

City of Boston

Massachusetts



***Basic Financial
Statements***

Fiscal Year Ended June 30, 2013

Thomas M. Menino, Mayor

Meredith Weenick, Chief Financial Officer & Collector Treasurer

Sally D. Glora, City Auditor

Prepared by the City of Boston Auditing Department



Table of Contents

Page

BASIC FINANCIAL STATEMENTS

Independent Auditors' Report	A-1
Management's Discussion and Analysis (Unaudited)	A-4
<i>Basic Financial Statements:</i>	
Government-wide Financial Statements	
Statement of Net Position	A-17
Statement of Activities.....	A-18
Fund Financial Statements	
Balance Sheet – Governmental Funds	A-20
Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Position ..	A-21
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	A-22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities.....	A-23
Statement of Revenues and Expenditures – Budgetary Basis, General Fund – Budget and Actual	A-24
Statement of Net Position – Proprietary Fund	A-25
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund.....	A-26
Statement of Cash Flows – Proprietary Fund	A-27
Statement of Fiduciary Net Position – Fiduciary Funds	A-28
Statement of Changes in Fiduciary Net Position – Fiduciary Funds.....	A-29
Notes to the Basic Financial Statements.....	A-30
<i>Required Supplementary Information (Unaudited)</i>	
Schedules of Funding Progress	A-64
Schedules of Employer Contributions.....	A-64



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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Dudley Square Realty Corporation, the Ferdinand Building Development Corporation, and the City's Permanent Funds, which represent 3.8% and 0.3% of the assets and revenues of the governmental activities, respectively, and 1.6% and 0.5% of the assets and revenues of the aggregate remaining fund information, respectively. We also did not audit the financial statements of the State-Boston Retirement System, the OPEB Trust Fund and the City's Private-Purpose Trust Funds, which represent 96.5% and 78.6% 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 26.7% and 20.2% 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, insofar as they relate to the amounts included for these entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2013, and the respective changes in financial position, and where applicable, cash flows thereof and the budgetary comparison for the City's General Fund for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information related to the budgetary comparison for the City's General Fund. Such information does not include all of the information required for a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended June 30, 2012, from which such partial information was derived.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and the schedules of funding progress and employer contributions, as listed in the table of contents, 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 and other auditors 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

KPMG LLP

Boston, Massachusetts
December 19, 2013

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, 2013. 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 Position* presents all of the government's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the City's net position 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 position changed during the most recent fiscal year. All changes in net position 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 present two separate sections as described below.

- *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.
- *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. 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. 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. Currently, the City does not have any enterprise funds. 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 position of the City employees' pension plan; the OPEB Trust Fund, which is an irrevocable trust established for the accumulation of assets to reduce the unfunded actuarial liability associated with

the City's obligation 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 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 fiscal year 2013, the City's contribution to the OPEB Trust Fund (\$162.9 million) for retiree health benefits includes \$40.0 million in advance funding toward reducing the unfunded actuarial accrued liability and is close to the annual required contribution (ARC) of \$186.9 million. In fiscal year 2014, the City has appropriated \$40.0 million in advance funding toward reducing the unfunded actuarial accrued liability.
- As of July 1, 2012, in addition to the plans administered by Blue Cross Blue Shield, the City moved the Harvard Pilgrim Health Care plans, which administered a majority of the City's premium based health insurance participants, to become self-insured. Thus, the City accounted for this activity in the Internal Service Fund starting in fiscal year 2013. This resulted in an increase of \$24.9 million in net position for the year ended June 30, 2013 in the Internal Service Fund.
- Dudley Square Realty Corporation (DSRC) and Ferdinand Building Development Corporation (FBDC) funds representing newly created blended component units are presented as non-major funds within the other governmental funds as of June 30, 2013. This resulted in a \$31.1 million increase in fund balance in the City's other governmental funds. For additional information on DSRC and FBDC please refer to note 1 to the Financial Statements.
- In fiscal year 2013, the City funded a total of \$21.0 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 Position and the Statement of Activities found directly after Management's Discussion and Analysis.

Government-wide Highlights

Net Position – Primary Government – The total assets of the City exceeded its liabilities at fiscal year ended June 30, 2013 by \$600.3 million (presented as net position). At year end, the City had a surplus in governmental activities unrestricted net position in the amount of \$74.1 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 Position – Primary Government – The City's total net position increased by \$75.7 million in fiscal year 2013.

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's net position totaled \$600.3 million at the end of 2013, compared to \$524.6 million at the end of the previous year.

The components of net position 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 \$450.3 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 position, \$75.9 million or 12.6%, represents restricted net position, 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. Unrestricted net position increased \$120.1 million from 2012.

Net Position – Primary Government
(In thousands)

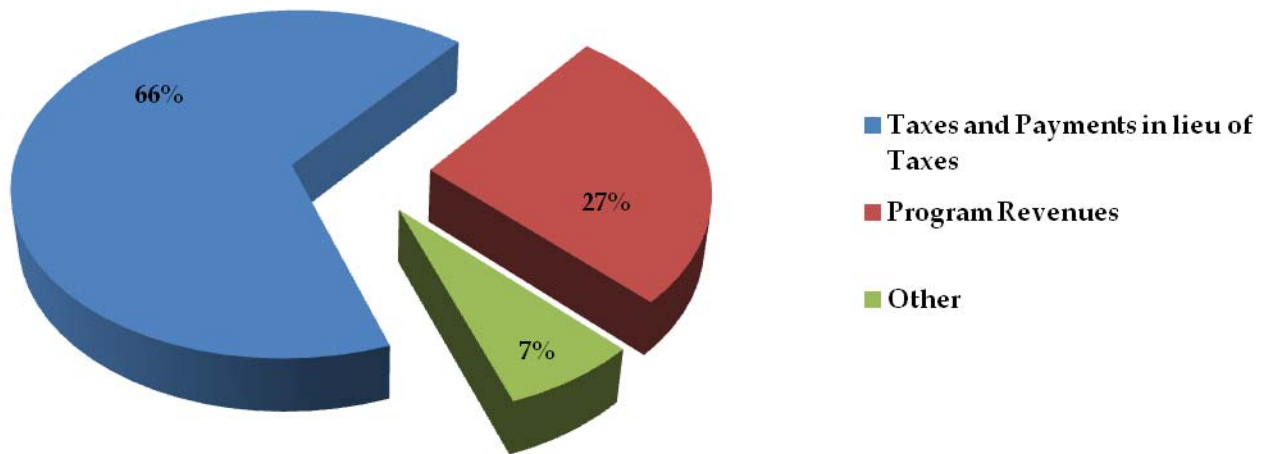
	Governmental Activities	
	Total Primary Government	
	2013	2012
ASSETS:		
Current assets.....	\$ 1,578,018	\$ 1,459,833
Capital assets.....	1,628,051	1,479,237
Other assets.....	145,018	133,171
Total assets.....	3,351,087	3,072,241
LIABILITIES:		
Noncurrent liabilities.....	2,087,630	1,896,612
Current liabilities.....	663,160	651,032
Total liabilities.....	2,750,790	2,547,644
NET POSITION:		
Net investment in capital assets.....	450,322	442,778
Restricted	75,878	127,843
Unrestricted.....	74,097	(46,024)
Total net position.....	\$ 600,297	\$ 524,597

