	Hospital Revenue	
	<u>Bonds</u>	<u>Internal Service</u>
OPERATING REVENUES:		
Contributions.....	\$ -	\$ 78,666
Total operating revenues.....	-	78,666
OPERATING EXPENSES:		
Health benefits.....	-	86,577
Total operating expenses.....	-	86,577
Operating loss.....	-	(7,911)
NONOPERATING REVENUE (EXPENSE):		
Investment earnings - pledged for debt service.....	2,688	-
Interest expense.....	(2,523)	-
Loss on extinguishment of debt.....	(257)	-
Total nonoperating revenue (expense).....	(92)	-
Loss before transfers and special item.....	(92)	(7,911)
Transfer from general fund.....	13,954	-
Transfer from capital projects.....	26,945	-
Transfer from special revenue.....	3,973	-
Special item - forgiveness of note receivable.....	(59,612)	-
Change in net assets.....	(14,832)	(7,911)
Total net assets - beginning of year.....	14,832	49,971
Total net assets - end of year.....	\$ -	\$ 42,060

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2012

(Amounts in thousands)

	<u>Enterprise Fund</u>	
	<u>Hospital Revenue Bonds</u>	<u>Internal Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from employees and employer.....	\$ -	\$ 79,295
Cash paid to vendors.....	-	(79,745)
Net cash used in operating activities.....	-	(450)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Interest paid on debt.....	(4,898)	-
Transfers from other funds.....	44,872	-
Repayment of long-term debt.....	(73,080)	-
Net cash used in noncapital financing activities.....	(33,106)	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income.....	624	-
Principal received on note.....	6,946	-
Interest received on note.....	2,064	-
Net cash provided by investing activities.....	9,634	-
Decrease in cash and cash equivalents.....	(23,472)	(450)
Cash and cash equivalents - beginning of year.....	23,472	54,042
Cash and cash equivalents - end of year.....	\$ -	\$ 53,592
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss.....	\$ -	\$ (7,911)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	-	164
Other assets.....	-	88
Due from other funds.....	-	377
Accounts payable and accrued liabilities.....	-	6,832
Net cash used in operating activities.....	\$ -	\$ (450)

Non-cash investing activity: Forgiveness of note receivable totaling \$59,612.

Statement of Fiduciary Net Assets

Fiduciary Funds

Year Ended June 30, 2012

(Except Employee Retirement Plan, which is year ended December 31, 2011)

(Amounts in thousands)

	Employee Retirement Plan	OPEB Trust Fund	Private- Purpose Trusts	Agency Funds
ASSETS:				
Cash and cash equivalents.....	\$ 145,025	\$ 6,705	\$ 90,797	\$ 6,308
Receivables:				
Interest and dividends.....	15,323	-	-	-
Securities sold.....	83,407	-	-	-
Employer contributions.....	1,961	-	-	-
Other.....	12,999	-	1,881	-
Total receivables.....	113,690	-	1,881	-
Investments, at fair value:				
Short-term:				
Domestic.....	80,840	-	-	-
International.....	5,633	-	-	-
Equity:				
Domestic.....	962,403	-	-	-
International.....	606,523	-	-	-
Fixed-income:				
Domestic.....	568,579	-	-	-
International.....	245,035	-	-	-
PRIT Pooled Fund.....	1,171,056	-	-	-
Real estate.....	321,249	-	-	-
Venture capital funds.....	378,056	-	-	-
Common/Co-mingled funds.....	-	142,973	-	-
Total investments.....	4,339,374	142,973	-	-
Securities lending short-term collateral investment pool.....	230,145	-	-	-
Other assets.....	-	-	30	-
Total assets.....	4,828,234	149,678	92,708	6,308
LIABILITIES:				
Accounts payable, accrued expenses and other liabilities.....	12,655	60	1,058	6,308
Securities purchased.....	112,519	-	-	-
Collateral held on securities lending.....	231,460	-	-	-
Total liabilities.....	356,634	60	1,058	6,308
NET ASSETS				
Held in trust for pension benefits and other purposes.....	\$ 4,471,600	\$ 149,618	\$ 91,650	\$ -

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year Ended June 30, 2012

(Except Employee Retirement Plan, which is year ended December 31, 2011)

(Amounts in thousands)

	Employee Retirement Plan	OPEB Trust Fund	Private- Purpose Trusts
ADDITIONS:			
Contributions:			
Employers.....	\$ 154,880	\$ 182,205	\$ -
Commonwealth of Massachusetts.....	90,400	-	-
Employees.....	123,481	-	-
Donations and other.....	-	-	19,236
Total contributions.....	368,761	182,205	19,236
Investment earnings:			
Realized and unrealized gains on investments.....	-	(79)	1,390
Investment income.....	(114,461)	4,127	107
Interest and dividends.....	128,927	-	-
Less investment expenses.....	(17,877)	(463)	-
Net investment earnings.....	(3,411)	3,585	1,497
Securities lending activities:			
Securities lending income.....	1,665	-	-
Less borrower rebates and fees.....	(483)	-	-
Net income from securities lending activities.....	1,182	-	-
Total net investment income.....	(2,229)	3,585	1,497
Intergovernmental.....	14,567	-	-
Total additions.....	381,099	185,790	20,733
DEDUCTIONS:			
Benefits.....	469,900	147,205	-
Reimbursements.....	10,459	-	-
Refunds of contributions.....	43,760	-	-
Administrative expenses and other.....	6,100	5	16,309
Total deductions.....	530,219	147,210	16,309
Change in net assets.....	(149,120)	38,580	4,424
Net assets - beginning of year.....	4,620,720	111,038	87,226
Net assets - end of year.....	\$ 4,471,600	\$ 149,618	\$ 91,650

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2012

1. The Financial Reporting Entity

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, and the Boston Public Health Commission 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. The financial statements of SBRS are included for its fiscal year end which is December 31, 2011.

