

**NEW ISSUE**  
**BOOK ENTRY ONLY**

**Fitch Ratings: AAA**  
**Moody's Investors Service: Aaa**  
**Standard & Poor's Rating Services: AAA**  
**(see "Ratings")**

*In the opinion of Edwards Wildman Palmer LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986 (the "Code"). Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "Tax Exemption" herein. The Bonds will not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.*

**\$65,260,000**

**CITY OF CAMBRIDGE**  
**MASSACHUSETTS**  
**GENERAL OBLIGATION BONDS**  
**MUNICIPAL PURPOSE LOAN OF 2013**

**Dated: Date of Delivery**

**Due: February 15, 2014–2033**

**MATURITIES, AMOUNTS, INTEREST RATES, AND PRICES OR YIELDS**

<b>Year</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Initial Yield</b>	<b>Year</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Initial Yield</b>
2014	\$4,680,000	2.000%	0.160%	2024	\$1,855,000	3.000%	2.000%
2015	4,675,000	3.000	0.320	2025	1,855,000	3.000	2.170
2016	4,675,000	3.000	0.480	2026	1,855,000	3.000	2.310
2017	4,675,000	3.000	0.620	2027	1,855,000	3.000	2.490
2018	4,675,000	3.000	0.830	2028	1,850,000	3.000	2.660
2019	4,675,000	3.000	1.040	2029	1,850,000	3.000	2.720
2020	4,675,000	3.000	1.280	2030	1,850,000	3.000	2.780
2021	4,675,000	3.000	1.490	2031	1,850,000	3.000	2.830
2022	4,670,000	3.000	1.670	2032	1,850,000	3.000	2.880
2023	4,665,000	3.000	1.850	2033	1,850,000	3.000	2.930

The Bonds will be dated as of their date of delivery. Principal on the Bonds will be payable on February 15 of the years in which the Bonds mature. Interest will be payable semiannually on February 15 and August 15, commencing on August 15, 2013. Principal and semi-annual interest on the Bonds will be payable by U.S. Bank National Association, Boston, Massachusetts, or its successors, as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and the disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and Indirect Participants, as more fully described herein.

The Bonds are issuable only as fully registered Bonds (plus accrued interest to be added, if any) without coupons and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 each and integral multiples thereof. Purchasers will not receive certificates representing their interest in Bonds purchased.

The Bonds shall be subject to redemption prior to maturity as described herein.

The Bonds are offered subject to the final approving opinion of Edwards Wildman Palmer LLP, Bond Counsel, as aforesaid, and to certain other conditions referred to herein. The Bonds in definitive form will be delivered to DTC, or its custodial agent, on or about February 26, 2013.

This cover page contains information for quick reference only. It is not a summary of the issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

**THE CITY COUNCIL**

Henrietta Davis, Mayor  
E. Denise Simmons, Vice Mayor  
Leland Cheung  
Marjorie C. Decker  
Craig A. Kelley  
David P. Maher  
Kenneth E. Reeves  
Timothy J. Toomey, Jr.  
Minka vanBeuzekom

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**CERTAIN APPOINTED OFFICIALS**

Robert W. Healy, City Manager  
Richard C. Rossi, Deputy City Manager  
Louis A. DePasquale, Assistant City Manager for  
Fiscal Affairs and Treasurer/Collector  
Nancy Glowa, City Solicitor  
Donna P. Lopez, Interim City Clerk  
James H. Monagle, City Auditor

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**BOND COUNSEL**

Edwards Wildman Palmer LLP  
111 Huntington Avenue  
Boston, MA 02199-7613

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**FINANCIAL ADVISOR**

Government Finance Group  
2306 Wilkinson Place  
Alexandria, VA 22306

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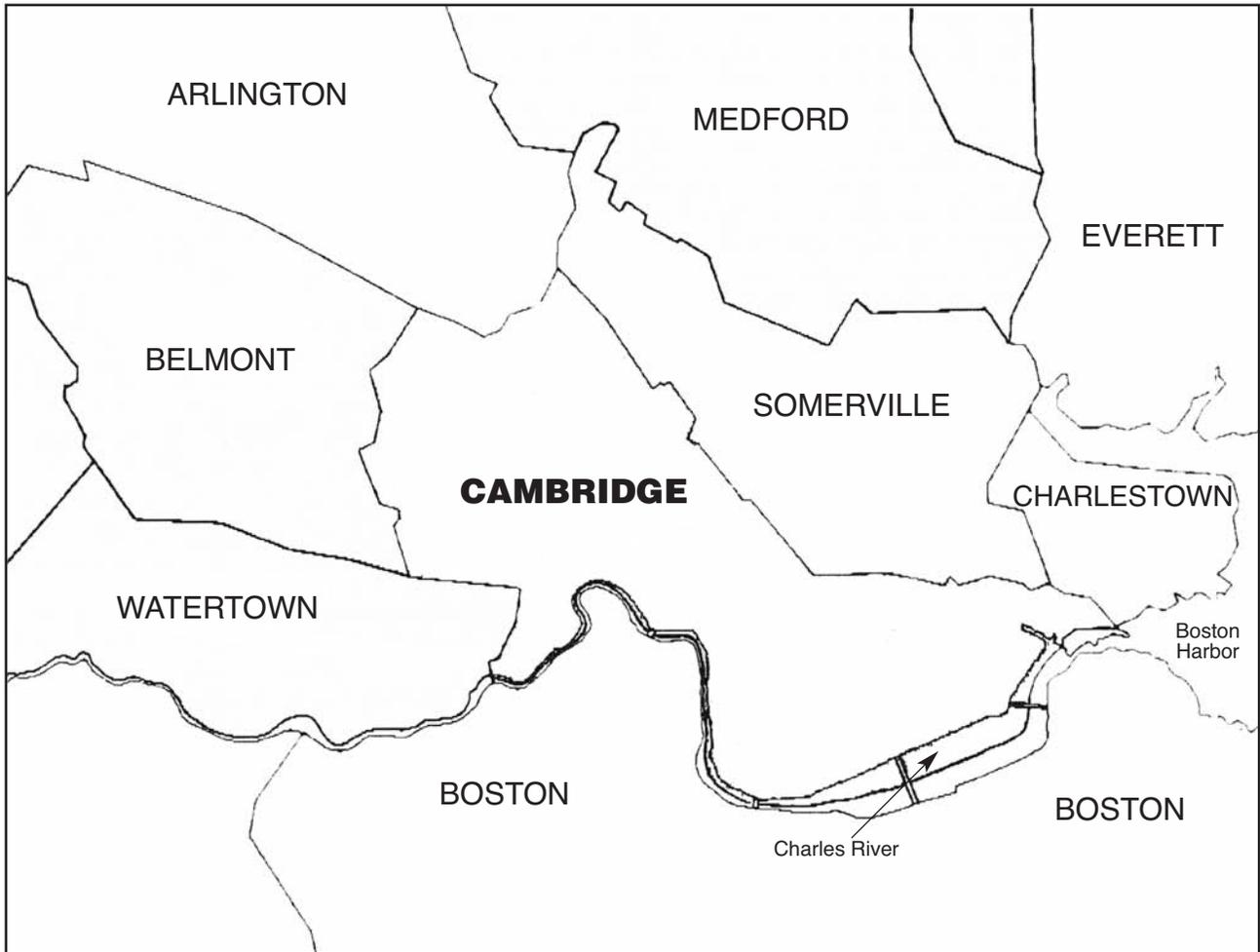
**CERTIFIED PUBLIC ACCOUNTANTS**

KPMG Peat Marwick  
99 High Street  
Boston, MA 02110

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**CAMBRIDGE AND SURROUNDING COMMUNITIES**

# PART I: INTRODUCTION

The following material is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement, reference to which is hereby made for all purposes.

## **The Issuer**

The City of Cambridge, Massachusetts (herein, the “City of Cambridge” or “City”) is located in Middlesex County across the Charles River from the City of Boston. Cambridge, first settled in 1630, was originally incorporated as a town in 1636 and became a city in 1846. Since 1942, Cambridge has operated under a council-manager form of government with nine city councillors elected every two years. Occupying a land area of 6.26 square miles, the City has a 2010 census population of 105,162.

## **The Bonds**

The City of Cambridge General Obligation Bonds, Municipal Purpose Loan of 2013, in book-entry-only-form, dated February 26, 2013, are due February 15 in each year of the years 2014 through 2033 in the aggregate principal amount of \$65,260,000.

## **Security for the Bonds**

The Bonds are general obligations of the City of Cambridge, to the payment of which the full faith and credit of the City are irrevocably pledged. Payment is not limited to a particular fund or revenue source, but is payable from taxes which may be levied upon all taxable property in the City, subject to the limit imposed by Chapter 59, section 21C of the General Laws. (Refer to “Part II: The Bonds” for a complete description of the security for the Bonds and bondholder remedies.)

## **Use of Proceeds**

Proceeds of the Bonds will be used to finance sewer reconstruction, departmental equipment, school building renovations, recreational improvements, municipal building renovations and street, sidewalk, and tunnel improvements.

## **Redemption Provisions**

Bonds maturing on or after February 15, 2024, will be subject to redemption beginning February 15, 2023 in whole or in part at any time, at the option of the City. See “Redemption Provisions” in “Part II: The Bonds” for a more complete description of the Optional, Mandatory, Notice of, and Manner of Redemption of the Bonds.

## **Tax Exemption**

In the opinion of Edwards Wildman Palmer LLP, Bond Counsel to the City (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. The Bonds will not be designated as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code. See “Tax Exemption” in “Part II: The Bonds”.

## **Legal Matters**

A copy of the legal opinion of the firm of Edwards Wildman Palmer LLP, Boston, Massachusetts, Bond Counsel, will accompany the Bonds. The opinion will be dated and given on and will speak only as of the date of original delivery of the Bonds to the successful bidder.

The scope of engagement of Bond Counsel does not extend to passing upon or assuming responsibility for the accuracy or adequacy of any statements made in this Official Statement other than matters expressly set forth as their opinion and they make no representation that they have independently verified the same.

**Delivery**

The Bonds are offered subject to prior sale, when, as, and if, issued by the City and accepted by the initial purchaser of the Bonds, subject to the receipt of an approving legal opinion by Edwards Wildman Palmer LLP, Boston, Massachusetts, Bond Counsel. Delivery of the Bonds is expected on or about February 26, 2013.

**Financial Advisor**

Government Finance Group, Alexandria, Virginia, is employed as the Financial Advisor to the City in connection with the issuance of the Bonds. The financial advisor's fee for services rendered with respect to the sale of the bonds is not contingent upon the issuance and delivery of the Bonds.

**Bond Counsel**

Edwards Wildman Palmer LLP, Boston, Massachusetts, is employed as Bond Counsel to the City in connection with the issuance of the Bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issue of the Bonds are not contingent on the sale and delivery of the Bonds.