Changes in Net Position – Primary Government

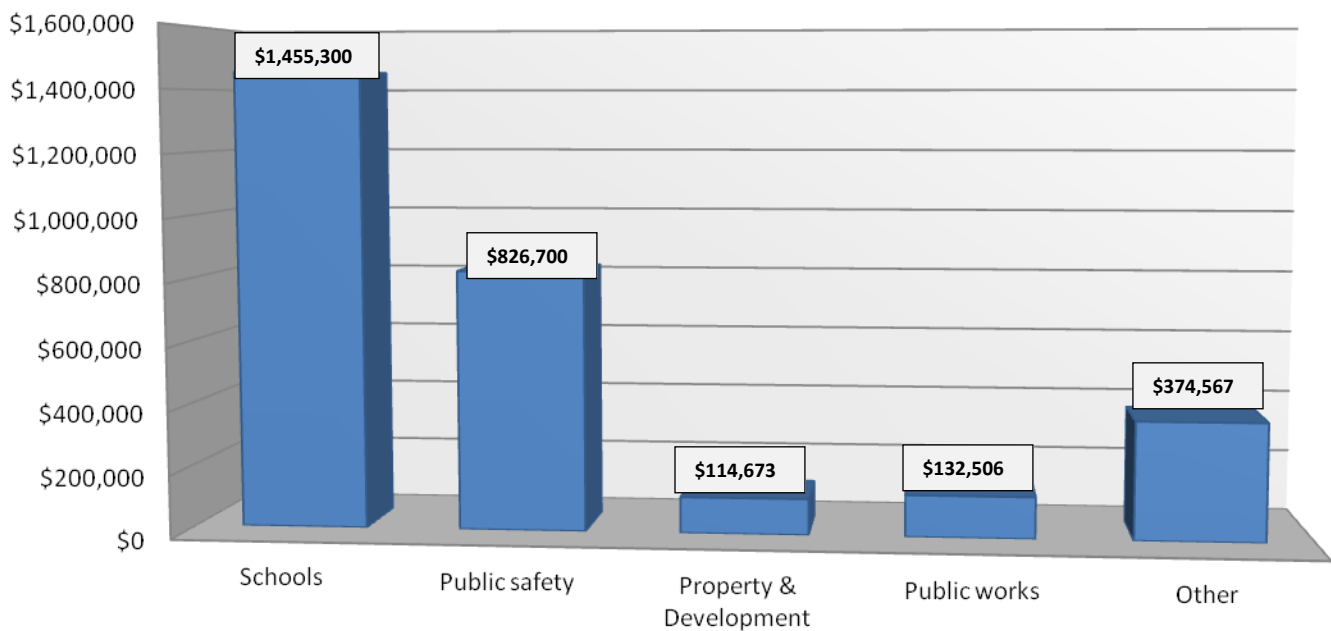
(In thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services.....	\$ 205,938	\$ 210,260	\$ -	\$ -	\$ 205,938	\$ 210,260
Operating grants and contributions.....	549,596	574,653	-	-	549,596	574,653
Capital grants and contributions.....	37,256	35,337	-	-	37,256	35,337
General revenues:						
Taxes.....	1,979,180	1,841,355	-	-	1,979,180	1,841,355
Grants and contributions not restricted.....	185,827	188,895	-	-	185,827	188,895
Investment income.....	14,732	10,887	-	2,688	14,732	13,575
Miscellaneous.....	7,820	7,084	-	-	7,820	7,084
Total revenues.....	2,980,349	2,868,471	-	2,688	2,980,349	2,871,159
Program expenses:						
General government.....	127,882	108,499	-	-	127,882	108,499
Human services.....	50,690	48,103	-	-	50,690	48,103
Public safety.....	826,700	817,768	-	-	826,700	817,768
Public works.....	132,506	110,187	-	-	132,506	110,187
Property and development.....	114,673	114,753	-	-	114,673	114,753
Parks and recreation.....	32,242	34,651	-	-	32,242	34,651
Library.....	51,875	44,526	-	-	51,875	44,526
Schools.....	1,455,300	1,369,047	-	-	1,455,300	1,369,047
Public health programs.....	69,978	73,975	-	-	69,978	73,975
Interest on long-term debt.....	41,900	39,798	-	-	41,900	39,798
Hospital.....	-	-	-	2,523	-	2,523
Total program expenses.....	2,903,746	2,761,307	-	2,523	2,903,746	2,763,830
Excess before transfers and other items.....	76,603	107,164	-	165	76,603	107,329
Transfers.....	-	(44,872)	-	44,872	-	-
Special item.....	-	11,450	-	(59,612)	-	(48,162)
Loss on disposal of capital assets.....	(903)	-	-	(257)	(903)	(257)
Change in net position.....	75,700	73,742	-	(14,832)	75,700	58,910
Net position – beginning of year.....	524,597	450,855	-	14,832	524,597	465,687
Net position – end of year.....	\$ 600,297	\$ 524,597	\$ -	\$ -	\$ 600,297	\$ 524,597

Revenues - Governmental Activities Fiscal Year 2013



Expenses - Governmental Activities FY13 (in thousands)



Governmental Activities

The City's governmental activities net position increased by \$75.7 million over the prior fiscal year. The following net changes occurred during the course of operations in fiscal year 2013: In the assets accounts, cash and investments increased by \$72.0 million, receivables increased by \$58.1 million, and capital assets increased by \$148.8 million. In the liability accounts, there was a decrease in warrants and accounts payable of \$22.1 million and an increase in accrued liabilities of \$33.7 million. Additionally, an increase of \$39.0 million was recorded relative to the City's other postemployment benefit obligation in 2013.

During fiscal year 2013, the City's revenues increased by 3.9%. The City's largest sources of revenues were property taxes, excise taxes, and payment in lieu of taxes of \$1.98 billion (66.4% of total revenues) and \$792.8 million of program revenues (26.6% of total revenues). Taxes increased by \$137.8 million from the previous year. Program revenues decreased by \$27.5 million for fiscal year 2013. This is largely due to decreases in parking meter revenues and reductions in operating grant reimbursements. The City's expenses cover a range of services. The largest expenses were for schools (\$1.46 billion), public safety (\$826.7 million), general government (\$127.9 million), public works (\$132.5 million), property and development (\$114.7 million), public health programs (\$70.0 million), and human services (\$50.7 million). In 2013, governmental activities expenses exceeded program revenues (i.e., user charges, operating grants, and capital grants) by \$2.11 billion. This shortfall was covered primarily through taxes (\$1.98 billion) and unrestricted grants and contributions (\$185.8 million).

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

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 2013, the City's governmental funds reported a combined ending fund balance of \$1.06 billion, an increase of \$85.4 million from the prior year. Of this total amount, \$533.1 million represents the unassigned fund balance. The increase in fund balance is largely due to an increase in property and excise taxes and the aforementioned addition of DSRC and FBDS to the other governmental funds.

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 15%, or higher, of GAAP General Fund operating expenditures for the fiscal year. The GAAP unassigned fund balance at the end of fiscal year 2013 was \$533.1 million, which represents approximately 20.6% of GAAP General Fund operating expenditures.

However, because the City is required to follow the statutory basis of accounting rather than GAAP for determining the amount of 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 15% or higher than the current fiscal year's GAAP General Fund Operating Expenditures. 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 15% of the fiscal year's GAAP General Fund Operating Expenditures, while maintaining a Budgetary Unassigned Fund Balance at 10% or higher 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 post retirement health benefits; and/or (2) to fund extraordinary and non-recurring 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 2013 Special Revenue Fund balance is reported at \$132.9 million, a \$38.6 million decrease from fiscal year 2012. This decrease is due to a reduction in intergovernmental revenues from reimbursable 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 2013 Capital Projects Fund balance is \$95.6 million, a \$25.9 million increase from fiscal year 2012. 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, as well as the activities related to DSRC and FBDC. The fiscal year 2013 Other Governmental Funds fund balance is \$76.5 million, a \$36.4 million increase from fiscal year 2012. The increase in fund balance is largely due to the inclusion of the DSRC and FBDC funds.

Internal Service Fund

The City's Internal Service Fund accounts for the City's self-insurance program for health benefits provided by Blue Cross Blue Shield and Harvard Pilgrim Health Care for City employees, their dependents, and retirees. The Internal Service Fund is included as part of the governmental activities in the government-wide statements.

Budgetary Highlights

General Fund budgetary highlights include ending fiscal year 2013 with a \$8.2 million surplus. This represents the City's 28th 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 \$15.2 million due to an increase in overtime expenditures relating to the Boston Marathon bombing incident.

Favorable results were reported for General Fund revenue sources, including \$6.8 million in licenses and permits, \$8.7 million in departmental and other revenue and \$25.0 million in excises, predominantly in motor vehicle and room occupancy excise taxes. Other available funds shows a revenue deficit of \$14.0 million, however, this is a result of not transferring parking meter receipts from the special revenue fund.

CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital Assets

The City's investment in capital assets for its governmental activities, as of June 30, 2013, has a net book value of \$1.63 billion, made up of costs totaling \$3.19 billion less accumulated depreciation of \$1.56 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 10.1% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$241.9 million for the fiscal year. Most of this amount was used for the purpose of constructing or reconstructing buildings and building improvements. Depreciation charges for the year totaled \$93.9 million. Additional information on the City's capital assets can be found in note 8 to the Financial Statements.

Long Term Obligations

Debt Administration – The authority of the City to incur debt is governed by federal and state laws that restrict the amounts and purposes for which a municipality can incur debt. At year end, the City had \$1.14 billion in General Obligations Bonds principal outstanding – an increase of \$73.9 million over last year.