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:

- i. **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.
- ii. **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.

- iii. **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.
- iv. **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, 2012.

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 20.

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 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

i. 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 Financial Statements has no measurement of results. 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 for recognition have been met.

ii. Governmental Fund Financial Statements

Governmental Fund Financial Statements are reported using the current financial resources measurement 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 and other taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, resources must be expended on the specific purpose or project before any amounts will be reimbursed to the City; therefore, revenues are recognized based upon the amount of expenditures incurred subject to availability requirements. 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 and other taxes are recognized as revenue in the year for which taxes have been levied or earned, provided they are collected within 60 days after year-end. Generally, intergovernmental revenues are recognized as revenue provided they are earned during the year and collected within one year after year-end, except for Massachusetts School Building Authority (MSBA) receivables which are considered available when received.

Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to long-term liabilities including compensated absences, other postemployment benefits, workers’ compensation and judgments and claims, are recorded only when payment is mature and due.

iii. Proprietary Fund 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 internal service funds are receipts from employer and employees for health insurance premiums. Operating expenses for enterprise funds and internal service funds include administrative expenses, vendor payments, and health benefits. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

iv. Description of Major Funds

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

1. 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.
2. 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.
3. The *Capital Projects Fund* accounts for bond proceeds and grant revenues used for the acquisition or construction of the City's capital facilities.

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

4. 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. In 2012, the City refunded the Hospital debt, thereby eliminating the Hospital Revenue Bond Fund. As of the end of 2012, the fund has no net assets.

Fiduciary Funds – The City reports the following fiduciary fund types:

5. The *Private-Purpose Trust Funds* are 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.
6. 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 employees of the City and other entities.
7. The *OPEB 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. The assets of the trust are currently not used for direct payments of benefits.
8. 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 proprietary fund financial statements, it is not considered a major fund.

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.”

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 governmental activities column 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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Any significant construction commitments are encumbered at year-end in the City’s Capital Project Fund.

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

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, 2012 is recorded in the Governmental Fund Financial Statements. The entire amount of the liability is reported in governmental activities in the Government-wide 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 that would be paid upon termination (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

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 and Proprietary Fund Statement of Net Assets. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges.

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

j. Net Assets and Fund Balance

In the Government-wide and Proprietary Fund Financial Statements, net assets are reported in the following categories:

Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted: Net assets the use of which is subject to constraints imposed by external parties, including creditors, grantors, and laws and regulations of other governments, or imposed by City Charter or enabling legislation. Nonexpendable amounts are required to remain intact under such constraints.

Unrestricted: Remaining net assets not considered invested in capital assets, net of related debt or restricted.

For purposes of net asset classification, 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.

In the Governmental Fund Financial Statements, fund balance is reported in the following categories:

Nonspendable: Amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to remain intact.

Restricted: Amounts the use of which is subject to constraints imposed by external parties, including creditors, grantors, and laws and regulations of other governments, or imposed by City Charter or enabling legislation.

Committed: Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. For the City, this formal action takes the form of statutes which are passed by the City Council and approved by the Mayor.

Assigned: Amounts that are constrained by the City's intent for use for specific purposes, but are considered neither restricted or committed. Under M.G.L. Chapter 190, Acts of 1982, the City Auditor has the authority to assign amounts to be used for specific purposes on behalf of the City.

Unassigned: Amounts in the general fund that are not otherwise constrained for a specific purpose more narrow than the general operations of the City. The City maintains a formal policy that unassigned fund balance in the General Fund be at least 10 percent of the current year's General Fund GAAP basis operating expenditures.

For purposes of fund balance classification, 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. When unrestricted resources are used, committed resources are used first, followed by assigned and unassigned resources, respectively.

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. A liability for estimated future tax abatement 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, 2012, 100% of the Gardner Street landfill site had been used and has 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, 2012.

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 2012 were \$285 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.

3. Short-Term Debt

During fiscal year 2012, 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 \$558 thousand required to fund the collective bargaining reserve for Schools.

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

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

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

- i. 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).
- ii. Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budget) but have no effect on GAAP expenditures.
- iii. Certain activities and transactions are presented in separate funds (GAAP), rather than as components of the General Fund (budget).
- iv. 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, 2012 (in thousands):

	Revenue	Expenditures	Other financing sources, net	Excess (deficiency) of revenue and other financing sources
As reported on a budgetary basis	\$ 2,414,407	2,402,440	-	11,967
Adjustments:				
Revenues to modified accrual basis	812	-	-	812
Expenditures, encumbrances, and accruals, net	-	(23,987)	-	23,987
On-behalf contribution for teachers pension	90,399	90,399	-	-
Reclassifications:				
Hospital fund transfer	13,954	-	(13,954)	-
Other transfers	2,182	-	(2,182)	-
As reported on a GAAP basis	<u>\$ 2,521,754</u>	<u>2,468,852</u>	<u>(16,136)</u>	<u>36,766</u>

5. Deposits and Investments

State and local statutes place certain limitations on the nature of deposits and investments available to the City. Deposits, including demand deposits, money markets, and certificates of deposit in any one financial institution, may not exceed 60% of the capital and surplus of such institution unless collateralized by the financial institution involved. Investments from operating cash in the general fund 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 commercial paper 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 the value of the pool's shares.