**Ratings**

Ratings are assigned by Moody's Investors Service, Inc., 7 World Trade Center, New York, New York 10007, Standard & Poor's Ratings Services, 55 Water Street, 38th Floor, New York, NY 10041-0003, and Fitch Ratings, One State Street Plaza, New York, New York 10004, as shown on the front cover. An explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The City furnished to such rating agencies the information contained in this Official Statement and certain publicly available materials and information about the City. Generally, rating agencies base their ratings on such materials and information, as well as investigations, studies and assumptions of the rating agencies. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by any or all of such rating agencies if, in the judgement of any or all, circumstances so warrant. Such circumstances may include, without limitation, changes in or unavailability of information relating to the City. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of the Bonds.

**Absence of Material Litigation**

According to the City Solicitor, there is no litigation of any kind now pending or, to the best of her information, knowledge, and belief, threatened to restrain or enjoin the issuance or delivery of the Bonds or in any manner questioning the proceedings and authority under which the Bonds are issued. In the opinion of the City Solicitor, there is no pending legislation which is likely to result, either individually or in the aggregate, in final judgments against the City that would materially affect its financial position or its ability to pay its obligations.

**Auditors**

A yearly independent audit of all accounts, books, records, and financial transactions of the City has been performed by KPMG LLP, Certified Public Accountants of Boston, Massachusetts, since fiscal year 1979. The opinion of the independent auditors for the period set forth in their report and the fiscal year 2012 Financial Statements are presented as a part of this Official Statement. (See Appendix A.)

KPMG LLP, as the City's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this Official Statement.

**Miscellaneous**

This Official Statement and any advertisement of the Bonds are not to be construed as a contract with the purchaser of the Bonds. Any statements made in this Official Statement involving matters of opinions or of estimates, whether or not so expressly identified, are set forth as such and not as representation of fact, and no representation is made that any of the estimates will be realized.

Information relating to the location, economy, and finances of the City of Cambridge and the surrounding areas found herein was prepared by the City under the direction of the Government Finance Group, Financial Advisor to the City.

**Disclosure**

In preparing this Official Statement, the City has generally followed the disclosure guidelines recommended by the Government Finance Officers Association as presented in its January 1991 edition of "Disclosure Guidelines for State and Local Government Securities," and the information presented in this Official Statement substantially conforms to these guidelines to the best of the City's knowledge and belief.

**Continuing Disclosure**

The City has agreed to execute a Continuing Disclosure Agreement at closing to assist the purchasers of the Bonds in complying with the provisions of Rule 15c2-12 (the "Rule"), promulgated by the Securities and Exchange Commission (the "SEC") and as in effect on the date hereof, by providing annual financial information and notices of certain significant events required by the Rule. See the section herein "Continuing Disclosure" in "Part II: The Bonds".

**Additional Information**

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. All quotations from and summaries and explanations of laws contained in this Official Statement do not purport to be complete, and reference is made to said laws for full and complete statements of their provisions.

Any questions concerning the contents of this Official Statement should be directed to the following: Louis A. DePasquale, Assistant City Manager for Fiscal Affairs, Treasurer, (617) 349-4220, or Richard A. Manley or Claudia J. Matzko, Edwards Wildman Palmer LLP, (617) 239-0100.

# PART II: THE BONDS

## DESCRIPTION OF THE BONDS

### General

The Bonds are dated February 26 , 2013, and will bear interest from that date which will be payable beginning August 15, 2013 and semi-annually thereafter on February 15 and August 15 until maturity. The Bonds will mature on February 15 each year as specified below:

<u>Due February 15</u>	<u>Principal Amount</u>	<u>Due February 15</u>	<u>Principal Amount</u>
2014	\$4,680,000	2024	\$1,855,000
2015	4,675,000	2025	1,855,000
2016	4,675,000	2026	1,855,000
2017	4,675,000	2027	1,855,000
2018	4,675,000	2028	1,850,000
2019	4,675,000	2029	1,850,000
2020	4,675,000	2030	1,850,000
2021	4,675,000	2031	1,850,000
2022	4,670,000	2032	1,850,000
2023	4,665,000	2033	1,850,000

### Redemption Provisions

**Optional Redemption** – The Bonds that mature on or before February 15, 2023, are not subject to redemption prior to their stated maturities. The Bonds that mature on and after February 15, 2024, will be subject to redemption beginning February 15, 2023, in whole or in part at any time, at the option of the City, upon payment of 100% of the principal amount of Bonds to be redeemed plus interest accrued and unpaid to the redemption date.

**Mandatory Redemption** – Bidders may provide in the bid form for all of the Bonds to be issued as serial Bonds or may designate consecutive annual principal amounts of the Bonds to be combined into not more than two Term Bonds. In the event that a bidder chooses to specify a Term Bond, each such Term Bond shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Bond and continuing on February 15 in each year thereafter until the stated maturity of such Term Bond. The amount redeemed in any year shall be equal to the principal amount for such year set forth in the amortization schedule on the cover page of the Preliminary Official Statement. Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot from among the Bonds of the maturity being redeemed.

**Notice of Redemption** – So long as DTC is the registered owner of the Bonds, notice of the any redemption of Bonds prior to their maturities, specifying the Bonds (or portion thereof) to be redeemed shall be mailed to DTC not more than 60 days nor less than 30 days prior to their redemption date. Any failure on the part of the DTC Participants of the redemption or failure on the part of the DTC participants, Indirect Participants, or a nominee of the beneficial Owner (having received notice from the a DTC Participant or otherwise) to notify the Beneficial Owner shall not affect the validity of the redemption.

**Manner of Redemption** – If less than all of the Bonds are called for redemption, the Bonds to be redeemed shall be selected by the City's Treasurer in such manner as may be determined to be in the best interest of the City. If less than all of the Bonds of a particular maturity are called for redemption, DTC or any successor securities depository will select the Bonds to be redeemed pursuant to its rules and procedures or, if the book-entry system is discontinued, the Bonds to be redeemed will be selected by the City Treasurer who has been appointed registrar (the "Registrar") by lot in such manner as the Registrar in its discretion may determine. In either case, each portion of the \$5,000 principal amount is counted as one Bond for such purposes. As noted above, the City will cause notice of the call for redemption identifying the Bonds or portions thereof to be redeemed to be sent by facsimile transmission, registered or certified mail or overnight express delivery, not less than 30 days nor more than 60 days prior to the redemption date, to the registered owner thereof. The City shall not be responsible for mailing notice of redemption to anyone other than DTC or another qualified securities depository or its nominee unless no qualified securities depository is the registered owner of the Bonds. If no qualified securities depository is the registered owner of the Bonds, notice of redemption shall be mailed to the registered owners of the Bonds. If a portion of a Bond is called for redemption, a new Bond in principal amount equal to the unredeemed portion shall be issued to the registered owner upon the surrender thereof.

## **Record Date**

The record date for debt service payment is the close of business on the last business day of the month prior to the month in which a debt service payment comes due.

## **Book-Entry Only System**

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued in fully-registered form registered in the name of Cede & Co. (DTC’s partnership nominee) or such other nominee as may be requested by an authorized representative of DTC. One fully-registered Bond Certificate will be issued for each maturity of the Bonds each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of securities deposited with the DTC must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Securities, except in the event that use of the book-entry system for the securities is discontinued.

To facilitate subsequent transfers, all securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of securities with DTC and their registration in the name of Cede & Co., or such other DTC nominee, effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notice shall be sent to DTC. If less than all of a maturity is being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI procedures. Under its usual procedures DTC mails an Omnibus Proxy to the City or its paying agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on securities deposited with DTC will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts on each payable date in accordance with their respective hold-

ings shown on DTC's records upon DTC's receipt of funds and corresponding detail information from the City or the Agent. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the City or the Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered to Beneficial Owners.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to Beneficial Owners.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

## **AUTHORIZATION AND USE OF PROCEEDS**

The net proceeds from \$65,260,000 General Obligation Bonds will be used for the following projects:

### **King School Renovations**

\$33,000,000 Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(3) and a loan order of the City Council passed September 10, 2012 to provide funds for renovations to the King Elementary School.

### **Sewer Reconstruction**

\$21,405,000 Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(1) and loan orders of the City Council passed May 12, 2008, May 23, 2011, and May 21, 2012 to provide funds for various sewer reconstruction projects.

### **Old Police Station Renovations**

\$4,070,000 Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(3A) and a loan order of the City Council passed February 27, 2012 to provide funds for renovations to the old police station.

### **Harvard Square Tunnel Improvements**

\$1,500,000 Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(4) and loan orders of the City Council passed May 24, 2010 and May 23, 2011 to provide funds for improvements to the Harvard Square tunnel.

### **Danehy Park Soccer Fields**

\$1,540,000 Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(25) and a loan order of the City Council passed May 21, 2012 to provide funds for improvements to soccer fields at Danehy Park.

### **Acquisition of Fire Ladder Truck and Pumper**

\$1,245,000 Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(9) and a loan order of the City Council passed May 21, 2012 to provide funds for the acquisition of a ladder truck and pumper for the Fire Department.

### **Building Renovations**

\$1,000,000 Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(3A) and a loan order of the City Council passed May 21, 2012 to provide funds for the replacement of the roof on City Hall.

### **Street and Sidewalk Reconstruction**

\$1,000,000 Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(5) and a loan order of the City Council passed May 23, 2011 to provide funds for improvements to streets and sidewalks throughout the City.

### **Kendall Square Improvements**

\$500,000 Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(5) and s.7(6) and a loan order of the City Council passed May 21, 2012 to provide funds for street and sidewalk improvements to Kendall Square.

## SECURITY AND REMEDIES

### Full Faith and Credit

Under Massachusetts law, the Bonds constitute a pledge of the full faith and credit of the City of Cambridge. Payment is not limited to a particular fund or revenue source. Except for “qualified bonds” as described below (see *Serial Bonds and Notes* below) and setoffs of state distributions as described below (see *State Distribution* below), no provision is made by the Massachusetts statutes for priorities among bonds and notes and other general obligations, although the use of certain moneys may be restricted.

### Tax Levy

Massachusetts statutes direct the municipal assessors to include annually in the tax levy for the next fiscal year “all debt and interest charges matured and maturing during the next fiscal year and not otherwise provided for (and) all amounts necessary to satisfy final judgements.” Specific provision is also made for including payments of rebate amounts not otherwise provided for and payments of notes in anticipation of federal aid or certain state aid in the next tax levy if the aid or reimbursement is no longer forthcoming.

However, the total amount of a tax levy is limited by statute. The voters in each municipality may vote to exclude from the limitation any amounts required to pay debt service on indebtedness incurred before November 4, 1980. Local voters may also vote to exempt specific subsequent bond issues from the limitations. (See *Tax Limitations* below.) In addition, obligations incurred before November 4, 1980 may be constitutionally entitled to payment from taxes in excess of the statutory limit. The City of Cambridge has not voted to exempt the debt service on the Bonds from the limitations.

Except for taxes on the increased value of certain property in designated development districts which may be pledged for the payment of debt service on bonds issued to finance economic development projects within such districts, no provision is made for a lien on any portion of the tax levy to secure particular bonds or notes or bonds and notes generally (or judgements on bonds or notes) in priority to other claims. Provision is made, however, for borrowing to pay judgements, subject to the General Debt Limit (see “Authorization of General Obligation Bonds and Notes” and “Debt Limits”). Subject to the State Director of Accounts for judgements above \$10,000, judgements may also be paid from available funds without appropriation and included in the next tax levy unless other provision is made.