There were two bond issuances that took place in fiscal year 2013. First, the October 12, 2012 Series A general obligation bond issuance totaling \$28.9 million which was issued to fund the Dudley Municipal Project. Second, the March 14, 2013 \$144.9 million Series A general obligation bond issuance, used to finance various capital projects in the City along with \$24.4 million Series B were issued for the purpose of advance refunding prior debt. In February 2013, in conjunction with the City's annual bond offering, the rating service bureaus Moody's Investors Service and Standard & Poor's reaffirmed the City's bond ratings at 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 \$111.9 million, or 11.0%, during the current fiscal year. Key factors for this increase are the increase in OPEB liability of \$39.0 million, an increase in the workers' compensation liability of \$16.6 million, and an increase in health and life claims of \$16.2 million, due to the increase in self-insured health plans. The increase in notes payable of \$36.2 million is attributable to the loans for DSRC.

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

NEW ACCOUNTING STANDARDS

The GASB has issued Statement No. 61, *"The Financial Reporting Entity: Omnibus; an amendment of GASB Statements No. 14 and No. 34."* This Statement modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, the display of component units (blending vs. discrete presentation), and certain disclosure requirements. The requirements of this Statement were implemented in the fiscal year 2013 financial statements with no significant impact.

The GASB has issued Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."* This Statement establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and also requires related disclosures. The requirements of this Statement were implemented in the fiscal year 2013 financial statements with no significant impact.

FUTURE PRONOUNCEMENTS

The GASB has issued Statement No. 65, *"Items Previously Reported as Assets and Liabilities."* This Statement specifies items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources, or inflows of resources. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012.

The GASB has issued Statement No. 67, *"Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25."* This Statement replaces the requirements of Statements No. 25 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trust or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013.

The GASB has issued Statement No. 68, *"Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27."* This Statement replaces the requirements of Statements No. 27 and No. 50 for employers' provision of pension benefits related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.

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 Position

June 30, 2013

(Amounts in thousands)

	<u>Primary Government</u>	
	<u>Governmental Activities</u>	<u>Component Units</u>
ASSETS:		
Current Assets:		
Cash and investments.....	\$ 1,297,995	\$ 100,993
Cash and investments held by trustees.....	51,770	8,021
Receivables, net:		
Property and other taxes.....	25,054	-
Intergovernmental.....	160,409	-
Other.....	35,027	56,997
Other assets.....	4,844	2,005
Due from primary government.....	-	142
Due from component units.....	2,919	-
Total current assets.....	<u>1,578,018</u>	<u>168,158</u>
Noncurrent Assets:		
Intergovernmental receivables.....	36,625	-
Cash and investments held by Trustee.....	-	54,722
Notes and other receivables.....	88,848	150,064
Other assets.....	7,274	714
Capital assets:		
Nondepreciable.....	111,398	28,400
Depreciable, net.....	1,516,653	51,625
Due from component units.....	12,271	-
Total noncurrent assets.....	<u>1,773,069</u>	<u>285,525</u>
Total assets	<u>3,351,087</u>	<u>453,683</u>
LIABILITIES:		
Current Liabilities:		
Warrants and accounts payable.....	143,339	23,975
Accrued liabilities - current:		
Compensated absences.....	50,507	-
Judgments and claims.....	102,639	-
Payroll and related costs.....	167,603	-
Deposits and other.....	77,165	4,925
Current portion of long-term debt and leases.....	120,629	1,324
Due to component units.....	142	-
Due to primary government.....	-	2,919
Unearned revenue.....	1,136	6,871
Total current liabilities.....	<u>663,160</u>	<u>40,014</u>
Noncurrent Liabilities:		
Bonds due in more than one year.....	1,129,545	-
Notes and leases payable due in more than one year.....	98,993	16,648
Other noncurrent liabilities.....	227,084	164,313
Other postemployment benefits obligation.....	632,008	79,546
Unearned revenue.....	-	51,455
Due to primary government.....	-	12,271
Total noncurrent liabilities.....	<u>2,087,630</u>	<u>324,233</u>
Total liabilities	<u>2,750,790</u>	<u>364,247</u>
NET POSITION:		
Net investment in capital assets.....	450,322	51,184
Restricted for:		
Nonexpendable trust.....	4,974	62,837
Expendable trust.....	36,706	-
Debt service.....	3,637	-
Capital projects.....	30,561	-
Unrestricted.....	74,097	(24,585)
Total net position	<u>\$ 600,297</u>	<u>\$ 89,436</u>

See accompanying notes to the basic financial statements

Statement of Activities
Year Ended June 30, 2013
 (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.....	\$ 127,882	\$ 36,654	\$ 6,576	\$ 2,741
Human services.....	50,690	465	10,569	-
Public safety.....	826,700	129,602	36,292	86
Public works.....	132,506	17,716	6,830	28,594
Property and development.....	114,673	10,555	64,583	244
Parks and recreation.....	32,242	534	1,853	2,154
Library.....	51,875	928	2,421	2,568
Schools.....	1,455,300	9,130	420,472	869
Public health programs.....	69,978	354	-	-
Interest on long-term debt.....	41,900	-	-	-
Total primary government.....	\$ 2,903,746	\$ 205,938	\$ 549,596	\$ 37,256
Component Units:				
Boston Public Health Commission.....	177,217	54,848	47,742	1,405
Boston Redevelopment Authority.....	19,475	9,935	3,247	-
Trustees of the Public Library of the City of Boston.....	9,898	1,787	10,323	-
Economic Development and Industrial Corporation of Boston.....	30,590	19,084	13,615	-
Total component units	\$ 237,180	\$ 85,654	\$ 74,927	\$ 1,405

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.....
Loss on disposal of capital assets.....
Total general revenues.....
Change in net position.....
Net position - beginning of year.....
Net position - end of year.....

**Net (Expense) Revenue and Changes in
Net Position**

Governmental Activities	Component Units
\$ (81,911)	\$ -
(39,656)	-
(660,720)	-
(79,366)	-
(39,291)	-
(27,701)	-
(45,958)	-
(1,024,829)	-
(69,624)	-
(41,900)	-
(2,110,956)	-
	(73,222)
	(6,293)
	2,212
	-
	2,109
-	(75,194)
1,684,908	-
221,937	-
72,335	-
185,827	-
14,732	343
-	66,788
7,820	11,215
(903)	-
2,186,656	78,346
75,700	3,152
524,597	86,284
\$ 600,297	\$ 89,436

See accompanying notes to the basic financial statements

Balance Sheet

Governmental Funds

June 30, 2013

(Amounts in thousands)

	General	Special Revenue	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments.....	\$ 948,910	\$ 132,314	\$ 118,829	\$ 19,789	\$ 1,219,842
Cash and investments held by trustees.....	1,768	-	7,734	42,268	51,770
Receivables, net:					
Property and other taxes.....	25,054	-	-	-	25,054
Intergovernmental.....	59,011	103,430	34,593	-	197,034
Departmental and other.....	27,297	59,515	247	29,466	116,525
Total receivables.....	111,362	162,945	34,840	29,466	338,613
Due from other funds.....	2,161	5,132	6,364	-	13,657
Due from component units.....	13,625	-	-	-	13,625
Total assets.....	\$ 1,077,826	\$ 300,391	\$ 167,767	\$ 91,523	\$ 1,637,507
LIABILITIES					
Warrants and accounts payable.....	\$ 45,211	\$ 41,221	\$ 40,717	\$ 9,686	\$ 136,835
Accrued liabilities:					
Payroll and related costs.....	167,301	302	-	-	167,603
Deposits and other.....	25,709	41,049	-	-	66,758
Deferred revenue.....	79,346	81,930	31,478	-	192,754
Due to other funds.....	8,721	3,000	-	5,375	17,096
Due to component unit.....	142	-	-	-	142
Total liabilities.....	326,430	167,502	72,195	15,061	581,188
FUND BALANCES					
Nonspendable.....	-	-	-	34,307	34,307
Restricted.....	-	-	95,572	42,155	137,727
Assigned.....	218,292	132,889	-	-	351,181
Unassigned.....	533,104	-	-	-	533,104
Total fund balances.....	751,396	132,889	95,572	76,462	1,056,319
Total liabilities and fund balances.....	\$ 1,077,826	\$ 300,391	\$ 167,767	\$ 91,523	\$ 1,637,507

Reconciliation of the Balance Sheet Governmental Funds to the Statement of Net Position June 30, 2013

(Amounts in thousands)