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 or investments may not be returned. The City carries deposits that are fully insured by FDIC insurance or collateralized in the City's name. As of June 30, 2012, there are no uncollateralized or uninsured cash accounts. All of the City's investments are held by third parties in the City's name.

b. Investment Policy

The City's primary concern in connection with its investment activities is a concern shared by all municipal governments: the preservation of capital. The City's investment policy establishes a domain in which all of the City's investment activities may be safely conducted while it strives to use its capital resources as efficiently as possible. The frontiers of that domain are fixed by Massachusetts General Laws (M.G.L.) c. 44, sec. 55, which prohibits Massachusetts communities from investing in certain categories of high-risk investments; 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. It is the City of Boston Trust Funds' policy to limit the average duration of an actively managed fixed income portfolio to no more than seven years. The following is a listing of the City's fixed income investments (in thousands) and related maturity schedule (in years) as of June 30, 2012:

<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 – 5</u>
External investment pool	\$ 381,169	381,169	-
Bond mutual funds	59,851	59,851	-
U.S. Treasury notes and bonds	3,374	-	3,374
Domestic corporate	6,950	-	6,950
	<u>\$ 451,344</u>	<u>441,020</u>	<u>10,324</u>

d. Credit Risk

It is the City of Boston Trust Funds' policy that there shall be no specific limitation in regard to credit worthiness of securities, except the overall average quality of each fixed income portfolio shall be AA or better. The City's fixed income investments as of June 30, 2012 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>
Bond mutual funds	\$ 59,851	Not Rated
External investment pool	381,169	Not Rated
Domestic corporate	6,950	AAA to B
	<u>\$ 447,970</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. No investments in a single issuer exceeded 5% of the City's investment portfolio.

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, 2012 the City held one international equity mutual fund valued at \$23.4 million. Although this investment is not denominated in a foreign currency, the underlying securities are denominated in various foreign currencies.

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. As of December 31, 2011, 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. 3(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, PRIT and hedge funds.

c. Interest Rate Risk

The following is a listing of the System's fixed income investments (in thousands) and related maturity schedule (in years) as of December 31, 2011:

<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	\$ 51,039	-	25,263	7,989	17,787
U.S. agencies	15,792	-	951	3,106	11,735
Domestic corporate	388,254	19,603	203,199	138,705	26,747
Municipal	2,689	-	116	203	2,370
International corporate	122,709	-	83,068	17,572	22,069
International government	122,326	-	58,421	40,728	23,177
Short-term investment funds	86,473	86,473	-	-	-
Asset-backed:					
CMOs	44,737	408	-	7,080	37,249
Mortgage-backed	51,798	-	-	-	51,798
Other	14,270	-	5,111	2,083	7,076
	<u>\$ 900,087</u>	<u>106,484</u>	<u>376,129</u>	<u>217,466</u>	<u>200,008</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, 2011 are highly sensitive to changes in interest rates.

d. Credit Risk

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

The System's fixed income investments as of December 31, 2011 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								Not
	value	AAA	AA	A	BBB	BB	B	CCC	rated
U.S. agencies	\$ 15,792	-	13,260	1,702	175	-	-	-	655
Domestic corporate	388,254	441	19,467	92,608	37,025	70,433	70,711	1,313	96,256
Municipal	2,689	-	680	2,009	-	-	-	-	-
International corp.	122,709	17,955	197	8,684	18,545	6,843	6,653	-	63,832
International gov't	122,326	8,592	10,582	11,758	-	1,199	-	-	90,195
Short-term									
investment funds	86,473	86,473	-	-	-	-	-	-	-
Asset-backed:									
CMOs	44,737	18,844	14,158	2,757	-	-	-	18	8,960
Mortgage-backed	51,798	-	49,822	-	-	-	-	-	1,976
Other	14,270	7,185	3,331	-	-	-	30	-	3,724
	<u>\$ 849,048</u>	<u>139,490</u>	<u>111,497</u>	<u>119,518</u>	<u>55,745</u>	<u>78,475</u>	<u>77,394</u>	<u>1,331</u>	<u>265,598</u>

In addition to the above schedule, the System has approximately \$51.0 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, except for pooled funds, that exceed 5% of the System's total investments as of December 31, 2011.

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).

Currency	Cash and short-term				Alternative	Total
	investments	Fixed income	Equity			
Australian dollar	\$ 203	1,483	25,343	-	-	27,029
Brazilian real	1,364	476	12,156	-	-	13,996
Canadian dollar	314	5,607	7,540	-	-	13,461
Danish krone	327	851	5,841	-	-	7,019
Euro currency	6,839	37,463	139,855	5,800	-	189,957
Hong Kong dollar	72	-	25,721	-	-	25,793
Indian rupee	1,763	762	7,262	-	-	9,787
Indonesian rupiah	24	1,889	2,528	-	-	4,441
Israeli Shekel	273	-	2,733	-	-	3,006
Japanese yen	475	54,128	85,909	-	-	140,512
Malaysian ringgit	547	2,596	2,561	-	-	5,704
Mexican peso	398	4,738	5,029	-	-	10,165
New Taiwan dollar	850	-	819	-	-	1,669
New Zealand dollar	71	1,093	-	-	-	1,164
Norwegian krone	1,089	5,246	6,151	-	-	12,486
Pakistan rupee	1	-	-	-	-	1
Philippine Peso	-	878	-	-	-	878
Polish zloty	84	-	-	-	-	84
Pound sterling	445	11,889	86,963	-	-	99,297
Singapore dollar	276	9,156	9,293	-	-	18,725
South African rand	271	-	8,623	-	-	8,894
South Korean won	261	3,213	6,084	-	-	9,558
Swedish krona	7	-	13,323	-	-	13,330
Swiss franc	130	771	35,972	-	-	36,873
Thailand Baht	-	-	733	-	-	733
Turkish Lira	21	-	1,260	-	-	1,281
Uruguayan peso	-	1,052	-	-	-	1,052
Total securities subject to foreign currency risk	\$ 16,105	143,291	491,699	5,800	-	656,895
U.S. dollars (securities held by international investment managers)*	5,668	101,744	114,824	-	-	222,236
Total international investment securities	\$ 21,773	245,035	606,523	5,800	-	879,131

g. PRIT Pooled Fund

The Commonwealth enacted Chapter 112, Section 17 of the Acts of 2010 that requires the System to invest all assets, current and future, related to Boston Teachers in the Pension Reserves Investment Trust (PRIT) fund. The PRIT fund is an external investment pool that is not registered with the Securities Exchange Commission.