### Court Proceedings

Massachusetts cities and towns are subject to suit on their general obligation bonds and notes. Courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgement on the bonds or notes from lawfully available funds or, if necessary, to order the cities or towns to take lawful action to obtain the required money, including the raising of it in the next annual tax levy, within the limits prescribed by law (see *Tax Limitations* below). In exercising their discretion as to whether to enter such an order, the courts could take into account all relevant factors including the current operating needs of the city or town and the availability and adequacy of other remedies. The Massachusetts Supreme Judicial Court has stated in the past that a judgement against a municipality can be enforced by the taking and sale of the property of any inhabitant. However, there has been no judicial determination as to whether this remedy is constitutional under current due process and equal protection standards.

### Restricted Funds

Massachusetts statutes also provide that certain water, gas and electric, community antenna television system, telecommunications, sewer, parking meter and passenger ferry fee, community preservation and affordable housing receipts may be used only for water, gas and electric, community antenna television system, telecommunications, sewer, parking, mitigation of ferry service impacts, and community preservation and affordable housing purposes, respectively; accordingly, moneys derived from these sources may be unavailable to pay general obligation bonds and notes issued for other purposes. A city or town that accepts certain other statutory provisions may establish an enterprise fund for a utility, health care, solid waste, recreational or transportation facility and for police or fire services; under those provisions any surplus in the fund is restricted to use for capital expenditures or reduction of user charges. In addition, subject to certain limits, a city or town may annually authorize the establishment of one or more revolving funds in connection with the use of certain revenues for programs that produce those revenues; interest earned on a revolving fund is treated as general fund revenue. A city or town may also establish an energy revolving loan fund to provide loans to owners of privately-held property in the city or town for certain energy conservation and renewable energy projects, and may borrow to establish such a fund. The loan repayments and interest earned on the investment of amounts in the fund shall be credited to the fund. Also, the annual allowance for depreciation of a gas and electric plant or a community antenna television and telecommunications system is restricted to use for plant or system renewals and improvements, for nuclear decommissioning costs, and costs of contractual commitments, or, with the approval of the State Department

of Telecommunications and Energy, to pay debt incurred for plant reconstruction or renewals. Revenue bonds and notes issued in anticipation of them may be secured by a prior lien on specific revenues. Receipts from industrial users in connection with industrial revenue financing are also not available for general municipal purposes.

### **State Distributions**

State grants and distributions may in some circumstances be available to pay general obligation bonds and notes of a city or town in that the State Treasurer is empowered to deduct from such grants and disbursements the amount of any debt service paid on “qualified bonds” (see *Serial Bonds and Notes* below) and any other sums due and payable by the city or town to the Commonwealth or certain other public entities, including any unpaid assessments for costs of the Massachusetts Bay Transportation Authority (“MBTA”), and/or the Massachusetts Water Resources Authority (“MWRA”), for any debt service due on obligations issued to the Massachusetts School Building Authority, or for charges necessary to meet obligations under the Commonwealth’s Water Pollution Abatement or Drinking Water Revolving Loan Programs.

If a city or town is (or is likely to be) unable to pay principal or interest on its bonds or notes when due, it is required to notify the State Commissioner of Revenue. The Commissioner shall in turn, after verifying the inability, certify the inability to the State Treasurer. The State Treasurer shall pay the due or overdue amount to the paying agent for the bonds or notes, in trust, within three days after the certification or one business day prior to the due date (whichever is later). This payment is limited, however, to the estimated amount otherwise distributable by the Commonwealth to the city or town during the remainder of the fiscal year (after the deductions mentioned in the foregoing paragraph). If for any reason any portion of the certified sum has not been paid at the end of the fiscal year, the State Treasurer shall pay it as soon as practicable in the next fiscal year to the extent of the estimated distributions for that fiscal year. The sums so paid shall be charged (with interest and administrative costs) against the distributions to the city or town.

The foregoing provisions do not constitute a pledge of the faith and credit of the Commonwealth. The Commonwealth has not agreed to maintain existing levels of state distributions and the direction to use estimated distributions to pay debt service may be subject to repeal by future legislation. It should also be noted that adoption of the Commonwealth’s annual appropriation act is sometimes delayed beyond the beginning of the fiscal year and estimated distributions which are subject to appropriation may be unavailable to pay local debt service until they are appropriated.

### **Bankruptcy**

Enforcement for a claim for payment of principal of or interest on general obligation bonds or notes would be subject to the applicable provisions of federal bankruptcy laws and to the provisions of other statutes, if any, hereinafter enacted by the Congress or the State Legislature extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied. Massachusetts municipalities are not currently authorized by the Massachusetts General Laws to file a petition for bankruptcy under the federal bankruptcy laws.

In cases involving significant financial difficulties faced by a single city, town or regional school district, the Commonwealth has enacted special legislation to permit the appointment of a fiscal overseer, finance control board or, in the most extreme cases, a state receiver. In a limited number of these situations, such special legislation has also authorized the filing of federal bankruptcy proceedings, with the prior approval of the Commonwealth. In each case where such authority was granted, it expired at the termination of the Commonwealth’s oversight of the financially distressed city, town or regional school district. To date, no such filings had been approved or made.

## **OPINION OF BOND COUNSEL**

The legal opinion of the firm of Edwards Wildman Palmer LLP, Boston, Massachusetts, Bond Counsel, will be dated and given on and will speak only as of the date of original delivery of the Bonds to the successful bidder. A proposed form of the legal opinion is included herein as Appendix B.

The scope of engagement of Bond Counsel does not extend to passing upon or assuming responsibility for the accuracy or adequacy of any statements made in this Official Statement other than matters expressly set forth as their opinion and they make no representation that they have independently verified the same.

## **TAX EXEMPTION**

In the opinion of Edwards Wildman Palmer LLP, Bond Counsel to the City (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Bonds is not a specific prefer-

ence item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. The Bonds will not be designated as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code.

The Code imposes various requirements relating to the exclusion from gross income for federal tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The City has covenanted to comply with these requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel expresses no opinion as to the taxability of the Bonds or the income therefrom or any other tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B hereto.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that any pending, proposed or future legislation, including amendments to the Code, if enacted into law, or any regulatory or administrative development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective holders of the Bonds are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Prospective Bondholders should be aware that from time to time legislation is or may be proposed which, if enacted into law, could result in interest on the Bonds being subject directly or indirectly to federal income taxation, or otherwise prevent Bondholders from realizing the full benefit provided under current federal tax law of the exclusion of interest on the Bonds from gross income. To date, no such legislation has been enacted into law. However, it is not possible to predict whether any such legislation will be enacted into law. Further, no assurance can be given that any pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the market value and marketability of, or the tax status of interest on, the Bonds. Prospective Bondholders are urged to consult their own tax advisors with respect to any such legislation, interpretation or development.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect the federal or state tax liability of a holder of the Bonds. Among other possible consequences of ownership or disposition of, or the accrual or receipt of interest on, the Bonds, the Code requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income. The nature and extent of all such other tax consequences will depend upon the particular tax status of the holder or the holder’s other items of income, deduction or exclusion. Except as indicated in the following paragraph, Bond Counsel expresses no opinion regarding any such other tax consequences, and holders of the Bonds should consult with their own tax advisors with respect to such consequences.

### **Original Issue Discount and Premium**

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the

Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and Massachusetts personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Bondholder's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Bondholder. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

### **Sale at Competitive Bidding**

After competitive bidding on February 19, 2013, the Bonds were awarded to J.P. Morgan Securities LLC, (the "Underwriter"). The Underwriter has supplied the information as to the public offering yields or prices of the Bonds set forth on the cover hereof.

### **Continuing Disclosure**

In order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the "Rule"), the Issuer will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the Issuer by not later than 270 days after the end of each fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix C. The Certificate will be executed by the signers of the Bonds, and incorporated by reference in the Bonds. **The City has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide certain annual financial information and material event notices.**

# **PART III: THE CITY**

## **INTRODUCTION**

The City of Cambridge is located in southeast Middlesex County across the Charles River from the City of Boston. The City is bordered by the Towns of Watertown and Belmont on the west and the Town of Arlington and the City of Somerville on the north, and occupies a land area of 6.26 square miles. The City's population was 105,162 in 2010, based upon the 2010 census.

Cambridge, first settled in 1630 by a group from the Massachusetts Bay Company, was originally incorporated as a town in 1636 and became a city in 1846. Since 1942, the City has had a Council-Manager form of government.

Employers and developers find the City attractive due to its close proximity to Boston, extensive public transportation, an excellent network of roads, and the City's commitment to encouraging planned development. The location of two major universities, Harvard University and the Massachusetts Institute of Technology, within the City's borders contributes significantly to its vitality and growth.

## **CONSTITUTIONAL STATUS AND FORM OF GOVERNMENT**

Massachusetts cities and towns are subject to the plenary legislative power of the Commonwealth. As stated by the Supreme Judicial Court:

"A town is not an independent sovereignty. It is a creature of the Commonwealth, from which are derived all its powers and those of its voters and officers."

Cities and towns provide general governmental services at the local level. Municipalities were traditionally authorized to exercise only those powers granted by the State Legislature, but Massachusetts adopted a Home Rule Amendment to its Constitution in 1966. Under this amendment, a city or town may exercise, by ordinance or by-law, any power which the State Legislature could confer upon it, provided that the ordinance or by-law is consistent with the laws enacted by the State Legislature. Certain powers are excluded from home rule and may still be exercised only when authorized by State law. These powers include the power to levy taxes, the power to borrow money, and the power to enact private or civil law governing civil relationships except as an incident to the exercise of an independent municipal power. Under the Home Rule Amendment the State Legislature may enact general laws relating to a class of two or more municipalities, but (except in limited circumstances) may enact a special law relating to a particular city or town only on request of the city or town.

An amendment to the State Constitution provides that any law imposing additional costs on two or more cities or towns by regulating aspects of municipal employment will not be effective within a city or town until the city council or town meeting accepts the law. Local acceptance is not required if the State Legislature has either passed the law by a two-thirds vote or provided that the additional costs would be assumed by the State.

Cities and towns may change their form of government by adopting home rule charters or amending existing charters. The City of Cambridge is governed by a city council and an appointed city manager who has no power to veto council actions. Provision is made for a referendum on most types of council actions, and for initiation of measures, upon petition of a sufficient number of voters.

School affairs of the City are administered by an elected school committee. However, as a result of an initiative law adopted in 1980 (Proposition 2½), the School Committee is no longer autonomous with respect to school expenditures for current purposes. The school budget is limited to the total amount appropriated by the City Council, but the School Committee retains full power to allocate the funds appropriated.

**CERTAIN ELECTED OFFICIALS AND  
ADMINISTRATIVE/FINANCIAL STAFF MEMBERS**

The City operates under the Council-Manager form of government. The legislature and policy making body of the City is the nine-member City Council whose members are elected at-large for two-year terms. The Council elects a Mayor and Vice-Mayor from among its members with the Mayor serving as Chairman of the School Committee.