Total fund balance - governmental funds.....	\$ 1,056,319
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund financial statements.....	1,628,051
Adjust deferred revenues to record revenues on an accrual basis.....	191,618
Internal service funds are included in the government-wide financial statements.....	66,985
Bond issuance costs are capitalized in the government-wide financial statements.....	7,274
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.....	(1,221,112)
Capital leases.....	(39,365)
Bond issue premiums/discounts, net.....	(94,721)
Deferred bond refunding losses.....	6,031
Accrued interest on bonds.....	(10,407)
Compensated absences.....	(181,283)
Landfill.....	(8,118)
Judgments and claims.....	(168,467)
Other postemployment benefits.....	(632,008)
Pollution remediation.....	(500)
	<u>(2,349,950)</u>
Net position of governmental activities.....	<u>\$ 600,297</u>

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds Year Ended June 30, 2013

(Amounts in thousands)

	General	Special Revenue	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Real and personal property taxes.....	\$ 1,677,581	\$ -	\$ -	\$ -	\$ 1,677,581
Excises.....	221,254	-	-	-	221,254
Payments in lieu of taxes.....	72,335	-	-	-	72,335
Fines.....	58,835	17	-	-	58,852
Investment income.....	179	21	-	5,323	5,523
Licenses and permits.....	47,220	70	-	-	47,290
Departmental and other.....	87,585	41,225	-	2,822	131,632
Intergovernmental.....	504,656	232,523	12,190	-	749,369
Total revenues.....	2,669,645	273,856	12,190	8,145	2,963,836
EXPENDITURES:					
Current:					
General government.....	77,515	13,523	-	4,161	95,199
Human services.....	29,924	7,697	-	-	37,621
Public safety.....	553,851	34,920	-	-	588,771
Public works.....	102,789	11,942	-	-	114,731
Property and development.....	32,568	73,855	-	-	106,423
Parks and recreation.....	19,229	2,178	-	-	21,407
Library.....	30,888	2,559	-	-	33,447
Schools.....	879,898	155,930	-	-	1,035,828
Public health programs.....	67,845	1,260	-	-	69,105
Judgments and claims.....	3,010	-	-	-	3,010
Retirement costs.....	235,078	-	-	-	235,078
Other employee benefits.....	232,831	2,171	-	-	235,002
State and district assessments.....	176,300	-	-	-	176,300
Capital outlays.....	1,745	2,461	198,156	39,185	241,547
Debt service.....	140,900	5,784	-	-	146,684
Total expenditures.....	2,584,371	314,280	198,156	43,346	3,140,153
Excess (deficiency) of revenues over (under) expenditures.....	85,274	(40,424)	(185,966)	(35,201)	(176,317)
OTHER FINANCING SOURCES (USES):					
Long-term debt and capital leases issued.....	-	718	193,613	40,805	235,136
Refunding bonds and leases issued.....	-	-	37,080	-	37,080
Payments to escrow agents.....	-	(2,701)	(33,274)	-	(35,975)
Premiums on long-term debt issued.....	-	3,836	21,646	-	25,482
Transfers in.....	-	-	22,120	30,788	52,908
Transfers out.....	(23,575)	-	(29,333)	-	(52,908)
Total other financing sources (uses)...	(23,575)	1,853	211,852	71,593	261,723
Net change in fund balances.....	61,699	(38,571)	25,886	36,392	85,406
Fund balance - beginning of year.....	689,697	171,460	69,686	40,070	970,913
Fund balance - end of year.....	\$ 751,396	\$ 132,889	\$ 95,572	\$ 76,462	\$ 1,056,319

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, 2013

(Amounts in thousands)

Net change in fund balances - total governmental funds.....	\$ 85,406
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 (\$241,861) and loss on disposals (\$903) exceeded depreciation expense (\$93,947).....	148,817
Certain revenues in the statement of activities that are not reported as revenues in the governmental funds.....	(4,115)
Issuances of long-term debt (\$230,829) and notes (\$41,523) increase long-term liabilities in the statement of net position, but are included in the operating statement of the governmental funds. Repayment of bond, note, and lease principal (\$130,682) and payment to the escrow agent (\$24,800) 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.....	(116,870)
Bond premiums net (\$18,067) increase the long-term liabilities in the statement of net position, but are included in the operating statement of the governmental funds. Deferred gain on refunding net (\$1,483) increase long-term liabilities in the statement of net position, but are included in the operating statement of the governmental funds. Bond issuance costs, net (\$2,298) are expenditures in the governmental funds, but are deferred assets in the statement of position	(21,848)
Intergovernmental revenues decrease receivables on the statement of net assets, but are included in the operating statement of governmental funds.....	11,849
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This amount represents the increase in liabilities for compensated absences (\$2,701), other postemployment benefits (\$38,985), and workers compensation (\$16,648) offset by a decrease in liabilities for judgments and claims (\$5,342), landfill closure and post closure costs (\$290) and interest payable (\$238).	(52,464)
Net income from the internal service fund, which is presented in the statement of activities, but not in the governmental funds.....	24,925
Change in net assets of governmental activities.....	\$ 75,700

Statement of Revenues and Expenditures

Budgetary Basis

General Fund – Budget and Actual

Year Ended June 30, 2013 (with comparative actual amounts for 2012)

(Amounts in thousands)

	2013				
	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance	2012 Actual
REVENUES AND OTHER AVAILABLE FUNDS:					
Real and personal property taxes, net.....	\$ 1,642,626	\$ 1,642,626	\$ 1,643,367	\$ 741	\$ 1,577,253
Excises.....	178,534	184,534	209,580	25,046	193,126
Commonwealth of Massachusetts.....	404,058	404,058	403,275	(783)	390,475
Departmental and other revenue.....	59,758	59,758	68,502	8,744	69,369
Fines.....	62,390	62,390	59,475	(2,915)	64,338
Payments in lieu of taxes.....	66,312	66,312	71,372	5,060	62,902
Investment income.....	900	900	179	(721)	982
Licenses and permits.....	38,743	38,743	45,574	6,831	51,932
Other available funds.....	17,015	17,015	3,023	(13,992)	4,030
Total revenues and other available funds.....	2,470,336	2,476,336	2,504,347	28,011	2,414,407
EXPENDITURES:					
General government.....	91,942	107,577	105,764	1,813	88,998
Human services.....	31,123	30,811	30,667	144	29,350
Public safety.....	515,982	516,462	531,682	(15,220)	520,723
Public works.....	103,691	103,244	103,926	(682)	92,152
Property and development.....	29,118	33,008	32,981	27	30,302
Parks and recreation.....	18,928	19,595	19,301	294	17,121
Library.....	31,177	31,177	31,069	108	30,152
Schools.....	873,694	881,229	881,203	26	831,343
Boston Public Health Commission.....	66,250	67,041	67,041	-	72,903
Judgments and claims.....	3,500	3,500	11,976	(8,476)	14,500
Other employee benefits.....	248,272	234,193	233,985	208	253,592
Retirement costs.....	141,177	141,177	141,111	66	130,530
Debt requirements.....	136,977	129,257	129,122	135	130,227
State and district assessments.....	178,505	178,065	176,300	1,765	160,547
Total expenditures.....	2,470,336	2,476,336	2,496,128	(19,792)	2,402,440
Excess of revenues and other available funds over expenditures.....	\$ -	\$ -	\$ 8,219	\$ 8,219	\$ 11,967

Statement of Net Position

Proprietary Fund

June 30, 2013

(Amounts in thousands)

	<u>Internal Service</u>
ASSETS:	
Current assets:	
Cash and cash equivalents.....	\$ 78,153
Due from component units.....	1,565
Due from other funds.....	3,439
Receivables, net.....	<u>7,351</u>
Total current assets.....	<u>90,508</u>
Noncurrent assets:	
Other assets.....	<u>4,844</u>
Total noncurrent assets.....	<u>4,844</u>
Total assets.....	<u>95,352</u>
LIABILITIES:	
Current liabilities:	
Warrants and accounts payable.....	6,505
Accrued liabilities	<u>21,862</u>
Total current liabilities.....	<u>28,367</u>
NET POSITION:	
Unrestricted.....	<u>66,985</u>
Total net position.....	<u>\$ 66,985</u>

Statement of Revenues, Expenses and Changes in Net Position

Proprietary Fund Year Ended June 30, 2013

(Amounts in thousands)

	<u>Internal Service</u>
OPERATING REVENUES:	
Employee contributions.....	\$ 63,724
Employer contributions.....	246,420
Total operating revenues.....	<u>310,144</u>
OPERATING EXPENSES:	
Health benefits.....	<u>285,219</u>
Total operating expenses.....	<u>285,219</u>
Operating income.....	<u>24,925</u>
Change in net position.....	24,925
Net position - beginning of year.....	<u>42,060</u>
Net position - end of year.....	<u><u>66,985</u></u>

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2013

(Amounts in thousands)