The fair value of the PRIT fund is based on unit value as reported by management of the PRIT fund. The PRIT fund issues separately available audited financial statements with a year end of June 30.

On July 1, 2010, the System transferred 27% of its assets, or \$1.1 billion, to the PRIT Fund. As of December 31, 2011, the System had \$1.2 billion invested in the PRIT pooled fund.

h. Derivatives

The System trades financial instruments with off-balance-sheet risk in the normal course of its investing activities to assist in managing exposure to market risks. The System uses forward foreign currency contracts to hedge against the risk of future foreign currency fluctuations.

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 accrual and modified accrual basis of accounting as 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 13, 2011, all properties with unpaid fiscal year 2011 property taxes were liened. The City ultimately has the right to foreclose on all properties where the taxes remain unpaid.

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

7. Receivables

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

	<u>General</u>	<u>Special revenue</u>	<u>Capital projects</u>	<u>Other nonmajor funds</u>	<u>Internal service</u>	<u>Total</u>
Receivables:						
Property taxes	\$ 18,736	-	-	-	-	18,736
Other taxes	144,815	-	-	-	-	144,815
Intergovernmental	58,086	107,892	9,834	-	-	175,812
Other	23,417	64,048	-	108	53	87,626
	<u>245,054</u>	<u>171,940</u>	<u>9,834</u>	<u>108</u>	<u>53</u>	<u>426,989</u>
Gross receivables						
Less allowance for uncollectibles	<u>(139,153)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(139,153)</u>
Net total receivables \$	<u>105,901</u>	<u>171,940</u>	<u>9,834</u>	<u>108</u>	<u>53</u>	<u>287,836</u>

a. Long-Term Receivable

The City participates in the Commonwealth's school building assistance program, which is administered by the MSBA. The MSBA provides financial assistance (up to 80% of total costs) to the City to build and/or renovate schools. As of June 30, 2012, under this program, the City was due funds totaling \$55.6 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, 2013 through 2017, and in five-year increments thereafter:

Fiscal year(s):	<u>Anticipated revenue</u>
2013	\$ 10,573
2014	8,475
2015	8,176
2016	7,344
2017	6,720
2018 – 2022	<u>14,288</u>
Total	\$ <u><u>55,576</u></u>

b. Notes Receivable

Section 108 is the loan guarantee provision of the Community Development Block Grant (CDBG) program. Section 108 provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects. Housing and Urban Development (HUD) provides grants to local governments, which in turn provides loans to developers. As of June 30, 2012, under this program, the City determined that \$64.0 million was collectible. This amount is recorded in the City's Special Revenue fund.

c. Deferred Revenue

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Delinquent taxes receivable (General Fund)	\$ 21,835	-	21,835
Due from component units	11,450	2,468	13,918
Section 108 receivable	64,004	-	64,004
School building assistance receivable	55,576	1,418	56,994
Chapter 90	8,236	-	8,236
Other	<u>22,783</u>	<u>3,365</u>	<u>26,148</u>
Total unavailable/unearned revenue for governmental funds	\$ <u><u>183,884</u></u>	<u><u>7,251</u></u>	<u><u>191,135</u></u>

8. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows (in thousands):

a. Primary Government

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 25,128	88	-	25,216
Construction in progress	59,373	128,382	(179,228)	8,527
Total capital assets not being depreciated	<u>84,501</u>	<u>128,470</u>	<u>(179,228)</u>	<u>33,743</u>
Capital assets being depreciated:				
Land improvements	165,384	14,256	(228)	179,412
Buildings and improvements	1,759,822	106,768	-	1,866,590
Furniture and equipment	272,269	50,586	(14,506)	308,349
Infrastructure	495,487	76,353	-	571,840
Total capital assets being depreciated	<u>2,692,962</u>	<u>247,963</u>	<u>(14,734)</u>	<u>2,926,191</u>
Less accumulated depreciation for:				
Land improvements	47,020	8,702	(15)	55,707
Buildings and improvements	973,802	33,205	-	1,007,007
Furniture and equipment	210,897	21,535	(13,061)	219,371
Infrastructure	181,330	17,282	-	198,612
Total accumulated depreciation	<u>1,413,049</u>	<u>80,724</u>	<u>(13,076)</u>	<u>1,480,697</u>
Total capital assets being depreciated, net	<u>1,279,913</u>	<u>167,239</u>	<u>(1,658)</u>	<u>1,445,494</u>
Governmental activities capital assets, net	<u>\$ 1,364,414</u>	<u>295,709</u>	<u>(180,886)</u>	<u>1,479,237</u>

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

Governmental activities:		
General government	\$	3,804
Human services		1,908
Public safety		15,206
Public works, including depreciation of general infrastructure assets		17,698
Property and development		4,119
Parks and recreation		7,469
Library		3,609
Schools		26,672
Public health		239
Total depreciation expense – governmental activities	\$	<u>80,724</u>

9. Interfund Balances and Amounts Due To and From Component Units

Individual fund receivable and payable balances at June 30, 2012 are as follows (in thousands):

Interfund balances	Receivable	Payable
General	\$ 27	1,922
Special revenue	1,855	0
Capital projects	67	27
Balances at June 30, 2012	\$ 1,949	1,949

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

Amounts due to and from discrete component units at June 30, 2012 are as follows (in thousands):