The City Manager is the chief executive and administrative officer and carries out the policies of the City Council. With the assistance of the Deputy City Manager and three Assistant City Managers, he coordinates the functions of 34 municipal departments responsible for the delivery of service to residents. The City Manager is appointed by the City Council and serves at the pleasure of the Council. In 2009, the City Council approved a contract for the present City Manager, which expired on September 30, 2012. In 2012, the Council approved an extension of this contract through June 30, 2013. In December 2012, the City Council appointed Richard C. Rossi to replace the current City Manager when he retires on June 30, 2013.

There is a School Committee which is comprised of six elected members, who are elected for two-year terms, plus the Mayor. The School Superintendent is responsible for the day-to-day activities of the School Department and serves at the pleasure of the School Committee.

The City Council also appoints members to certain boards and commissions as it deems necessary to the operation of the City.

**Principal Elected Officials**

The following are the nine members of the City Council elected for two-year terms ending December 31, 2013:

Henrietta Davis, Mayor		
E. Denise Simmons, Vice Mayor		David P. Maher
Leland Cheung		Kenneth E. Reeves
Marjorie C. Decker		Minka vanBeuzekom
Craig A. Kelley		Timothy J. Toomey, Jr.

The following are the six members of the School Committee elected for two-year terms ending December 31, 2013 (the Mayor serves as Chairman of the School Committee):

Henrietta Davis, Chairman		
Alfred B. Fantini		Patricia M. Nolan
Richard Harding		Mervan F. Osborne
Marc McGovern		Alice L. Turkel

**Principal Executive Officers**

*Robert W. Healy, City Manager since July, 1981.*

Previously served the City as Deputy City Manager from 1980 to 1981 and Assistant City Manager from 1974 to 1980. Also served as Assistant City Manager for the City of Lowell, Massachusetts from 1970 to 1974. Bachelor of Arts degree in English from the University of Massachusetts and Masters degree in Educational Administration from the University of Lowell.

*Richard C. Rossi, Deputy City Manager since November, 1981.*

Previously served the City as Purchasing Agent from 1978 to 1981 and Assistant Superintendent of the Water Department from 1975 to 1978. Bachelor of Science degree in Business Education from Salem State University and a Masters degree in Public Administration from Northeastern University.

*Louis A. DePasquale, Assistant City Manager for Fiscal Affairs and Treasurer / Collector since September, 2002.*

Previously served the City as Budget Director from 1982 to 2002, Chief Budget Analyst from 1980 to 1982, Budget Analyst from 1977 to 1980 and Treasury Analyst from 1975 to 1977. Bachelor of Science degree in Criminal Justice from Boston State College and a Masters degree in Public Administration from Northeastern University.

*Brian P. Murphy, Assistant City Manager for Community Development since February, 2011.*

Previously served the City as Vice Mayor and City Councillor from 2002-2009. Also served as Deputy Secretary of MassDOT and Deputy Secretary for Government Affairs for the Massachusetts Executive Office of Transportation. Bachelor of Arts degree from Harvard College and a Juris Doctor degree from the University of Chicago Law School.

*Ellen M. Semonoff, Assistant City Manager for Human Services since August, 2004.*

Previously served the City as Acting Assistant City Manager for Human Services from December, 2003 to August, 2004; Deputy Director, Department of Human Service Programs from 1995-2003 and Assistant to the City Manager from 1991-1995. Bachelor of Arts degree from Brandeis University and a Doctor of Jurisprudence degree from Harvard Law School.

*Nancy E. Glowa, City Solicitor effective December 21, 2012.*

Previously served the City as Acting City Solicitor from January 2012 to December 2012, Deputy City Solicitor from 2002 to 2012, First Assistant City Solicitor from 1997 to 2002, and Legal Counsel from 1994 to 1997; also served as Acting Director of the Conservation Commission from 2001 to 2002. Bachelor of Arts degree in English from Smith College and Doctor of Jurisprudence degree from Boston University School of Law.

*Donna P. Lopez, Interim City Clerk since March, 2012.*

Previously held the position of Deputy City Clerk from 1995-February 29, 2012. Graduate of Emmanuel College in 2000. In the forty-three years employed in the City Clerk's Office has held the following positions: Office Manager, Head Clerk, Principal Clerk, Senior Clerk Stenographer, Senior Clerk and Junior Clerk Typist.

*James H. Monagle, City Auditor since January, 2001.*

Previously served as Assistant Finance Director for Cambridge, Massachusetts from 1997 to 2001. A career financial professional involved in virtually all aspects of financial management of both corporate and government entities. For over nine years focused in hotel financial, general and system management. Served in both corporate headquarters and hotels throughout New England. Bachelor of Arts in Political Science from Boston State and Masters in Business Administration from Suffolk University.

*Dr. Jeffrey M. Young, Superintendent of the Cambridge Public Schools since July, 2009.*

In July, 2009, the Cambridge School Committee appointed Dr. Jeffrey M. Young to the position of Superintendent of Schools. He previously served as Superintendent in Newton, Lexington, and Lynnfield, MA. Dr. Young also worked as a Curriculum Coordinator for Grades 6, 7, 8, Co-chairman in the English Department, and classroom teacher in the Brookline Public Schools. He earned his undergraduate degree at Brandeis University in 1974 in English and American Literature, his M.A. from Tufts University in Education in 1977, and his Ed.D. from Harvard University Graduate School of Education in 1988.

## **GOVERNMENTAL SERVICES AND FACILITIES**

The City provides general governmental services for the territory within its boundaries, including police and fire protection, collection and disposal of garbage and rubbish, public education in grades kindergarten through twelve, water and sewer services, parks and recreation, health and social services, libraries/culture, and maintenance of streets and highways. The Massachusetts Bay Transportation Authority ("MBTA") provides rapid transit service and bus coverage throughout the City with connections to the Metropolitan Boston area. The Massachusetts Water Resources Authority ("MWRA") provides sewerage disposal services to the City. The Cambridge Housing Authority provides public housing for eligible low-income families, the elderly, and the handicapped.

Prior to July 1, 1997, Middlesex county provided space for courts, a jail, a house of correction, and a registry of deeds. Legislation was enacted in 1997 abolishing the county governments of Franklin and Middlesex counties as of July 1, 1997, with their assets, functions, debts and other obligations being assumed by the Commonwealth. The abolishment of the Middlesex County government was in part in response to a default by the county in the payment of general obligation notes of the county. The legislation also abolished the county governments of Hampden and Worcester counties as of July 1, 1998. Legislation enacted in 1998 abolished the county governments of Hampshire, Essex and Berkshire counties as of January 1, 1999, July 1, 1999, and July 1, 2000, respectively. The legislation also requires the state secretary for administration and finance to establish a plan to recover the Commonwealth's expenditures for the liabilities and other debts assumed and paid by the Commonwealth on behalf of an abolished county. Unless these provisions are changed by further legislation, the state treasurer shall assess upon each city and town within the jurisdiction of an abolished county an amount not exceeding or equal to the county tax paid by each such city and town for the fiscal year immediately prior to the abolishment of the county (or two years prior in the case of Essex County) until such expenditures by the Commonwealth are recovered. It is possible that similar legislation will be sought to provide for the abolishment of county government in all the remaining counties.

The City's main municipal buildings include a City Hall, three general administrative buildings, a school administrative building, a public works garage and headquarters building, and a water treatment facility located at the City's reservoir. There is one public safety facility (police headquarters and emergency communication center), nine fire stations, six area libraries, plus a main branch, approximately 80 parks and playground areas, a high school, 12 elementary schools, and 4 upper schools located throughout the City.

Other major recreational facilities provided by the City include a municipal golf course and club house, two community centers, outdoor and indoor swimming pools, tennis facilities, and a field house located at the high school.

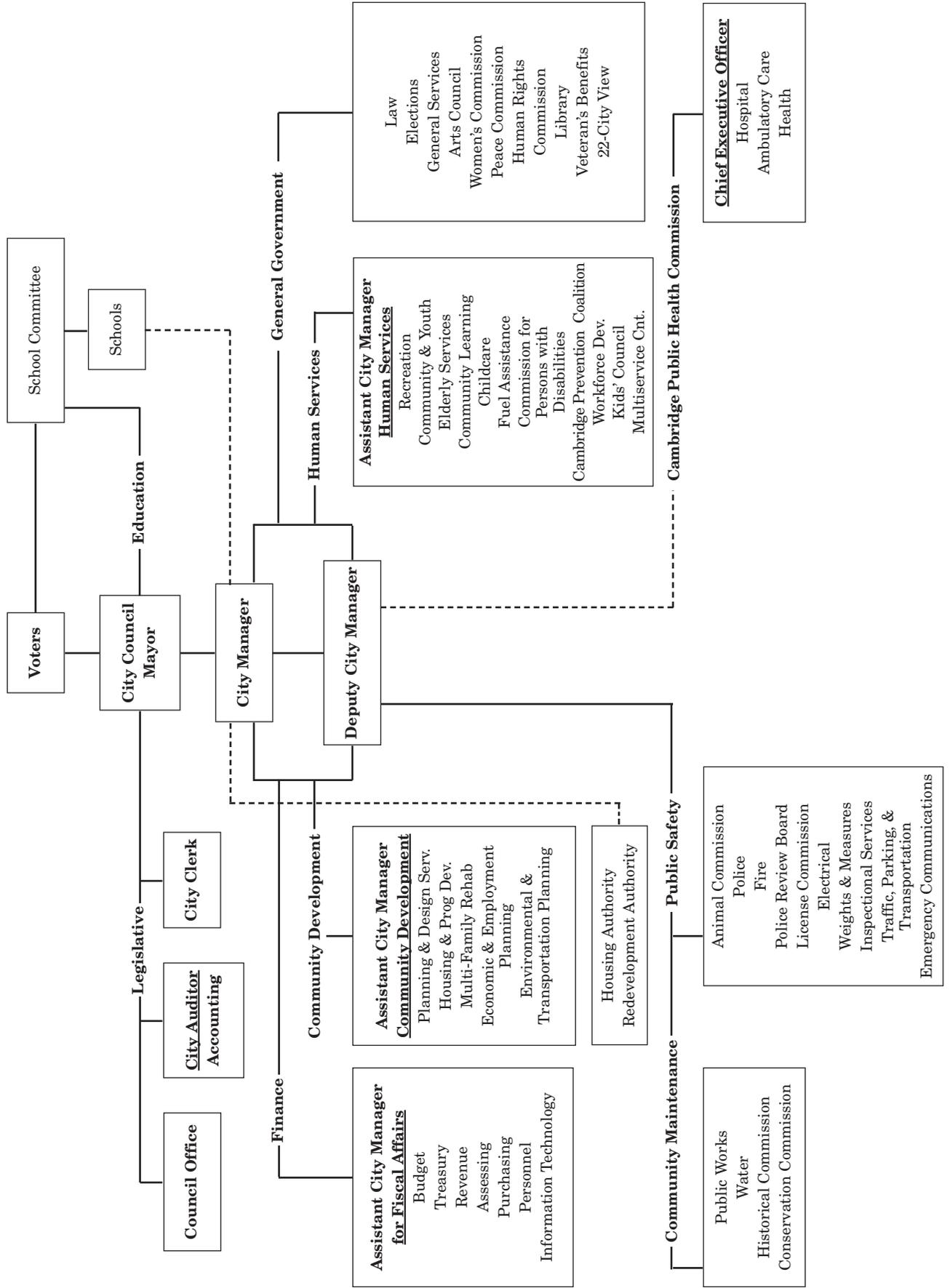
Federal buildings which are located in the City include offices for the Department of Transportation. Also, in connection with Harvard University, the Smithsonian Astrophysical Observatory is located in the City.