	<u>Internal Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from employees and employer.....	\$ 297,842
Cash paid to vendors.....	(273,281)
Net cash provided by operating activities.....	<u>24,561</u>
Increase in cash and cash equivalents.....	24,561
Cash and cash equivalents - beginning of year.....	53,592
Cash and cash equivalents - end of year.....	<u>\$ 78,153</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 24,925
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Accounts receivable	(7,298)
Other assets.....	(3,047)
Due from other funds and component units.....	(5,004)
Accounts payable and accrued liabilities.....	14,985
Net cash provided by operating activities.....	<u>\$ 24,561</u>

Statement of Fiduciary Net Position

Fiduciary Funds

Year Ended June 30, 2013

(Except Employee Retirement Plan, which is year ended December 31, 2012)

(Amounts in thousands)

	Employee Retirement Plan	OPEB Trust Fund	Private- Purpose Trusts	Agency Funds
ASSETS:				
Cash and cash equivalents.....	\$ 132,384	\$ 99	\$ 98,278	\$ 8,328
Receivables:				
Interest and dividends.....	8,379	-	-	-
Securities sold.....	34,927	-	-	-
Employer contributions.....	17,228	-	-	-
Other.....	8,047	-	1,097	-
Total receivables.....	68,581	-	1,097	-
Investments, at fair value:				
Short-term:				
Domestic.....	68,014	-	-	-
International.....	6,466	-	-	-
Equity:				
Domestic.....	965,742	76,490	-	-
International.....	722,526	25,615	-	-
Fixed-income:				
Domestic.....	617,016	67,159	-	-
International.....	267,211	-	-	-
PRIT Pooled Fund.....	1,325,114	-	-	-
Real estate.....	346,285	-	-	-
Venture capital funds.....	457,433	-	-	-
All asset fund.....	-	40,494	-	-
Total investments.....	4,775,807	209,758	-	-
Securities lending short-term collateral investment pool.....	162,759	-	-	-
Total assets.....	5,139,531	209,857	99,375	8,328
LIABILITIES:				
Accounts payable, accrued expenses and other liabilities.....	12,926	78	1,838	8,328
Securities purchased.....	52,822	-	-	-
Collateral held on securities lending.....	163,272	-	-	-
Total liabilities.....	229,020	78	1,838	8,328
NET POSITION				
Held in trust for pension benefits and other purposes.....	\$ 4,910,511	\$ 209,779	\$ 97,537	\$ -

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

Year Ended June 30, 2013

(Except Employee Retirement Plan, which is year ended December 31, 2012)

(Amounts in thousands)

	Employee Retirement Plan	OPEB Trust Fund	Private- Purpose Trusts
ADDITIONS:			
Contributions:			
Employers.....	\$ 167,097	\$ 168,154	\$ -
Commonwealth of Massachusetts.....	94,846	-	-
Employees.....	125,763	-	-
Donations and other.....	-	-	19,312
Total contributions.....	387,706	168,154	19,312
Investment earnings:			
Realized and unrealized gains on investments.....	458,389	12,397	5,868
Investment income.....	118,234	4,790	885
Less investment expenses.....	(18,853)	(521)	-
Net investment earnings.....	557,770	16,666	6,753
Securities lending activities:			
Securities lending income.....	2,013	-	-
Less borrower rebates and fees.....	(562)	-	-
Net income from securities lending activities.....	1,451	-	-
Total net investment income.....	559,221	16,666	6,753
Intergovernmental.....	13,003	-	-
Total additions.....	959,930	184,820	26,065
DEDUCTIONS:			
Benefits.....	487,772	124,659	-
Reimbursements.....	10,819	-	-
Refunds of contributions.....	14,548	-	-
Administrative expenses and other.....	7,880	-	20,178
Total deductions.....	521,019	124,659	20,178
Change in net assets.....	438,911	60,161	5,887
Net position - beginning of year.....	4,471,600	149,618	91,650
Net position - end of year.....	\$ 4,910,511	\$ 209,779	\$ 97,537

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2013

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. Blended Component Units Disclosure

- i. **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 a blended component unit among the City's fiduciary funds. The financial statements of SBRS are included for its fiscal year end which is December 31, 2012.
- ii. **Dudley Square Realty Corporation (DSRC) and Ferdinand Building Development Corporation (FBDC)** – The DSRC is a newly formed Qualified Active Low-Income Community Business, and is the owner and developer of the Dudley Municipal Center property. FBDC is the leverage lender of the Dudley Municipal Center property. Upon completion of the Dudley Municipal Center, FBDC will lease the property from DSRC and the City will sublease the property from FBDC. The DSRC and FBDC are non-profit organizations qualified as tax-exempt entities under Section 501(c)(3) of the Internal Revenue Code. Both entities are instrumentalities of the City, as the Mayor has full control of appointments to their boards of directors. Although legally separate, both DSRC and FBDC provide services entirely, or almost entirely, to the City and thus have been reported as blended component units. These funds are presented as non-major funds within the other governmental funds as of their fiscal year end, which is June 30, 2013.

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 the organizations, meaning it appoints, at a minimum, a voting majority of the board of directors of the organization and is able to impose its will on the organizations or has a financial benefit or burden relationship with 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, 2013.

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 Position and the Statement of Changes in Net Position) 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 any business-type activities, which rely to a significant extent on fees and charges for support. The City currently reports no business-type activities. 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 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) and Chapter 90 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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from the provision of services. The principal operating revenues of the City's Internal Service Funds are receipts from employer and employees for health insurance premiums. Operating expenses for the Internal Service Fund include administrative expenses, vendor payments, and health benefits. Any 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 proprietary fund:

4. The City 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.

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 for 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 of property seized from illegal drug-related activities. These funds are then used to offset the costs of technical equipment or expertise and investigations.

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.”

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 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, 2013 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

Long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method, which approximates the effective interest method. The unamortized portion is presented in the Government-wide Statement of Net Position. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as other assets.

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 Position and Fund Balance

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

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

Restricted: Net position 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 position not considered net investment in capital assets or restricted.

For purposes of net position 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 15 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 Position.

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, 2013, 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, 2013.

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 Position. Expenditures related to the Gardner Street landfill site postclosure care in fiscal year 2013 were \$290 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 2013, 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 \$3.0 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 \$6.0 million required to meet current operating expenditures.

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, 2013 (in thousands):

	<u>Revenue</u>	<u>Expenditures</u>	<u>Other financing uses, net</u>	<u>Excess (deficiency) of revenue and other financing sources</u>
As reported on a budgetary basis	\$ 2,504,347	2,496,128	-	8,219
Adjustments:				
Revenues to modified accrual basis	70,452	-	-	70,452
Expenditures, encumbrances, and accruals, net	-	16,972	-	(16,972)
On-behalf contribution for teachers pension	94,846	94,846	-	-
Reclassifications:				
Debt Service	-	(1,455)	1,455	-
Housing Initiative	-	(22,120)	22,120	-
As reported on a GAAP basis	<u>\$ 2,669,645</u>	<u>2,584,371</u>	<u>23,575</u>	<u>61,699</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, 2013, 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 discipline 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 foundation of that discipline is 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, 2013:

<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 – 5</u>
External investment pool	\$ 68,263	68,263	-
Bond mutual funds	226,238	226,238	-
U.S. Treasury notes and bonds	4,943	-	4,943
Domestic corporate	4,465	-	4,465
	<u>\$ 303,909</u>	<u>294,501</u>	<u>9,408</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, 2013 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	\$ 226,238	Not Rated
External investment pool	68,263	Not Rated
Domestic corporate	4,465	AAA to B
	<u>\$ 298,966</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, 2013 the City of Boston Trust Funds held international equity mutual funds valued at \$32.1 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, 2012, 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, 2012:

Investment type	Fair value	Less than 1	1 – 5	6 – 10	More than 10
U.S. Treasury notes and bonds	\$ 70,057	-	38,696	7,689	23,672
U.S. agencies	57,487	-	-	3,550	53,937
Domestic corporate	376,789	23,559	82,473	182,231	88,526
Municipal	3,007	-	123	223	2,661
International corporate	163,708	4,521	10,416	22,797	125,974
International government	140,221	7,418	43,309	55,498	33,996
Asset-backed:					
CMOs	38,965	-	-	5,741	33,224
Mortgage-backed	2,299	-	-	-	2,299
Other	31,694	1,089	15,191	6,071	9,343
	\$ 884,227	36,587	190,208	283,800	373,632

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, 2012 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, 2012 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	\$ 57,487	-	54,381	-	-	-	-	-	3,106
Domestic corporate	376,789	697	17,109	102,849	46,946	66,961	84,594	5,343	52,290
Municipal	3,007	-	864	2,143	-	-	-	-	-
International corp.	163,708	5,639	1,370	13,338	9,132	4,959	6,783	-	122,487
International gov't	140,221	13,189	8,188	16,562	6,617	877	-	-	94,788
Asset-backed:									
CMOs	38,965	16,466	2,441	1,094	2,717	-	-	17	16,230
Mortgage-backed	2,299	1,999	88	-	-	-	-	-	212
Other	31,694	14,136	7,086	1,959	-	-	-	-	8,513
	<u>\$ 814,170</u>	<u>52,126</u>	<u>91,527</u>	<u>137,945</u>	<u>65,412</u>	<u>72,797</u>	<u>91,377</u>	<u>5,360</u>	<u>297,626</u>

In addition to the above schedule, the System has approximately \$70.0 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, 2012.