Discrete component unit balances	Receivable	Payable
Primary government:		
General	\$ 16,072	4
Balances at June 30, 2012	16,072	4
Discretely presented component units:		
TPL	—	102
PHC	4	4,520
BRA	—	11,450
Balances at June 30, 2012	\$ 16,076	16,076

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, 2012 (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%	\$ 555,500	121,975	50,285	627,190	43,020
General Obligation Refunding Bonds	.125-5.0%	470,805	110,100	137,435	443,470	56,415
Total governmental general obligation bonds payable		\$ 1,026,305	232,075	187,720	1,070,660	99,435
Add (deduct):						
Unamortized bond premiums/discounts net					76,654	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(7,514)	
Current portion of long-term debt					(99,435)	
					\$ 1,040,365	
	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%	\$ 36,602	7,010	3,230	40,382	3,780
Leases payable		28,123	17,850	13,407	32,566	10,913
Judgments and claims		15,235	-	55	15,180	14,135
Workers' compensation		102,460	36,253	28,932	109,781	42,635
Health and life claims		6,550	85,641	86,577	5,614	5,614
Compensated absences		176,673	56,959	55,050	178,582	50,512
Landfill closure and postclosure care costs		8,693	-	285	8,408	200
Pollution remediation		500	-	-	500	-
Other postemployment benefits		577,294	223,586	207,857	593,023	-
Total notes, leases, and other long-term obligations		\$ 952,130	427,299	395,393	984,036	127,789

The payment of long term obligations of the governmental activities, except for health and life claims, is the responsibility of the City's General Fund. Health and life claims are the responsibility of the City's Internal Service Fund.

The annual debt service requirements of the City's general obligation bonds, notes and leases payable as of June 30, 2012, including subsidies to be received for Build America Bonds and Qualified School Construction Bonds, 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:				
2013	\$ 99,435	47,199	(3,527)	143,107
2014	95,225	44,202	(3,527)	135,900
2015	90,010	40,111	(3,527)	126,594
2016	86,080	35,898	(3,527)	118,451
2017	81,680	31,694	(3,495)	109,879
2018-2022	324,660	104,306	(16,321)	412,645
2023-2027	235,990	39,078	(7,147)	267,921
2028-2032	57,580	5,725	(421)	62,884
	<u>\$ 1,070,660</u>	<u>348,213</u>	<u>(41,492)</u>	<u>1,377,381</u>
Notes Payable:				
Year(s) ending June 30:				
2013	\$ 3,780	1,667	-	5,447
2014	4,151	1,474	-	5,625
2015	2,310	1,306	-	3,616
2016	2,288	1,206	-	3,494
2017	1,991	1,120	-	3,111
2018-2022	10,912	3,763	-	14,675
2023-2027	5,115	2,404	-	7,519
2028-2030	9,835	1,067	-	10,902
	<u>\$ 40,382</u>	<u>14,007</u>	<u>-</u>	<u>54,389</u>
Leases Payable:				
Year(s) ending June 30:				
2013	\$ 10,913	465	-	11,378
2014	8,256	311	-	8,567
2015	5,233	197	-	5,430
2016	3,537	121	-	3,658
2017	2,427	62	-	2,489
2018-2019	2,200	30	-	2,230
	<u>\$ 32,566</u>	<u>1,186</u>	<u>-</u>	<u>33,752</u>

On April 2, 2012, the City issued \$205.1 million of general obligation and refunding bonds, \$122.0 million for various municipal capital projects, and \$83.1 million of refunding bonds for the purpose of refunding certain outstanding general obligation bonds of the City totaling \$91.1 million. Interest on the bonds are payable semiannually each April 1 and October 1 until maturity in fiscal years 2032 and 2024, respectively.

On May 4, 2012, the City issued \$26.9 million of refunding bonds to defease the Hospital Bond Fund Special Obligation Refunding Bonds (along with other funds available to the City) totaling \$65.2 million. Interest on these bonds are payable semiannually each April 1 and October 1 until maturity in fiscal year 2019.

The cash flow difference and economic gain (the difference between the present value of the debt service payments on old and new debt) obtained from the April 2, 2012 refunding were \$7.9 million and \$7.2 million, respectively. For the May 4, 2012 refunding, the cash flow difference and economic gain were \$9.3 million and \$6.8 million, respectively.

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 principal payments for these leases as of June 30, 2012 are \$32.6 million. The gross amount of assets acquired under the equipment lease agreements totals \$17.9 million as of June 30, 2012. 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, 2012 (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>
Hospital Bond Fund:						
Special Obligation Refunding Bonds, Boston City						
Hospital, dated 8/1/02	2.0 – 5.0	\$ <u>73,080</u>	<u>-</u>	<u>73,080</u>	<u>-</u>	<u>-</u>
Total business-type obligations		\$ <u>73,080</u>	<u>-</u>	<u>73,080</u>	<u>-</u>	<u>-</u>

The proceeds of the 2012 Series C bonds issued in May 2012, together with other funds available to the City, were applied to advance refund the City's outstanding Hospital Bond Fund Special Obligation Refunding Bonds. The defeasance of the Hospital Fund bonds also resulted in the close-out of the Hospital Bond Fund.

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, 2012 was approximately \$140.1 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. 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, 2012, the City may issue \$3.9 billion of additional general obligation debt under the debt limit. General obligation debt of \$517.8 million, subject to the debt limit, and \$85.9 million, exempt from the debt limit, are authorized but unissued as of June 30, 2012.

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

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, 2011 can be obtained through the SBRS, Boston City Hall, Room 816, Boston, MA 02201.

Participation in the System is mandatory for all permanent, full time employees immediately upon the commencement of employment. Participants who resign from employment and who are not eligible to receive a retirement allowance or who are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending on the number of years of creditable service, such participants are entitled to receive either none, 50%, or 100% of the regular interest which has accrued on those deductions.