The major State buildings located within the City are the Middlesex County Courthouse and the Registry of Deeds.

An organization chart for the City is presented on the following page.

# ORGANIZATIONAL CHART

## City of Cambridge, Massachusetts



## ECONOMIC AND DEMOGRAPHIC FACTORS

### Economic Development Activity

The momentum of the Cambridge economy, driven by both biotechnology and software development and bolstered by a university-based research community, has delivered a strong performance over the past year and will continue to do so through 2013. The City's proximity to world-class educational and medical institutions; cultural amenities; an innovation driven business culture; and ongoing development of state-of-the-art Office/R&D facilities provide a unique combination of attractions as both a business and a residential community. The ability to leverage these assets has contributed to an expanding city economy, despite the economic downturn of the past several years.

**Assessed Valuation.** The fiscal year 2013 total assessed valuation, including both real and personal property, is \$25.2 billion. Of the total, approximately \$9.6 billion consists of industrial, commercial, and personal property. New growth in the last year added approximately \$0.5 billion to the taxable valuation of the City. The City's total assessed valuation increased by \$0.8 billion, or 3.14%, from fiscal year 2012.

**Employment.** Due to extensive development and proximity to both the Massachusetts Institute of Technology and Harvard University, Cambridge experiences unemployment rates significantly lower than both the national and Massachusetts averages. This favorable trend has held true over the past twenty years. In October 2012 the Executive Office of Labor and Workforce Development reported a seasonally unadjusted unemployment rate of 4.3% for Cambridge, 6.2% for the state and 7.5% for the United States. The State reported average employment of 105,628 persons in Cambridge during 2011.

### Commercial Real Estate Market

The strength of the Cambridge commercial real estate market is evidenced by the high volume of ongoing development, low vacancy rates, and a strong absorption rate. From 2007 through 2012 Cambridge added 1.6 million s.f. to its inventory of commercial real estate. Another 2.0 million s.f. is now under construction, and 4.1 million s.f. permitted and ready to go. Vacancy rates are now below those found prior to the beginning of the Great Recession. The combined vacancy rate for the office and R&D markets declined over the last year to 7.1% during the third quarter of 2012 from 9.0% during the third quarter of 2011. The office vacancy rate is down for the period, from 7.5% to 5.8%, while lab vacancies declined from 10.8% to 8.6%. The annual absorption rate stands at 9.9% for the period between 3rd Q 2011 and 3rd Q 2012. In particular, the City has experienced substantial positive absorption during the last two quarters.

Cambridge continues to grow its appeal as a magnet for software development and international pharmaceutical companies seeking access to cutting edge basic and applied research at MIT and Harvard University. Over the past year, a flurry of commercial real estate transactions has driven vacancies to rates beneath pre-recession levels. In particular, there is a pressing need for medium sized blocks of R&D lab space as growing companies attempt to retain and grow their Cambridge presence. With limited options remaining in existing buildings those firms seeking larger blocks of space are actively evaluating various build-to-suit options. Recent significant new leases include a 300,000 s.f. renewal including a 93,000 s.f. expansion by Ironwood Pharmaceuticals; a 126,000 s.f. lease by AVEO Pharmaceuticals of one the few remaining blocks of Class A lab space; a 109,000 s.f. renewal and expansion by Merrimack Pharmaceuticals; 105,000 s.f. for a new Amazon.com engineering center; a 68,575 s.f. lease by Momenta Pharmaceuticals; and a 63,142 s.f. lease by Nokia. Major renewals include 145,000 s.f. by Vertex, 111,978 s.f. by Quest Diagnostics, and 88,000 s.f. by Genzyme/Sanofi.

The tight market for existing commercial space is driving developers to continue to seek opportunities to expand the stock of office/R&D space in Cambridge to meet demands of expanding firms. Novartis AG, already Cambridge's largest corporate employer, has begun construction of a new research facility designed by award winning architect Maya Lin. The 573,000 s.f. development on a 4-acre site across Massachusetts Ave. from the company's world research headquarters will double the size of the research complex and add 200 to 300 jobs. Following a proposal from Alexandria Real Estate, in 2010 the City rezoned several properties on or near Binney Street to allow 1.5 million s.f. of commercial development and 218,000 s.f. of residential space. The developer is constructing the first building in the complex, a 303,000 s.f. relocated headquarters building for Biogen Idec, and is actively planning additional construction totaling 339,000 s.f. at 75-125 Binney Street for Ariad Pharmaceuticals. Biogen Idec has also leased an 188,000 s.f. building now under construction by Boston Properties nearby at 17 Cambridge Center. Elsewhere in Kendall Square, Boston Properties is building a 250,000 s.f. expansion for the Broad Institute. MIT's real estate arm is also a major property owner in the Kendall Square area and has preleased 183,000 s.f. to Pfizer in a 230,000 s.f. building under construction at 610 Main Street. Pfizer hopes to expand into a second phase at the same location.

The strength of the Cambridge market is not limited to the biotech and pharmaceutical sector. The owners of Discovery Park in Alewife, Bulfinch Companies, completed a 235,000 s.f. building for Forrester Research during 2011. Education First (EF) has begun construction of a 295,000 s.f. expansion of its North American headquarters in the North Point area of the City. Google expanded its footprint in Cambridge by adding a 63,000 s.f. lease at 5 Cambridge Center and is planning a further 42,000 s.f. of new construction. This past summer Microsoft consolidated over 400 employees previously based in the Waltham office to the company's Kendall Square location.

Undergirding the boom in real estate investment activity is the City's growing volume of venture capital and angel capital investments. Cambridge saw \$305 million invested in 30 venture capital deals over the third quar-

ter of 2012 and \$991 million in 122 deals over the prior year, according to industry tracker CB Insights. Cambridge is now the #2 destination for investment capital in the United States. Only three states, California, Massachusetts and New York, had more venture capital deals, and only four states had a larger amount of venture capital invested. The critical mass represented by the numerous firms ranging from start ups in stealth mode to mature companies has itself proven a powerful driver of the Cambridge economy. Over the past three years several venture capital firms have either relocated to Cambridge or opened offices here to place themselves in closer proximity to potential investment targets. Firms relocating to Cambridge include Atlas Venture, Bessemer Venture Partners, Highland Capital Partners, Matrix Partners, and Charles River Partners. In 2009 Polaris Venture Partners opened a branch of its Dog Patch Labs startup incubator in Kendall Square that currently houses 29 resident ventures. In 2010 CommonAngels opened an office at the Cambridge Innovation Center, which houses over 600 firms.

A second key point for attracting new ventures to Cambridge is the proximity of a highly educated workforce prepared for 21st century industries. Many technology workers place a premium on employment in close proximity to a home located in an attractive urban setting. Cambridge has responded to this demand by encouraging housing development throughout the City. At the present time 1,000 units of housing are under construction, in addition to the 3,100 units completed in the prior ten years. Recent residential developments include 227 units now under construction by Criterion Partners along Concord Turnpike at a long neglected site. The location is a key gateway to Cambridge from communities west of the city. Nearby, at 70 Fawcett Street Cabot, Cabot and Forbes is developing 429 units. The owner of the successful Watermark building at Cambridge Research Park has another 144 residential units under construction at an adjacent site, which also includes 9,000 s.f. of retail space. Several large residential developments have either received permits or will do shortly. Archstone plans to expand its East Cambridge presence by converting older office space at the Mapleleaf building to 104 luxury rental units. Two projects permitted for Cambridgepark Drive will add 640 units. HYM Investments has brought renewed momentum to the North Point development; the firm is actively planning for construction of a 355 unit building.

A large pool of entrepreneurial investment capital, expanding housing opportunities, and an active urban lifestyle buttress Cambridge's strong attraction for tech firms and their skilled workers. The City continues to consolidate its position as an employment leader in the biotechnology industry. Leading Cambridge firms in the biotech sector include Novartis, Biogen Idec, Vertex, Pfizer Millennium, and Genzyme. Collectively these companies employ over 8,000 workers. In recent years, several major software and internet companies have established R&D operations in Cambridge, including Microsoft, Google, and Amazon. These firms join established Cambridge firms such as Akamai Technologies, ITA Software (now part of Google), and Pegasystems. In addition to employment created by the growth of both the biotech and service industries, the City retains traditional employers in the areas of education, medicine and government. Another growing sector of the economy is the clean energy industry. In the past several years 18 clean energy companies have located in Cambridge. Most are in the Kendall Square area and several have located in Concord Alewife, adding diversity to the City's economic base.

### **Economic Development Districts**

The City guides development through an orderly process, utilizing zoning strategies, planned unit development, and control over infrastructure. In recent years commercial growth has focused on a broad arc across the eastern part of the City, starting at University Park near Central Square, extending through the Osborn Triangle, down Main Street to Kendall Square, then continuing across the East Cambridge riverfront to North Point. A second focal point for commercial development is in the western part of the City, in particular Discovery Park located off Route 2.

Presented below is a summary of recent and current economic activities and future potential of several major development areas:

**Concord/Alewife.** Located in the western portion of the City, near Fresh Pond Reservoir and the Belmont and Arlington town lines, the district consists of approximately 350 acres. Concord/Alewife lies within a 30-minute drive to both Logan International Airport and downtown Boston, and is in close proximity to both residential suburbs and the Route 128 corridor. The state's Alewife Reservation bisects the area. The MBTA serves Concord/Alewife via surface bus lines and the Alewife Rapid Transit Station, located at the north terminus of the Red Line. A 2,000-car parking garage integral with the Station provides direct access to Route 2.

Concord/Alewife acts as both an office/R&D district and a lively retail center. A recent burst of development is adding a residential dimension, as well. Since 1990 the district has seen the construction of 1.1 million s.f. of commercial space. The area is home to Forrester Research, Pfizer Pharmaceuticals, Abt Associates, Raytheon BBN Technologies, and the Smithsonian Astrophysical Observatory. The nearby Fresh Pond Shopping Center houses a crowded Whole Foods grocery store, restaurants, a movie theater, hotel, and a number of smaller independent and chain retailers. On the west side of Route 16/Alewife Brook Parkway, Linear Retail Properties rebuilt an older strip center to bring in new tenants such as Trader Joe's. Recent activity in the retail core includes expansion of the Whole Foods Market and the addition of 55 guest rooms at Hotel Tria.

The portion of the district north of the Alewife Reservation contains the 26.5 acre former Arthur D. Little campus, now known as Discovery Park. The property is permitted for 780,000 s.f. of new office and R&D space. The first two phases of development are complete and occupied by Forrester Research and the Smithsonian Astrophysical Observatory. The site includes a new public open space amenity and has been prepped for an additional 387,000 s.f. of development. Adjacent to Discovery Park, Criterion Partners has begun work on a 227 unit residential rental property, which will replace a long underutilized site on a key approach to the City from the western suburbs.