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				Total
	investments	Fixed income	Equity	Alternative	
Australian dollar	\$ 249	1,616	23,955	11	25,831
Brazilian real	-	1,094	1,145	-	2,239
Canadian dollar	286	3,817	4,264	-	8,367
Danish krone	-	-	6,565	-	6,565
Euro currency	6,336	43,304	136,365	7,358	193,363
Hong Kong dollar	58	-	15,732	-	15,790
Indian rupee	-	-	-	-	-
Indonesian rupiah	-	-	302	-	302
Israeli Shekel	-	-	742	-	742
Japanese yen	1,301	47,176	79,268	-	127,745
Malaysian ringgit	200	3,706	-	-	3,906
Mexican peso	528	5,840	2,856	-	9,224
New Taiwan dollar	245	-	1,459	-	1,704
New Zealand dollar	127	1,172	-	-	1,299
Norwegian krone	773	5,890	5,187	-	11,850
Pakistan rupee	-	-	-	-	-
Philippine Peso	-	1,018	-	-	1,018
Polish zloty	93	2,216	-	-	2,309
Pound sterling	675	10,666	85,380	-	96,721
Singapore dollar	401	4,283	8,037	-	12,721
South African rand	44	-	3,254	-	3,298
South Korean won	15	-	4,284	-	4,299
Swedish krona	35	2,801	8,579	-	11,415
Swiss franc	16	827	34,871	-	35,714
Thailand Baht	17	1,018	-	-	1,035
Turkish Lira	-	-	1,630	-	1,630
Uruguayan peso	-	1,427	-	-	1,427
Total securities subject to foreign currency risk	\$ 11,399	137,871	423,875	7,369	580,514
U.S. dollars (securities held by international investment managers)*	-	43,506	32,986	-	76,492
Total international investment securities	\$ 11,399	181,377	456,861	7,369	657,006

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, 2012, the System had \$1.4 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 18, 2012, all properties with unpaid fiscal year 2012 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 City's individual major governmental funds, nonmajor governmental 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	\$ 15,356	-	-	-	-	15,356
Other taxes	146,833	-	-	-	-	146,833
Intergovernmental	59,011	103,430	34,593	-	-	197,034
Other	<u>27,297</u>	<u>59,515</u>	<u>247</u>	<u>29,466</u>	<u>7,351</u>	<u>123,876</u>
Gross receivables	248,497	162,945	34,840	29,466	7,351	483,099
Less allowance for uncollectibles	<u>(137,135)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(137,135)</u>
Net total receivables	<u>\$ 111,362</u>	<u>162,945</u>	<u>34,840</u>	<u>29,466</u>	<u>7,351</u>	<u>345,964</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, 2013, under this program, the City was due funds totaling \$45.1 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, 2014 through 2018, and in five-year increments thereafter:

Fiscal year(s):	<u>Anticipated revenue</u>	
2014	\$	8,475
2015		8,176
2016		7,344
2017		6,720
2018		6,720
2019 – 2022		<u>7,665</u>
Total	\$	<u><u>45,100</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, 2013, under this program, the City determined that \$59.5 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)	\$ 20,615	-	20,615
Due from component units	11,450	-	11,450
Section 108 receivable	59,515	-	59,515
School building assistance receivable	45,100	917	46,017
Chapter 90	30,561	-	30,561
Other	<u>24,377</u>	<u>219</u>	<u>24,596</u>
Total unavailable/unearned revenue for governmental funds	\$ <u><u>191,618</u></u>	<u><u>1,136</u></u>	<u><u>192,754</u></u>

8. Capital Assets

Capital asset activity for the governmental activities for the year ended June 30, 2013 was as follows (in thousands):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 25,216	153	-	25,369
Construction in progress	8,525	185,333	(107,829)	86,029
Total capital assets not being depreciated	<u>33,741</u>	<u>185,486</u>	<u>(107,829)</u>	<u>111,398</u>
Capital assets being depreciated:				
Land improvements	179,410	7,963	-	187,373
Buildings and improvements	1,865,168	62,863	-	1,928,031
Furniture and equipment	309,772	35,370	(6,482)	338,660
Infrastructure	571,840	58,008	(7,600)	622,248
Total capital assets being depreciated	<u>2,926,190</u>	<u>164,204</u>	<u>(14,082)</u>	<u>3,076,312</u>
Less accumulated depreciation for:				
Land improvements	55,707	9,610	-	65,317
Buildings and improvements	1,007,007	36,759	-	1,043,766
Furniture and equipment	219,371	28,596	(7,385)	240,582
Infrastructure	198,612	18,982	(7,600)	209,994
Total accumulated depreciation	<u>1,480,697</u>	<u>93,947</u>	<u>(14,985)</u>	<u>1,559,659</u>
Total capital assets being depreciated, net	<u>1,445,493</u>	<u>70,257</u>	<u>903</u>	<u>1,516,653</u>
Governmental activities capital assets, net	<u>\$ 1,479,234</u>	<u>255,743</u>	<u>(106,926)</u>	<u>1,628,051</u>

Depreciation expense was charged to functions of the governmental activities as follows (in thousands):

General government	\$ 8,168
Human services	2,398
Public safety	15,685
Public works, including depreciation of general infrastructure assets	19,885
Property and development	4,278
Parks and recreation	8,373
Library	3,852
Schools	31,069
Public health	239
Total depreciation expense – governmental activities	<u>\$ 93,947</u>

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

Individual fund receivable and payable balances at June 30, 2013 are as follows (in thousands):

Interfund balances	Receivable	Payable
General	\$ 2,161	8,721
Special revenue	5,132	3,000
Capital projects	6,364	-
Non-major governmental funds	-	5,375
Internal service fund	3,439	-
Balances at June 30, 2013	\$ 17,096	17,096

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

Amounts due to and from discretely presented component units at June 30, 2013 are as follows (in thousands):

Discrete component unit balances	Receivable	Payable
Primary government:		
General	\$ 13,625	142
Internal service fund	1,565	-
Balances at June 30, 2013	15,190	142
Discretely presented component units:		
TPL	-	737
PHC	142	3,003
BRA	-	11,450
Balances at June 30, 2013	\$ 15,332	15,332

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, 2013 (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%	\$ 627,190	173,720	58,775	742,135	50,370
General Obligation Refunding Bonds	.125-5.0%	443,470	24,380	65,460	402,390	53,300
Total governmental general obligation bonds payable		\$ 1,070,660	198,100	124,235	1,144,525	103,670
Add (deduct):						
Unamortized bond premiums/discounts net					94,721	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(6,031)	
Current portion of long-term debt					(103,670)	
					\$ 1,129,545	
Notes, Leases and Other long-term obligations:						
Notes payable	4.25-7.18%	\$ 40,382	41,523	5,318	76,587	4,106
Leases payable		32,565	32,729	25,929	39,365	12,853
Judgments and claims		47,380	10,533	15,875	42,038	39,037
Workers' compensation		109,781	33,296	16,648	126,429	41,540
Health and life claims		5,614	301,467	285,219	21,862	21,862
Compensated absences		178,582	53,218	50,517	181,283	50,507
Landfill closure and postclosure care costs		8,408	-	290	8,118	200
Pollution remediation		500	-	-	500	-
Other postemployment benefits		593,023	201,830	162,845	632,008	-
Total notes, leases, and other long-term obligations		\$ 1,016,235	674,596	562,641	1,128,190	170,105