Employees with 10 or more years of service are entitled to pension benefits beginning at retirement age 55; an earlier retirement is allowed upon completion of 20 years of service. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive three year average annual rate of regular compensation. Benefit payments are based upon a participant's age, length of creditable service, level of compensation, and group classification. Participants become vested after 10 years of creditable service. Effective July 1, 1998, Chapter 32 of the M.G.L. assigns to the local retirement boards authority to establish and amend benefit provisions of the Plan and grant cost of living increases.

If a member in service dies, the surviving spouse and/or surviving dependent children may receive benefits, either in a lump sum or in the form of an annuity based on the length of service, contributions, age, and the cause of death. In the event there are no spouse and/or dependent children named, other beneficiaries may be entitled to a lump sum distribution. Participants who become permanently and totally disabled from further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors, including whether or

not the disability is work related, the participant's age, years of creditable service, level of compensation, veteran status, and group classification.

b. Basis of Accounting

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

Investments of the System are stated as follows:

- (1) Marketable bonds and equity securities are stated at quoted market value.
- (2) Real estate funds are stated at appraised value or partner's account value, whichever is more readily determinable.
- (3) Venture capital funds are stated at contributed cost or fair market value, whichever is more readily determinable.
- (4) Cash is stated at carrying amount, which is reconciled book balance.
- (5) Pooled funds are stated at unit values reported by the investment manager.

c. Membership

Membership in the System consisted of the following at December 31, 2011, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	14,104
Terminated plan members entitled to but not receiving benefits	16,470
Active plan members	19,418
	<u>49,992</u>
Total membership	<u>49,992</u>
Total number of participating employers	<u>6</u>

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 January 1, 1979 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. For the year ended December 31, 2011, the System was due \$245.3 million from all employers and received \$245.3 million in employer contributions. For the years ended June 30, 2010, June 30, 2011 and 2012, exclusive of contributions related to the City's teachers, the City's required and actual contributions were \$118.3 million, \$190.9 million and \$123.6 million, respectively.

The Commonwealth of Massachusetts is statutorily required to fund the contributions required for the City's teachers. For the years ended June 30, 2010, 2011 and 2012, the Commonwealth's required and

actual contributions were \$116.0 million, \$121.3 million and \$90.4 million, respectively. The 2012 amount is reported as intergovernmental revenue and retirement cost expenditures in the General Fund.

e. Legally Required Reserve Accounts

The balance in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2011 is as follows (in thousands):

Description	Amount	Purpose
Annuity savings fund	\$ 1,420,685	Active members' contribution balance
Annuity reserve fund	454,109	Retired members' contribution account
Military service credit	50	Members' contribution account while on military leave
Pension reserve fund	2,445,574	Amounts appropriated to fund future retirement benefits
Pension fund	151,182	Remaining net assets
	<u>\$ 4,471,600</u>	

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

f. Securities Lending

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

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

The System does not impose any restrictions on the amount of securities lent on its behalf by the custodian. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses from a default of the borrowers or the custodian for the year ended December 31, 2011. 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, 2011, 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, 2011, the fair value of securities loaned by the System amounted to \$243.5 million, against which was held collateral of \$249.8 million as follows (in thousands):

Short-term collateral investment pool	\$	230,145
Noncash collateral		<u>19,643</u>
Total	\$	<u><u>249,788</u></u>

g. Commitments

At December 31, 2011, the System had contractual commitments to provide \$84.0 million of additional funding to private equity funds, and \$76.0 million to real estate funds.

h. Funded Status and Funding Progress

The funded status of the System as of January 1, 2011 is as follows (in thousands):

Actuarially accrued liability (AAL)	\$	7,382,907
Actuarial value of plan assets		<u>4,592,675</u>
Unfunded AAL (UAAL)	\$	<u><u>2,790,232</u></u>
Funded ratio (actuarial value of plan assets/AAL)		62.2%
Covered payroll (active plan members)	\$	1,371,363
UAAL as a percentage of covered payroll		203.5%

In the January 1, 2011 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions included an 8.0% investment rate of return, an inflation rate of 4.5%, 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, 2011 was 15 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. OPEB benefits are reported as expenditures on a pay-as-you-go basis in the governmental funds.

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, 2011, the most recent actuarial valuation date, approximately 14,000 retirees and 14,500 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 Boston Public Health Commission, a discretely presented component unit, also participates and contributes to the 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 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 OPEB Plan is currently funded on a pay-as-you-go basis plus periodic advance funding contributions as amounts are available. The employers and plan members share the cost of benefits. As of June 30, 2011, the valuation date, the plan members contribute 10% to 26.25% of the monthly premium cost, depending on the plan in which they are enrolled. The City contributes the balance of the premium cost.

b. Basis of Accounting

The OPEB Trust Fund is prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when made. Benefits are recognized when due and payable in accordance with the terms of each plan.

Investments of the OPEB Trust fund are stated as follows:

- (1) Comingling funds are reported at net asset value.
- (2) Cash is stated at carrying amount, which is reconciled book balance.

c. 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, 2012, 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, 2011 (in thousands):

ARC	\$ 181,732
Interest on net OPEB obligation	41,854
Adjustment to ARC	<u>(27,348)</u>
Annual OPEB cost	196,238
Contributions made	<u>(180,509)</u>
Change in net OPEB obligation	15,729
Net OPEB obligation – beginning of year	<u>577,294</u>
Net OPEB obligation – end of year	<u><u>\$ 593,023</u></u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 196,238	92%	\$ 593,023
2011	270,749	85%	577,294
2010	258,991	59%	536,352

d. Funded Status and Funding Progress of the Plan

The funded status of the OPEB plan in the aggregate and the City's individual OPEB Plan as of June 30, 2012, based on an actuarial valuation as of June 30, 2011, was as follows (in thousands):

	<u>Plan</u>	<u>City</u>
AAL	\$ 3,171,670	3,018,252
Actuarial value of plan assets	<u>111,038</u>	<u>109,736</u>
UAAL	<u>\$ 3,060,632</u>	<u>2,908,516</u>
Funded ratio (actuarial value of plan assets/AAL)	3.50%	3.64%
Covered payroll (active plan members)	\$ 1,102,402	1,045,488
UAAL as a percentage of covered payroll	278%	278%

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.

e. 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.