South of the Reservation lies the core of the Concord/Alewife area. In 2005 the Cambridge City Council rezoned the entire area, which encompasses the properties along Cambridgepark Drive, the industrial area to the south of the MBTA train right-of-way, and the Fresh Pond Shopping Center. The City Council adopted zoning changes that encourage creation of a mixed-use, transit-oriented district, including new roadway infrastructure and improved storm water management. The new zoning anticipates approximately 2.8 million s.f. of additional development, which will likely occur over the next 20 years. This effort has triggered a new round of development activity in the area. In 2007, 72 new condominium units were built on Wheeler Street, on the site of a former industrial building. At 70 Fawcett Street an unused warehouse is being replaced by 429 new units of housing. Nearby on Cambridgepark Drive two developments on underutilized properties have been permitted that will bring 640 additional units.

**Harvard Square.** Harvard Square remains an active hub for academic, retail and office activities. Transportation amenities include the Harvard Square MBTA station, which provides a subway stop and serves as hub for numerous surface bus and trackless trolley lines. In 2006, the City completed a \$3.5 million surface enhancement project in Harvard Square that included improved pedestrian walkways, lighting and landscaping. 2010 through 2012 saw the investment of another \$2.0 million to reconstruct JFK Street between Eliot and Brattle Streets and several adjacent side streets. A \$5.1 million project for the repair of a major vehicular underpass nearby is now underway. This latest project includes a series of ground level street and sidewalk improvements being undertaken in cooperation with Harvard University.

Harvard Square enjoys an eclectic mix of retailers, boutiques, cafes and destination restaurants that attract large numbers of both residents and visitors. The few retail vacancies available at any one time fill quickly. Recent notable development includes the Hotel Veritas, a 31 room boutique hotel opened in 2010; it is the first hotel to open in Harvard Square in 22 years. In 2012 a new owner completed development of 20 units of housing and 7,000 s.f. of ground floor retail space at the former Bowl & Board site on Massachusetts Ave. More recently, renewed interest from a new developer has added momentum to the development of the 83,000 s.f. of office space at 121 Mt Auburn Street.

**Central Square.** Served by a Red Line subway station and numerous bus lines, Central Square continues to benefit from a significant roadway, bicycle and pedestrian facilities project completed in 1997. A \$6.8 million roadway improvement project, completed in 2008, upgraded the pedestrian environment, lighting and landscaping, and improved traffic flow through nearby Lafayette Square and along Massachusetts Avenue, extending down to the MIT campus and the Charles River.

In 2011 the City Council committee completed a study examining how to improve the pedestrian ambience and retail diversity of Central Square. That year the City began a planning and urban design study of Central Square, Kendall Square and the transition area between. The effort aims to create a new vision to guide future development throughout the area. Committee meetings and public involvement were completed at the end of 2012 and a project report is expected early in 2013. Real estate developers are already expressing renewed interest in the Square. Normandy Real Estate Partners in partnership with Twinings Properties has assembled a portfolio of fifteen properties anchoring the end of the portion of the area closest to the MIT campus.

**University Park/Cambridgeport.** This district includes a mix of uses along the Charles River frontage, an established residential neighborhood, and a former industrial area redeveloped as a mixed-use center with office/R&D, residential uses, retail, and light manufacturing. The eastern edge of Cambridgeport borders the MIT campus, and the area is a 20-minute drive from Logan Airport. The MBTA rapid transit station in Central Square and surface bus routes, as well as the EZRide shuttle and various private shuttle buses serve the area.

University Park is a \$600 million, 2.3 million s.f. major mixed-use development project located off Massachusetts Avenue near both MIT and Central Square. Forest City Development undertook this project in conjunction with MIT. The development includes 21 buildings comprising over 1.3 million s.f. of office/R&D space, two parking garages with 2,700 parking spaces, 250,000 s.f. of hotel, restaurant and retail facilities, and more than 600 units of housing. University Park serves as the headquarters for Millennium Pharmaceuticals and is home to other important Cambridge employers such as Novartis, Alkermes, Partners Healthcare, CBIZ Tofias, and Ariad Pharmaceuticals. Forest City plans an expansion of University Park onto a parcel of land along lower Massachusetts Avenue not included in the original development. A 5-story, 250,000 s.f. building pre-leased to Millennium Pharmaceuticals will contain offices with ground floor retail. The development will bring the success of University Park onto Massachusetts Avenue and upgrade the adjacent retail corridor.

In 2004 Novartis converted the old NECCO Candy factory located on Massachusetts Avenue and adjacent to University Park into a 484,000 s.f. R&D facility for its world research headquarters. The company has expanded its presence in Cambridge's Central Square and now employs 2,271 people, making the firm the 4th largest Cambridge employer overall and the largest biotech employer in the City. Novartis recently began development of a three building 573,000 s.f. addition to its research campus on a site across Massachusetts Avenue from its headquarters.

**Kendall Square/Cambridge Center.** This 160-acre tract lies across the Charles River from Boston at the base of the Longfellow Bridge, between the MIT campus and East Cambridge Riverfront areas. The MBTA's Kendall Station on the Red Line, surface bus routes, and the Galleria Mall bus shuttle service the area. The EZRide shuttle brings commuters from as far away as North Station and the Green Line. Enhancements around Kendall Square include an active commercial center, the public plaza adjacent to the Cambridge Center Marriott, the Kendall Square MBTA station, and a year-round fountain/steam sculpture.

The Kendall Square area includes over 9.0 million s.f. of first class office/R&D space. Buildings completed in

the 1980s contributed over 4.8 million s.f. to the total. The 1990s saw the construction of another 1.3 million s.f. and 2.9 million s.f. more was added over the past decade. Office leasing throughout the area is heavily influenced by close proximity to the biotechnology industry cluster found around MIT, the Whitehead Institute, and the Broad Institute.

Kendall Square houses offices for over 200 startup and established biotechnology and information technology firms and a growing number of clean energy and technology startup companies. The Cambridge Innovation Center at 1 Broadway has become a key element in Kendall Square innovation ecosystem, providing incubator space for over 600 additional firms and services to many other companies and individual innovators. The firms serviced range from early stage startups to regional offices of well known firms. For example, the Center has served as the launching pad for Amazon's efforts to build a Cambridge presence. The district includes the corporate headquarters of Akamai Technologies, Draper Labs, Pegasystems, and CDM Smith. The Cambridge offices of both Microsoft and Google are located in Kendall Square. Amazon has announced plans to open a new engineering center in 105,000 s.f. leased at 101 Main Street and has ramped up recruitment efforts to build a major presence in Cambridge.

Several significant projects are currently under construction in the Kendall Square Area. Alexandria Real Estate Equities is currently building a 303,000 s. f. headquarters building located at 225 Binney Street for Biogen Idec, as company prepares to return its corporate offices to Cambridge. Across the street Boston Properties is developing a 188,000 s.f. R&D building, also for Biogen. Closer to the center of Kendall Square The Broad Institute has a 250,000 s.f. expansion underway at 75 Ames Street being developed by Boston Properties. The latest phase of development at Cambridge Research Park is the 144 unit Watermark II building now underway at 250 Kendall Street.

The past decade saw completion of a 224,000 s.f. building for Biogen Idec at 15 Cambridge Center and a second 132,000 s.f. building for the company at 12R Cambridge Center. Amgen developed a 285,000 s.f. building at 1 Kendall Square. Redevelopment and new construction at Tech Square added 600,000 s.f. of office/R&D space, updating that older development. The completion of Draper Labs' 157,000 s.f. addition for Schlumberger brought another major presence to the area. Other recent buildings of note include a 194,000 s.f. building for the Broad Institute at 7 Cambridge Center, a 92,000 s.f. R&D building at 300 Bent Street, another 269,000 s.f. R&D building at 301 Binney Street, and three office/R&D buildings totaling 726,000 s.f. and a 2,200 space parking garage at Cambridge Research Park. Residential development included 482 residential units at 303 Third Street and 321 units at the Watermark building.

Cambridge Research Park, under development at a site adjacent to the GenOn Kendall Square energy plant, includes four finished buildings: a 276,000 s.f. LEED Platinum headquarters building for Genzyme; a 245,000 s.f. building at 675 West Kendall Street leased by Vertex Pharmaceuticals, Momenta Pharmaceuticals, and Genzyme; a 217,000 s.f. building at 650 East Kendall St. occupied by Aveo Pharmaceuticals; and the 321 unit Watermark Apartments. The development also includes a 2,200 space underground parking garage and 30,000 s.f. of retail space. Construction of the 144 unit Watermark II residential building with 9,000 s. f. of retail space is well underway. Future plans include a theatre and 53,000 s.f. of office space. During 2009 a new pedestrian walkway adjacent to the Broad Canal provided a recreational area and canoe/kayak boat launch for area residents, employees and visitors.

In 2010, life sciences developer Alexandria Real Estate Equities obtained permits to build 1,528,000 s.f. of R&D space along the Binney Street corridor, near Kendall Square. The project will also include 218,000 s.f. of residential use and 23,000 s.f. of retail space. As part of the project, Alexandria will deed to the City over 2 acres of land in East Cambridge for conversion to city parks and will contribute to the design and construction of those parks. Construction is underway for a 303,000 s.f. building at 225 Binney Street for Biogen Idec and began in 2013 on a 339,000 s.f. building for Ariad Pharmaceuticals at 75-125 Binney Street.

In 2006, Boston Properties completed construction of a 194,000 s.f. building at 7 Cambridge Center to house the Broad Institute, which creates new tools for genomic medicine and pioneers the application of new disease treatments. Harvard, MIT, and the Broad Foundation fund this research and development venture. Following a successful rezoning, at the end of 2011 Broad began construction on a 250,000 s.f. expansion at 75 Ames Street, also developed by Boston Properties. Other activity in Cambridge Center includes the 188,000 s.f. building under construction for Biogen Idec at 17 Cambridge Center. The Cambridge Redevelopment Authority approved a 42,000 "bridge" that will connect 3 and 5 Cambridge Center, providing expansion space and enhancing the work environment for Google.

MIT has undertaken a series of institutional expansions in Kendall Square that enhance the entrepreneurial environment. These include a 209,000 s.f. addition to the Sloan School of Management, the 309,000 s.f. Koch Cancer Center, and a 163,000 s.f. addition to the Media Lab. In 2009, MIT successfully permitted the site at 610-650 Main Street for a 418,000 s.f. research building intended for lease to private companies. The school has commenced the first phase of that development, a 230,000 s.f. building, whose 183,000 s.f. of R&D space is preleased to Pfizer.

Real estate owned by MIT adjacent to Kendall Square still offers significant opportunities for further development of this area. The MIT Investment Management Company (MITIMCo) has developed preliminary plans for several properties in close proximity to the Kendall Square MBTA station, which will enliven the area. While there is no specific project planned at the moment, the proposal calls for a zoning change to allow 1,000,000 s.f. of commercial office and lab development, as well as both new housing and retail near the MBTA station.