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, 2013, 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:				
2014	\$ 103,670	51,841	(3,527)	151,984
2015	98,560	47,665	(3,527)	142,698
2016	95,055	43,024	(3,527)	134,552
2017	91,100	38,381	(3,495)	125,986
2018	85,410	33,887	(3,430)	115,867
2019-2023	348,125	112,897	(15,448)	445,574
2024-2028	243,025	41,150	(4,798)	279,377
2029-2033	79,580	7,179	(214)	86,545
	<u>\$ 1,144,525</u>	<u>376,024</u>	<u>(37,966)</u>	<u>1,482,583</u>
Notes Payable:				
Year(s) ending June 30:				
2014	\$ 4,106	1,763	-	5,869
2015	2,285	1,596	-	3,881
2016	2,258	1,497	-	3,755
2017	1,961	1,413	-	3,374
2018	5,071	1,245	-	6,316
2019-2023	7,828	5,103	-	12,931
2024-2028	11,612	3,740	-	15,352
2029-2033	15,279	1,576	-	16,855
2034-2038	26,187	1,873	-	28,060
	<u>\$ 76,587</u>	<u>19,806</u>	<u>-</u>	<u>96,393</u>
Leases Payable:				
Year(s) ending June 30:				
2014	\$ 12,853	374	-	13,227
2015	9,851	259	-	10,110
2016	6,813	171	-	6,984
2017	4,362	107	-	4,469
2018	3,019	59	-	3,078
2019-2020	2,467	26	-	2,493
	<u>\$ 39,365</u>	<u>996</u>	<u>-</u>	<u>40,361</u>

On October 12, 2012, the City issued \$28.9 million of general obligation bonds, all of which were for funding the Dudley Municipal Center project. Interest on the bonds are payable semiannually each April 1 and October 1 until maturity in fiscal year 2032.

On March 14, 2013, the City issued \$169.2 million of general obligation and refunding bonds, \$144.8 million for various municipal capital projects, and \$24.4 million of refunding bonds for the purpose of refunding certain outstanding general obligation bonds of the City totaling \$24.8 million. Interest on the bonds are payable semiannually each March 1 and September 1 until maturity in fiscal years 2033 and 2026, respectively.

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 March 13, 2013 refunding were \$2.2 million and \$1.9 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 gross amount of assets acquired under the equipment lease agreements totals \$32.7 million as of June 30, 2013. The City's operating lease with DSRC is described in note 19.

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 governmental activities and still outstanding at June 30, 2013 was approximately \$95.6 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 Massachusetts 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, 2013, the City may issue \$3.6 billion of additional general obligation debt under the debt limit. General obligation debt of \$687.6 million, subject to the debt limit, and \$85.0 million, exempt from the debt limit, are authorized but unissued as of June 30, 2013.

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

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, 2012 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 are reported at fair value. Fair values of securities held directly are based on quotations from national securities exchanges, except for pooled funds, alternative investments, and real estate, for which fair values are estimated as detailed below:

- (1) Pooled funds – the fair value of shares in managed investment pools is based on unit values reported by the funds.
- (2) Alternative investments are carried at the limited partnership interest or redemption value, the equivalent of net asset value, which approximates fair value.
- (3) Real estate investments consist of interests in commercial properties held by various partnerships and other limited liability entities, some of which utilize debt financing. Fair values of such holdings are

reported based on the net asset values of the entities, which are estimated using third-party appraisals and other information provided by property managers.

c. Membership

Membership in the System consisted of the following at December 31, 2012, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	14,915
Terminated plan members entitled to but not receiving benefits	19,366
Active plan members	<u>20,970</u>
Total membership	<u><u>55,251</u></u>
Total number of participating employers	<u><u>5</u></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% – 11% of their regular gross compensation. Non-teacher 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, 2012, the System was due \$261.9 million from all employers and the Commonwealth and received \$261.9 million in these contributions. For the years ended June 30, 2011, 2012 and 2013, exclusive of contributions related to the City's teachers, the City's required and actual contributions were \$190.9 million, \$123.6 million and \$137.0 million, respectively.

The Commonwealth of Massachusetts is statutorily required to fund the employer contributions required for the City's teachers. For the years ended June 30, 2011, 2012 and 2013, the Commonwealth's required and actual contributions were \$121.3 million, \$90.4 million and \$94.8 million, respectively. The 2013 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, 2012 is as follows (in thousands):

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity savings fund	\$ 1,469,276	Active members' contribution balance
Annuity reserve fund	458,913	Retired members' contribution account
Military service credit	50	Members' contribution account while on military leave
Pension reserve fund	2,980,866	Amounts appropriated to fund future retirement benefits
Pension fund	<u>1,406</u>	Remaining net assets
	<u><u>\$ 4,910,511</u></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, 2012. 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, 2012, 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, 2012, the fair value of securities loaned by the System amounted to \$196.1 million, against which was held collateral of \$200.8 million as follows (in thousands):

Short-term collateral investment pool	\$	163,272
Noncash collateral		<u>37,557</u>
Total	\$	<u><u>200,829</u></u>

g. Commitments

At December 31, 2012, the System had contractual commitments to provide \$87.0 million of additional funding to private equity funds, and \$62.0 million to real estate funds.

h. Funded Status and Funding Progress

The funded status of the System as of January 1, 2012 is as follows (in thousands):

Actuarially accrued liability (AAL)	\$ 7,902,175
Actuarial value of plan assets	<u>4,855,200</u>
Unfunded AAL (UAAL)	<u><u>\$ 3,046,975</u></u>
Funded ratio (actuarial value of plan assets/AAL)	61.4%
Covered payroll (active plan members)	\$ 1,301,803
UAAL as a percentage of covered payroll	234.1%

In the January 1, 2012 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions included an 7.75% investment rate of return (8.25% for Boston teachers) projected salary increases of 5.0% (4.75% for Boston Teachers), and cost-of-living adjustments of 3.0% up to \$13,000 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, 2012 was 13 years (28 years for Boston Teachers).

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. Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the Commonwealth Statutes in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employee and members at that point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations or the pattern of cost sharing between the employee and members in the future.

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 Position 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 are reported at fair value. Fair value of securities held directly are based on quotations from national securities exchanges.

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, 2013, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an interim actuarial valuation as of June 30, 2012 (in thousands):

ARC	\$ 186,929
Interest on net OPEB obligation	42,994
Adjustment to ARC	<u>(28,093)</u>
Annual OPEB cost	201,830
Contributions made	<u>(162,845)</u>
Change in net OPEB obligation	38,985
Net OPEB obligation – beginning of year	<u>593,023</u>
Net OPEB obligation – end of year	<u><u>\$ 632,008</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
2013	\$ 201,830	81%	\$ 632,008
2012	196,238	92%	593,023
2011	270,749	85%	577,294

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 the most recent actuarial valuation at June 30, 2011 was as follows (in thousands):

	Plan	City
AAL	\$ 3,171,670	3,018,252
Actuarial value of plan assets	111,038	109,736
UAAL	\$ 3,060,632	2,908,516
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 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, 2013 were as follows (in thousands):

	<u>Governmental funds</u>			
	<u>General</u>	<u>Special revenue</u>	<u>Capital projects</u>	<u>Other governmental</u>
Primary government:				
Capital Construction	(22,120)	-	22,120	-
Dudley Municipal Project	-	-	(29,333)	29,333
Debt Service	(1,455)	-	-	1,455
Total	\$ (23,575)	-	(7,213)	30,788

14. Excess of Expenditures over Budgets

The City had expenditures in excess of their budgeted amounts for the year ended June 30, 2013 in the following categories (in thousands):

Public safety:		
Police Department	\$	11,805
Fire Department		3,596
Public Works:		
Snow Removal		1,287
Judgments and Claims:		
Execution of Courts		8,476
	\$	<u>25,164</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, 2013 are as follows (in thousands):

Fund Balances	General	Special revenue	Capital projects	Other governmental funds
Nonspendable				
Permanent fund principal	\$ -	-	-	4,974
Long-term notes receivable	-	-	-	29,333
Subtotal				34,307
Restricted for:				
General government	-	-	16,723	430
Public safety	-	-	38,706	-
Property and development	-	-	38,650	1,812
Parks and recreation	-	-	-	35,857
Library	-	-	1,493	-
Schools	-	-	-	4,056
Subtotal	-	-	95,572	42,155
Assigned to:				
General government	27,223	13,880	-	-
Human services	1,029	-	-	-
Public safety	3,631	87,497	-	-
Public works	595	26,982	-	-
Property and development	380	443	-	-
Parks and recreation	152	1,378	-	-
Library	62	110	-	-
Schools	36,598	2,599	-	-
Catastrophic Loss	21,522	-	-	-
Housing initiative	14,807	-	-	-
Debt service	7,162	-	-	-
Employee related costs	50,000	-	-	-
Designated for subsequent year expense	55,131	-	-	-
Subtotal	218,292	132,889	-	-
Unassigned	533,104			
Total fund balances	\$ 751,396	132,889	95,572	76,462

16. Commitments and Contingencies

The City has committed \$69.7 million in encumbrances for purchase orders and contracts in the General Fund, \$47.5 million in the Special Revenue Fund, \$154.2 million in the Capital Projects Fund, and \$326 thousand in Other Governmental Funds.