The most recent actuarial valuation was performed as of June 30, 2011. The projected unit credit cost method was used. The actuarial assumptions included a 7.25% investment rate of return, an inflation rate of 4.5% and an annual healthcare cost trend rate of 9.0% initially, reduced by decrements to an ultimate rate of 5.0% after 5 – 6 years. The actuarial value of assets was determined using the fair value of investments. The healthcare cost trend rate differs between the master medical and other healthcare plans. The City's UAAL is being amortized as a level percentage of pay on an open basis. The remaining amortization period at July 1, 2011 was 30 years.

13. Transfers

Transfers and their purposes during the year ended June 30, 2012 were as follows (in thousands):

	Governmental funds				Proprietary fund
	General	Special revenue	Capital projects	Other governmental	Hospital bond
Primary government:					
Hospital Defeasance	\$ (13,954)	(3,973)	(26,945)	-	44,872
Debt Service	(2,182)	-	-	2,182	-
Total	<u>\$ (16,136)</u>	<u>(3,973)</u>	<u>(26,945)</u>	<u>2,182</u>	<u>44,872</u>

14. Excess of Expenditures over Budgets

The City had expenditures in excess of their budgeted amounts for the year ended June 30, 2012 in the following categories (in thousands):

Public safety:	
Police Department	\$ 13,696
Fire Department	4,994
Judgments and Claims:	
Execution of Courts	11,000
	<u>\$ 29,690</u>

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

15. Fund Balance Classification Details

The components of fund balance for the City's governmental funds as of June 30, 2012 are as follows (in thousands):

Fund Balances	General	Special revenue	Capital projects	Other governmental funds
Nonspendable				
Permanent fund principal	\$ -	-	-	4,974
Restricted for:				
General Government	-	7,325	19,461	430
Human Services	-	1,386	-	-
Public Safety	-	6,831	27,324	-
Public Works	-	-	12,280	-
Property and development	-	26,147	2,114	-
Parks and recreation	-	-	2,871	31,209
Library	-	452	5,636	-
Schools	-	30,762	-	3,457
Subtotal	-	72,903	69,686	35,096
Assigned to:				
General Government	57,228	16,581	-	-
Human Services	103	200	-	-
Public Safety	307	55,796	-	-
Public Works	421	22,937	-	-
Property and development	382	455	-	-
Parks and recreation	55	954	-	-
Library	2	84	-	-
Schools	10,728	1,550	-	-
Catastrophic Loss	15,522	-	-	-
Housing Initiative	30,401	-	-	-
Debt Service	1,868	-	-	-
Employee related costs	50,000	-	-	-
Designated for subsequent year expense	10,925	-	-	-
Subtotal	177,942	98,557	-	-
Unassigned	511,755	-	-	-
Total fund balances	\$ 689,697	171,460	69,686	40,070

16. Commitments and Contingencies

The City has committed \$245.7 million in encumbrances for purchase orders and contracts.

17. 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 2012, the City appropriated \$72.9 million to the PHC. As described below, the PHC uses the appropriation to pay debt service on certain general obligation bonds and base

assistance grant payments to BMC. The remainder of the appropriation is used for administrative purposes and to support the various public health programs run by the PHC. The City has budgeted \$66.2 million for the PHC for fiscal year 2013.

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 2012, the City received \$6.9 million in principal and \$2.1 million in interest for a total of \$9.0 million from PHC in payments for this note. In May 2012, the Special Obligation Refunding Bonds were defeased through the proceeds of the 2012 Series C General Obligation bonds and other available funds. At this time, the remaining balance of the notes receivable from PHC (\$59.6 million) was forgiven by the City. The forgiveness of the receivable has been reported as a special item in the Government-wide and Hospital Bond Fund financial statements. The defeasance of the Hospital Fund bonds also resulted in the close-out of the Hospital Bond Fund.

General obligation bonds issued by the City between December 1967 and October 1995 total \$2.7 million as of June 30, 2012. 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 is also responsible for reimbursing the City for health insurance, equipment lease payments, workers' compensation, and other miscellaneous expenses paid for by the City.

18. 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.

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 an internal service fund established in compliance with M.G.L Chapter 32B Section 3A. In FY12, a guiding policy for the more prudent management of the City of Boston Health Claims Trust Fund was established. This policy states that accounting for the fund will be in accordance with generally accepted accounting principles, and will ensure

that all contributions and actual costs are shared between employers and their subscribers according to predetermined ratios.

For unexpected large losses, the City maintains a catastrophic risk reserve, which has an available balance of \$15.5 million at the end of fiscal 2012. 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 for all risk protection after a \$10.0 million deductible. Boiler and machinery losses are insured up to \$10.0 million per incident, after a \$50 thousand 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, 2012 and 2011 are as follows (in thousands):

	Internal service fund	
	2012	2011
Health and life claims, beginning of year	\$ 6,550	6,527
Incurred claims	85,641	85,074
Payments of claims attributable to events of both the current and prior fiscal years:		
Health and life	(86,577)	(85,051)
Health and life claims, end of year	<u>\$ 5,614</u>	<u>6,550</u>
	Government-wide statements	
	2012	2011
Judgments and claims, beginning of year	\$ 117,695	115,738
Incurred claims	41,622	36,610
Payments of claims attributable to events of both the current and prior fiscal years:		
Workers' compensation	(28,932)	(25,816)
Unemployment compensation	(5,369)	(5,607)
Court judgments	(55)	(3,230)
Judgments and claims, end of year	<u>\$ 124,961</u>	<u>117,695</u>

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

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

19. Subsequent Events

On October 12, 2012, the City issued \$28.9 million of general obligation bonds for the purpose of funding the Dudley Street Capital Project. Interest on the bonds are payable semiannually each April 1 and October 1 until maturity in fiscal year 2033.