The MIT plan would create retail amenities, cultural opportunities, and public spaces that would foster collaboration and strengthen the connection between academic research and industry. To guide this proposal and to

address the long standing desire to create a true center to the area, the City has undertaken an in-depth planning process to create a vision future development around Kendall Square and to address the infrastructure needed to support that development. The area under review extends along the Main Street corridor, where additional parcels await redevelopment, and ends in Central Square. The process will be completed in 2013.

The Cambridge Redevelopment Authority, working the City of Cambridge, already has one specific infrastructure enhancement in planning. The Innovation Boulevard project calls for the construction of a linear park parallel to the Grand Junction rail line along the westerly edge of Galileo Galilei Way between Main Street and Binney Street. The project will enhance the overall Kendall Square community, abutting residential neighborhoods and academic and business institutions by creating an attractive open space for use by residents, students, faculty, professional staff and the general public.

**East Cambridge/Riverfront.** This 80-acre Riverfront area lies directly across the Charles River from Boston, between Kendall Square and North Point. The area is approximately 15 minutes by car and public transit from Logan International Airport. The MBTA's Kendall Red Line and Lechmere Green Line rapid transit stations offer public transit access, with connections to the entire metropolitan Boston area. The area is well served by MBTA surface bus routes. Both a free shuttle bus operated by the Galleria Mall and the public-private EZ-Ride Shuttle connect the two MBTA rapid transit stations, providing access to the mall, businesses, and residences in the area for 300,000 riders annually.

Starting in the early 1980s, \$50 million in public improvements stimulated redevelopment of the East Cambridge Riverfront, leading to the creation of public open space at Lechmere Canal Park, Centanni Way, Front Park, and Charles Park. In addition, the City constructed a 1,000-car public parking garage and implemented roadway improvements throughout the area. The total private development completed in East Cambridge since 1990 includes 2.8 million s.f. of new and renovated office/R&D and retail space. Since redevelopment began the Riverfront district has added over 600 hotel rooms and over 900 housing units. Development activity continues in the area, with a 108,000 s.f. office/R&D facility at 150 Second Street under construction by Skanska USA. Nearby at 159 First Street a new developer is moving ahead with a previously permitted development for the construction of 115 units of housing and a retail space. On Thorndike Street, the Commonwealth of Massachusetts has selected a redeveloper to convert the 22 story, 595,000 s.f. Sullivan Courthouse to private ownership. Leggat McCall Properties submitted the winning proposal, which calls for 500,000 square feet of office space, with the balance of the building comprising retail and public amenities.

**North Point.** Situated on a prominent 80-acre site adjacent to the Charles River and across from the North Station commuter rail terminal in Boston, North Point historically served as an industrial and transportation service area. Given its proximity to major research centers at Massachusetts General Hospital, East Cambridge, Kendall Square, and the Massachusetts Institute of Technology, as well as to local and regional transit through the Lechmere MBTA station and North Station, North Point is well located in relationship to both the urban core and the North Shore.

Recent years have seen the beginning of a transformation in North Point. With funding from Boston's Central Artery project, the state built North Point Park along the Charles River. This past summer a new pedestrian and bicycle bridge created connections from the Park to Charlestown and on to downtown Boston. The MBTA is proceeding with the design of a replacement to the Lechmere MBTA stop, which is a necessary step for the expansion of Green Line rapid transit to Somerville and Medford.

In 2012, Education First, an international educational services company, began a 295,000 s.f. expansion of its existing U.S. headquarters across the street. In 2002 the Cambridge Planning Board approved a proposal from Archstone Smith to construct a 767-unit housing community over the next several years. The first phase, with 426 units, is complete. Recently, Archstone received approval to redevelop the Mapleleaf Building, an older office structure adjacent to the Archstone North Point development. When finished, this conversion will add 104 luxury rental units.

In 2003, the Planning Board permitted a 4.4 million s.f. mixed-use development that includes up to 1.9 million s.f. of commercial space, including retail, and at least 2,400 housing units on the largest remaining underdeveloped parcel in Cambridge. When finished, North Point will be home to the largest mixed-use development project in the City's history. In 2008, the original partnership completed two buildings, adding 330 condominium units to the city, as well as construction of a 5-acre park. In 2010, the property owner Pan Am Transportation Systems partnered with HYM Investment Group LLC of Boston, Atlas Capital Group, and Canyon Johnson Urban Funds to move the long-delayed North Point project forward. In 2012, the developers received a special permit for a 355 unit residential building.

### **Housing Preservation and Development**

Citywide, there is a clear, continued interest in the construction of new market-rate housing. Approximately 6,250 housing starts have occurred since 1996. Over 4,500 additional units are in various stages of permitting. Several rezoning initiatives have helped create the framework for this activity.

Since the end of rent control, the City, in collaboration with local non-profit agencies and the Cambridge Housing Authority, has developed affordable units with Affordable Housing Trust, CDBG, and HOME funds. These funds, in turn, help leverage other public and private funds. Approximately 14.5% of the housing stock in the City of Cambridge now qualifies as affordable, including public housing. The City's efforts have had a significant impact on preserving and improving an aging inventory of privately owned structures, while providing additional units of decent, affordable housing in existing buildings and through new construction.

**City Funding.** Since 1994, the City has allocated approximately \$116.7 million to the City-sponsored Affordable Housing Trust from local tax and Community Preservation Act funds, developing or preserving over 3,350 affordable units of housing. City affordable housing programs include the following:

- **Non-Profit Acquisition and Development of Multifamily Properties:** Through this program, both nonprofit corporations and the Cambridge Housing Authority acquire and rehabilitate existing buildings and/or develop new housing. The buildings become permanently affordable through the City's Affordable Housing Covenant, a long-term deed restriction.

- **First-time Homebuyer and Financial Assistance Program:** City housing staff provide first-time home-buyer classes ten times annually, which educate more than 500 participants. Staff also provides one-on-one counseling to class graduates and offers down payment and other financial assistance to income-eligible first time buyers.

- **Preservation of Expiring Use Restriction Properties:** City staff work with private and non-profit owners, tenants, advocates, and the Cambridge Housing Authority to preserve affordability of housing subject to expiring use restrictions which are at risk of conversion to market rate housing. To date, more than 1,650 units have been preserved as affordable through the efforts of the City and its partners.

- **Home Improvement Programs:** Offered in collaboration with the non-profits Homeowners Rehab, Inc. and Just A Start, the Home Improvement Program (HIP) is a low interest rehabilitation loan program for low and moderate-income owner-occupants of one- to four-unit buildings. Owners can use the funds to make necessary repairs and improvements to their homes to meet code requirements. In collaboration with the Cambridge Neighborhood Apartment Housing Services, Inc. (CNAHS), the City offers a multifamily rehabilitation program, providing low-interest financing to private owners of multifamily properties in return for a set-aside of units for affordable to low and moderate-income tenants.

- **Inclusionary and Incentive Zoning:** Through these innovative zoning policies, the City provides new affordable housing opportunities in mixed-income developments and leverages funds from non-residential developers in Cambridge.

- **Inclusionary and Incentive Zoning:** Through innovative zoning policies, the City provides new affordable housing opportunities in mixed-income developments and leverages funds from non-residential developers in Cambridge.

*Inclusionary Zoning:* The Inclusionary Zoning Ordinance requires developers of any new or converted residential development with 10 or more units to provide between 11% and 15% of the total number of units as affordable housing. To date, over 580 affordable Inclusionary units have been created or are now under construction.

*Incentive Zoning:* The Incentive Zoning Ordinance requires that non-residential developers seeking a special permit that authorizes an increase in the permissible density of a particular use mitigate the impact of their development through a contribution to the Affordable Housing Trust. To date, nearly \$3.8 million has been raised through Incentive Zoning.

**Federal Funding.** Cambridge has been designated a participating jurisdiction under the federal HOME program and receives an annual allocation of over \$700,000 from HUD for the provision of new and rehabilitated affordable housing units. The City receives approximately \$2.7 million annually through the CDBG program, much of which is allocated to housing related activities.

**Public Housing.** The focus of the Cambridge Housing Authority is currently on the planning and construction of large-scale capital improvements to preserve and protect its deeply affordable housing portfolio. Substantial modernization is nearing completion at 292 units, Phase 1 of the Cambridge Public Housing Preservation Program (CPHPP). However many other properties in the CHA stock are still in need of substantial rehabilitation. CHA estimates its remaining capital needs across 2,645 units at \$300 million (construction and soft costs), and is developing financing plans for the work to move forward during the next decade. Design work is underway for various sites for Phase 2 of the CPHPP. Additionally, the Housing Authority continues to prioritize upgrading building systems and implementing energy savings measures throughout its entire portfolio. CHA's spending plan anticipates nearly \$84.6 million in expenditures in FY 2013. Substantial modernization and redevelopment is nearly complete at three developments: Lincoln Way, Jackson Gardens, and Johnson Apartments. New construction of 42 units is planned at Temple Place through a CHA affiliate.

The Housing Authority was able to proceed with major rehabilitation plans using resources from the American Recovery and Reinvestment Act of 2009 and HUD's Capital Fund Program as well as the flexibility afforded the Housing Authority through its participation in the federal Moving to Work Deregulation Demonstration. Additional funds provided through the low-income housing tax credit program, Commonwealth of Massachusetts Bond Bills, the City of Cambridge Affordable Housing Trust, and private financing were also used to complete these projects. However, for the foreseeable future the level of support from the Capital Fund Program will decrease significantly making necessary rehabilitation more difficult to finance. The CHA estimates a reduction of approximately \$3.25 million in available FY 2014 funds for capital activity that would have been used to fund new modernization activities.

### **Employment by Sector**

The following table presents the number of employees for the calendar year 2011, as compiled by the Executive Office of Labor and Workforce Development. The annual payroll almost 4,445 businesses and government agencies conducting business in Cambridge during 2011 totaled approximately \$10.3 billion.

**CITY OF CAMBRIDGE  
EMPLOYMENT BY SECTOR – CALENDAR YEAR 2011**

	<b>2011 Average Employees</b>	<b>Percent of Total Employment(1)</b>
Private Sector:		
Other Goods Producing .....	64	0.1%
Construction .....	841	0.8
Manufacturing .....	2,775	2.6
Trade, Transportation and Utilities .....	8,529	8.1
Information .....	3,746	3.6
Financial Activities .....	2,824	2.6
Professional and Business Services.....	32,406	30.7
Education and Health Services .....	34,653	32.8
Leisure and Hospitality .....	9,489	8.9
Other Services.....	2,381	2.3
<b>Total Private Sector .....</b>	<b>97,708</b>	<b>92.5</b>
<b>Total Public Sector.....</b>	<b>7,920</b>	<b>7.5</b>
<b>TOTAL .....</b>	<b>105,628</b>	<b>100.0%</b>

(1) Percentage totals do not always add to 100.0% due to rounding.

Source: Massachusetts Executive Office of Labor and Workforce Development.