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 2013, the City appropriated \$67.0 million to the PHC. As described below, the PHC uses the appropriation to pay debt service on certain general obligation bonds and base assistance grant payments to BMC. The remainder of the appropriation is used for administrative purposes and to support the various public health programs run by the PHC. The City has budgeted \$66.4 million for the PHC for fiscal year 2014.

Due from PHC/BMC

General obligation bonds issued by the City between December 1967 and October 1995 for which PHC is responsible for repayment total \$1.3 million as of June 30, 2013. 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 provides health insurance coverage for employees and retirees through a variety of insured and self-insured plans. The City budgets for and funds the premium costs for all plans through the General Fund. Self-insured plans are financially managed through the Internal Service Fund established in compliance with M.G.L. Chapter 32B, Section 3A. As of July 1, 2012, in addition to the plans managed by Blue Cross Blue Shield, the City moved the Harvard Pilgrim Health Care plans, which administered a majority of the City's premium based health insurance participants, to the Internal Service Fund. In FY13, 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 \$21.5 million at the end of fiscal 2013. 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 \$25.0 million per incident, after a \$50 thousand deductible.

The City has established a liability based on historical trends of previous years and attorneys' 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, 2013 and 2012 are as follows (in thousands):

	Internal service fund	
	2013	2012
Health and life claims, beginning of year	\$ 5,614	6,550
Incurred claims	301,467	85,641
Payments of claims attributable to events of both the current and prior fiscal years:		
Health and life	(285,219)	(86,577)
Health and life claims, end of year	<u>\$ 21,862</u>	<u>5,614</u>
	Government-wide statements	
	2013	2012
Judgments and claims, beginning of year	\$ 157,161	117,695
Incurred claims	58,805	106,022
Payments of claims attributable to events of both the current and prior fiscal years:		
Workers' compensation	(16,648)	(28,932)
Unemployment compensation	(3,993)	(5,369)
Tax abatement liability	(21,600)	(32,200)
Court judgments	(5,258)	(55)
Judgments and claims, end of year	<u>\$ 168,467</u>	<u>157,161</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. Dudley Square Realty Corporation (DSRC) and Ferdinand Building Development Corporation (FBDC)

As described in note 1, the DSRC is a newly formed Qualified Active Low-Income Community Business, and is the owner and developer of the Dudley Municipal Center property. FBDC is the leverage lender of the Dudley Municipal Center property. As the project sponsor during fiscal year 2013, the City authorized and issued \$28.9 million in general obligation bonds and transferred proceeds to FBDC. FBDC, utilizing these bond proceeds, made loans totaling \$29.3 million to two investment funds. As of June 30, 2013 \$29.3 million is due to FBDC on such loans. The investment funds made these proceeds and funds from additional investments available to eight leverage lenders that made loans in the aggregate amount of \$40.8 million to DSRC to finance the Dudley Municipal Center project. This amount is recorded in the City's Notes and Leases Payable line of note 10. Upon completion of the Dudley Municipal Center project, FBDC will be the master tenant and will lease the project from DSRC.

DSRC will then sublease the majority of space of the project to the City. The schedule of payments is the same in the lease and the sublease as follows (in thousands):

Year(s) ending June 30:	<u>Lease payments</u>
2014	\$ -
2015	472
2016	943
2017	943
2018	943
2019-2023	6,404
2024-2028	18,125
2029-2033	18,125
2034-2038	18,125
2039-2043	18,125
2044-2046	10,875
Total	\$ <u><u>93,080</u></u>

20. Discretely Presented Component Units

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

Condensed Statements of Net Position					
June 30, 2013					
(In thousands)					
	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Assets:					
Current assets:					
Cash and investments	\$ 32,912	51,155	3,374	13,552	100,993
Cash and investments held by trustee	-	-	8,021	-	8,021
Receivables, net:					
Other	31,255	18,228	896	6,618	56,997
Other assets	1,374	191	20	420	2,005
Due from primary government	142	-	-	-	142
Total current assets	<u>65,683</u>	<u>69,574</u>	<u>12,311</u>	<u>20,590</u>	<u>168,158</u>
Noncurrent assets:					
Cash and investments held by trustee	-	-	54,722	-	54,722
Notes receivable	20,936	129,128	-	-	150,064
Other assets	643	-	-	71	714
Capital assets:					
Nondepreciable	12,866	15,384	150	-	28,400
Depreciable	15,459	2,650	553	32,963	51,625
Total noncurrent assets	<u>49,904</u>	<u>147,162</u>	<u>55,425</u>	<u>33,034</u>	<u>285,525</u>
Total assets	<u>\$ 115,587</u>	<u>216,736</u>	<u>67,736</u>	<u>53,624</u>	<u>453,683</u>

Condensed Statements of Net Position

June 30, 2013

(In thousands)

	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Liabilities:					
Current liabilities:					
Warrants and accounts payable	\$ 17,731	1,471	1,074	3,699	23,975
Accrued liabilities:					
Other	2,415	312	465	1,733	4,925
Current portion of long-term debt and leases	416	-	-	908	1,324
Due to primary government	2,182	-	737	-	2,919
Deferred revenue	5,084	1,679	-	108	6,871
Total current liabilities	<u>27,828</u>	<u>3,462</u>	<u>2,276</u>	<u>6,448</u>	<u>40,014</u>
Noncurrent liabilities:					
Bonds notes and leases due in more than one year	273	1,475	-	14,900	16,648
Other noncurrent liabilities	3,664	159,722	-	927	164,313
OPEB	73,230	6,316	-	-	79,546
Deferred revenue	22,033	29,422	-	-	51,455
Due to primary government	821	11,450	-	-	12,271
Total noncurrent liabilities	<u>100,021</u>	<u>208,385</u>	<u>-</u>	<u>15,827</u>	<u>324,233</u>
Total liabilities	<u>127,849</u>	<u>211,847</u>	<u>2,276</u>	<u>22,275</u>	<u>364,247</u>
Net position:					
Net investment in capital assets	27,264	6,063	703	17,154	51,184
Restricted	-	-	62,133	704	62,837
Unrestricted	(39,526)	(1,174)	2,624	13,491	(24,585)
Total net position	<u>\$ (12,262)</u>	<u>4,889</u>	<u>65,460</u>	<u>31,349</u>	<u>89,436</u>

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

Year ended June 30, 2013

(In thousands)

	PHC	BRA	TPL	EDIC	Total
Expenses	\$ 177,217	19,475	9,898	30,590	237,180
Program revenues:					
Charges for services	54,848	9,935	1,787	19,084	85,654
Operating grants and contributions	47,742	3,247	10,323	13,615	74,927
Capital grants and contributions	1,405	-	-	-	1,405
Total program revenues	103,995	13,182	12,110	32,699	161,986
Net expenses	(73,222)	(6,293)	2,212	2,109	(75,194)
General revenues:					
Investment income	61	71	207	4	343
Sale of property	-	6,487	-	1,309	7,796
City appropriation	66,788	-	-	-	66,788
Miscellaneous income	-	1,278	1,958	183	3,419
Total general revenues	66,849	7,836	2,165	1,496	78,346
Change in net position	(6,373)	1,543	4,377	3,605	3,152
Net position – beginning of year	(5,889)	3,346	61,083	27,744	86,284
Net position – end of year	\$ (12,262)	4,889	65,460	31,349	89,436

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						
01/01/12	\$ 4,855,200	7,902,175	3,046,975	61.4 %	\$ 1,301,803	234.1 %
01/01/11*	4,592,675	7,382,907	2,790,232	62.2	1,371,363	203.5
01/01/10	4,270,893	7,091,018	2,820,125	60.2	1,306,060	215.9
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

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

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

Schedules of Employer Contributions

	Annual required contribution	Percentage contributed
Pension Plan		
December 31, 2012	\$ 261,943	100 %
December 31, 2011	245,280	100
December 31, 2010	463,656	100
December 31, 2009	250,823	100
December 31, 2008	239,039	100
December 31, 2007	227,822	100
OPEB - Plan		
June 30, 2013	\$ 200,041	84 %
June 30, 2012	194,045	95
June 30, 2011	275,101	85
OPEB - City		
June 30, 2013	\$ 186,929	87 %
June 30, 2012	181,732	99
June 30, 2011	262,898	87