20. 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, 2012					
(In thousands)					
	PHC	BRA	TPL	EDIC	Total
Assets:					
Current assets:					
Cash and investments	\$ 25,563	41,566	2,303	11,127	80,559
Cash and investments held by trustee	-	-	7,678	-	7,678
Receivables, net:					
Other	30,593	4,525	807	5,458	41,383
Other assets	7,102	124	47	377	7,650
Due from primary government	4	-	-	-	4
Total current assets	<u>63,262</u>	<u>46,215</u>	<u>10,835</u>	<u>16,962</u>	<u>137,274</u>
Noncurrent assets:					
Cash and investments held by trustee	-	-	48,792	-	48,792
Notes receivable	6,032	145,058			151,090
Other assets	974		1,831	87	2,892
Capital assets:					
Nondepreciable	13,785	14,981	150	-	28,916
Depreciable	16,381	3,129	543	33,333	53,386
Total noncurrent assets	<u>37,172</u>	<u>163,168</u>	<u>51,316</u>	<u>33,420</u>	<u>285,076</u>
Total assets	<u>\$ 100,434</u>	<u>209,383</u>	<u>62,151</u>	<u>50,382</u>	<u>422,350</u>

Condensed Statements of Net Assets

June 30, 2012

(In thousands)

	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Liabilities:					
Current liabilities:					
Warrants and accounts payable	\$ 17,913	1,090	538	2,274	21,815
Accrued liabilities:					
Other	2,831	272	428	2,608	6,139
Current portion of long-term debt and leases	301	-	-	1,134	1,435
Due to primary government	3,173	-	102	-	3,275
Deferred revenue	6,574	2,223	-	135	8,932
Total current liabilities	<u>30,792</u>	<u>3,585</u>	<u>1,068</u>	<u>6,151</u>	<u>41,596</u>
Noncurrent liabilities:					
Bonds notes and leases due in more than one year	363	1,475	-	15,786	17,624
Other noncurrent liabilities	3,638	152,900	-	701	157,239
OPEB	63,036	5,107	-	-	68,143
Deferred Revenue	7,147	31,520	-	-	38,667
Due to primary government	1,347	11,450	-	-	12,797
Total noncurrent liabilities	<u>75,531</u>	<u>202,452</u>	<u>-</u>	<u>16,487</u>	<u>294,470</u>
Total liabilities	<u>106,323</u>	<u>206,037</u>	<u>1,068</u>	<u>22,638</u>	<u>336,066</u>
Net assets:					
Invested in capital assets, net of related debt	28,640	6,139	693	16,869	52,341
Restricted	-	-	58,002	704	58,706
Unrestricted	(34,529)	(2,793)	2,388	10,171	(24,763)
Total net assets	<u>\$ (5,889)</u>	<u>3,346</u>	<u>61,083</u>	<u>27,744</u>	<u>86,284</u>

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

Year ended June 30, 2012

(In thousands)

	PHC	BRA	TPL	EDIC	Total
Expenses	\$ 199,657	20,357	8,465	30,245	258,724
Program revenues:					
Charges for services	59,395	8,836	1,777	17,968	87,976
Operating grants and contributions	48,082	4,428	5,492	14,927	72,929
Capital grants and contributions	1,036	-	-	-	1,036
Total program revenues	108,513	13,264	7,269	32,895	161,941
Net expenses	(91,144)	(7,093)	(1,196)	2,650	(96,783)
General revenues:					
Investment income	58	1,192	(35)	17	1,232
Sale of property	-	4,790	-	-	4,790
City appropriation	71,111	-	-	-	71,111
Miscellaneous income	-	1,141	1,949	274	3,364
Total general revenues	71,169	7,123	1,914	291	80,497
Change in net assets	(19,975)	30	718	2,941	(16,286)
Net assets – beginning of year	14,086	3,316	60,365	24,803	102,570
Net assets – end of year	\$ (5,889)	3,346	61,083	27,744	86,284

Required Supplementary Information**(Unaudited)**

(Amounts in thousands)

Schedules of Funding Progress

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
Pension - Plan						
01/01/11*	\$ 4,592,675	7,382,907	2,790,232	62.2%	\$ 1,371,363	203.5%
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
OPEB - City						
06/30/11	109,736	3,018,252	2,908,516	3.64	1,045,488	278.2%
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
OPEB - Plan						
06/30/11	111,038	3,171,670	3,060,632	3.50	1,102,402	277.6%
06/30/09	—	4,684,972	4,684,972	—	1,060,919	441.6
06/30/07	—	5,654,817	5,654,817	—	967,584	584.4

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

Schedules of Employer Contributions

	Annual required contribution	Percentage contributed
Pension Plan		
December 31, 2011	\$ 245,280	100 %
December 31, 2010	336,784	138
December 31, 2009	253,996	100
December 31, 2008	239,039	100
December 31, 2007	221,865	100
December 31, 2006	217,088	100
OPEB - Plan		
June 30, 2012	194,045	95 %
June 30, 2011	275,101	85
June 30, 2010	264,105	59
OPEB - City		
June 30, 2012	181,732	99 %
June 30, 2011	262,898	87
June 30, 2010	252,685	61