**CITY OF CAMBRIDGE  
TOP TWENTY-FIVE EMPLOYERS – DECEMBER 2012**

<b>2012 Rank</b>	<b>Name of Employer</b>	<b>Nature of Business</b>	<b>2012 Employees(1)</b>	<b>2011 Rank(5)</b>
1	Harvard University .....	Higher Education	11,167	1
2	MIT .....	Higher Education	7,824	2
3	City of Cambridge (2).....	Government	2,925	3
4	Novartis Institute for Biomedical Research ...	Biotechnology	2,276	4
5	Mt. Auburn Hospital.....	Health Care	1,731	6
6	Biogen Idec.....	Biotechnology	1,530	8
7	Cambridge Innovation Center (3,5).....	Start Up Incubator	1,453	–
8	Veritex Pharmaceuticals (4).....	Biotechnology	1,420	5
9	Federal Government .....	Government	1,226	11
10	Draper Laboratory.....	Research & Deveopment	1,214	7
11	Millennium Pharmaceuticals.....	Biotechnology	1,212	12
12	Genzyme Corporation.....	Biotechnology	1,148	9
13	Cambridge Health Alliance .....	Health Care	992	10
14	Microsoft (5) .....	Software Development	913	17
15	Pfizer (Wyeth) .....	Biotechnology	875	15
16	Broadcast Institute .....	Research & Development	872	13
17	Akamai Technologies .....	Internet Technology	849	14
18	Google (4,5) .....	Software Development	800	–
19	EF International .....	Travel & Exchange Programs	739	18
20	Whole Foods .....	Supermarket	678	19
21	Forrester Research.....	Business Services	604	20
22	Camp, Dresser & McKee .....	Engineering Consultants	583	21
23	Pegasystems .....	Software Development	565	24
24	Raytheon BBN Technologies.....	Research & Development	564	25
25	Spaulding Hospital Cambridge.....	Health Care	498	16
25	Lesley University (5) .....	Higher Education	498	–
<b>TOTAL</b>			<b>45,156</b>	

(1) All figures collected between 8/12 and 12/12, unless otherwise noted. All figures reflect employment within the City of Cambridge only. Whenever possible, totals are based on Full Time Equivalents (FTEs). Part time workers were counted as 0.5 FTEs, unless otherwise indicated by employer response.

(2) City of Cambridge figures include School Department employees.

(3) The Cambridge Innovation Center is a start up incubator that houses employees from 539 companies.

(4) Google and Vertex figures from Boston Globe “Best Places to Work” feature published November 4, 2012.

(5) Not on 2011 Top 25 list: Cambridge Innovation Center, Google, Lesley University.

(6) Employers deleted since 2011: Quest Diagnostics, Commonwealth of Massachusetts.

Source: Cambridge Community Development Department and cited employers, 2012.

As illustrated in the table below, the unemployment rate for the City of Cambridge has been consistently lower than the rates for the State of Massachusetts and the United States.

**UNEMPLOYMENT RATE  
AVERAGE ANNUAL RATES 2001 TO 2012(1)(3)**

	<u>Cambridge</u>	<u>Boston PMSA(2)</u>	<u>Massachusetts</u>	<u>United States</u>
2012 (November).....	3.8%	5.1%	6.1%	7.4%
2011 .....	4.6	6.2	7.4	8.9
2010 .....	5.4	7.2	8.3	9.6
2009 .....	5.4	7.2	8.2	9.3
2008 .....	3.5	4.7	5.3	5.8
2007 .....	3.0	3.9	5.3	4.6
2006 .....	3.3	4.2	4.4	4.6
2005 .....	3.4	4.3	4.8	5.1
2004 .....	3.6	4.9	5.1	5.5
2003 .....	4.2	5.7	5.8	6.0
2002 .....	4.0	5.3	5.3	5.8
2001 .....	2.8	3.6	3.7	4.7

(1) Unadjusted Monthly Rate

(2) The Boston Region includes the Boston-Cambridge-Quincy, MA-NH Metropolitan NECTA

(3) Prior years have been restated to reflect full year information

Source: U.S. Dept. of Labor, Bureau of Labor Statistics; Massachusetts Department of Workforce Development

**Retail and Services Industry**

A variety of retail and service employers are located within the City of Cambridge. The following two tables present information on retail establishments and sales, and service establishments and sales for the 2007 calendar year, the most recent data available.

**CITY OF CAMBRIDGE  
RETAIL ESTABLISHMENTS AND SALES  
CALENDAR YEAR 2007 (1)(2)**

	<u>Cambridge</u>			<u>Boston Region (2)</u>		
	<u># of Firms With Payroll</u>	<u>Sales (000)</u>	<u>% of Total</u>	<u># of Firms With Payroll</u>	<u>Sales (000)</u>	<u>% of Total</u>
Motor Vehicle & Parts Dealers.....	6	suppressed	—	401	\$ 3,853,907	19.6%
Furniture and Home Furnishings Stores .....	33	\$ 37,672	2.9%	342	794,640	4.0
Electronics and Appliances Stores.....	21	126,979	9.9	264	732,229	3.7
Buildings Material & Garden Equipment & Supplies Dealers .....	12	30,330	2.4	361	1,657,723	8.4
Food & Beverages Stores ..	88	321,357	25.0	914	3,507,878	17.8
Health & Personal Care Stores.....	39	103,391	8.0	437	1,634,899	8.3
Gasoline Stations.....	25	77,411	6.0	466	1,806,401	9.2
Clothing & Clothing Accessories Stores .....	115	212,444	16.5	819	1,560,050	7.9
Sporting Goods, Hobby, Book & Music Stores ...	51	138,050	10.7	320	605,339	3.1
General Merchandise Stores (1).....	6	48,259	3.7	103	1,663,628	8.5
Miscellaneous Stores (1) ..	53	suppressed	—	533	472,991	2.4
Nonstore Retailers.....	25	49,774	3.9	346	1,371,445	7.0
Total(3) .....	474	\$1,287,709	100.0%	5,306	\$19,661,130	100.0%

(1) Percentage totals do not always add to 100.0% due to rounding.

(2) The Boston Region includes Cambridge-Newton-Framingham-Metropolitan Division of Boston-Cambridge-Quincy MSA

(3) Totals include suppressed data.

Source: 2007 Economic Census Geographic Area Series Massachusetts, U.S. Census Bureau.

**CITY OF CAMBRIDGE  
SERVICE ESTABLISHMENTS AND SALES  
CALENDAR YEAR 2007(1)(2)**

	Cambridge			Boston Region (3)		
	Firms With Payrolls	Sales (000)	% of Total	Firms With Payrolls	Sales (000)	% of Total
Information Related .....	192	—	—	1,327	—	—
Real Estate & Rental & Leasing .....	160	\$ 332,529	3.5%	1,690	\$ 3,802,705	7.6%
Professional, Scientific & Technical Services...	856	6,710,421	69.8	6,955	22,686,037	45.6
Administrative, Support & Waste Management & Remediation.....	139	232,072	2.4	2,515	5,785,647	11.6
Educational Services .....	69	103,566	1.1	554	670,258	1.3
Health Care & Social Assistance (1) ...	336	1,176,819	12.2	4,386	10,192,848	20.5
Arts, Entertainment & Recreation.....	68	147,428	1.5	681	761,986	1.5
Accommodation & Food Services .....	398	594,920	6.2	3,372	3,250,213	6.5
Other Services (except public administration).....	262	313,544	3.3	2,302	2,577,170	5.2
Total.....	2,480	\$9,611,299	100.0%	23,782	\$49,726,864	100.0%

(1) Receipts and Revenues include both taxable and non-taxable establishments.

(2) Percentage totals do not always add to 100.0%

(3) The Boston Region includes Cambridge-Newton-Framingham-Metropolitan Division of Boston-Cambridge-Quincy MSA

Source: 2007 Economic Census Geographic Area Series, U.S. Census Bureau.

**Housing and Construction Activity**

The data in the following tables are presented to illustrate various housing characteristics for the City of Cambridge. The figures for the number of buildings shown are for taxable property only and do not include units under the Cambridge Housing Authority or other subsidized units and university dormitories. The number of buildings by type are as of January 1, 2012.

**CITY OF CAMBRIDGE  
PARCEL COUNT BY TYPE  
As of January, 2012**

<u>Type of Housing</u>	<u>Number of Parcels</u>
One-Family	3,801
Two-Family	2,569
Three-Family	1,273
Four or More Units	844
Vacant Land	174
Condominiums	13,896 (1)
Multiple-Use	332
Mobile/Multiple on One Parcel	150
<b>Total</b>	<b>23,039</b>

(1) The figure for condominiums represents the number of units.  
Source: City Department of Finance.

**CITY OF CAMBRIDGE  
VALUE OF NEW CONSTRUCTION (1) AND DISTRIBUTION BY TYPE  
FISCAL YEARS 2006 TO 2012**

<u>Fiscal Year</u>	<u>Est. Value of Construction</u>	<u>% Distribution</u>	
		<u>Residential</u>	<u>Commercial</u>
2012	\$1,145,992,568	19%	81%
2011	503,240,195	33	67
2010	321,046,531	24	76
2009	409,427,908	29	71
2008	803,701,422	30	70
2007	597,558,790	31	69
2006	963,635,840	20	80

(1) Includes improvements to existing properties.  
Source: Cambridge Inspectional Services Department.

**Population and Income Characteristics**

According to figures provided by the U.S. Department of Commerce, Bureau of the Census, as of 2010, the City of Cambridge had a population of 105,162. This figure represents a 3.8 percent increase from the 2000 population. The following table represents population figures for selected years.

**CITY OF CAMBRIDGE  
POPULATION AND RATES OF CHANGE**

<u>Year</u>	<u>Population</u>	<u>Rate of Change</u>
2010	105,162	3.8%
2000	101,355	5.8
1990	95,802	0.5
1980	95,322	-5.0
1970	100,361	-6.8
1960	107,716	-10.8
1950	120,740	—

Source: The 1950, 1960, 1970, 1980, 1990, 2000, and 2010 figures are from the U.S. Decennial Census which is provided by the U.S. Department of Commerce, Bureau of the Census.

The 2010 U.S. Census reported the City's median age to be approximately 30 years with a much greater representation of residents in the 25–44 year old age group than the national average. In addition, the City has the highest percentage of individuals who have graduated from high school and who have attended four or more years of college in comparison to the Massachusetts averages.

**SELECTED POPULATION CHARACTERISTICS**

Characteristic	Cambridge	Boston PMSA	Massachusetts	United States
Population (2010) .....	105,162	1,503,085	6,547,629	308,745,538
Median Age				
2010 .....	30.2	38.5	39.1	37.2
2000 .....	30.4	36.2	36.5	35.3
1990 .....	31.1	33.4	33.6	32.9
1980 .....	28.6	31.3	31.2	30.0
1970 .....	26.8	29.1	28.0	28.0
1960 .....	29.6	32.0	32.1	29.5
Age Group (2010 data)				
0-4 .....	4.3%	5.7%	5.6%	6.5%
5-17 .....	7.1	15.6	16.1	17.5
18-24 .....	20.8	9.5	10.4	9.9
25-44 .....	40.6	28.7	26.5	26.6
45-64 .....	17.7	27.3	27.7	26.4
65 and over .....	9.5	13.2	13.7	13.1
Total .....	100.0	100.0	100.0	100.0
Four or more years of college education				
25 years or older .....	73.2%	50.0%	39.0%	28.2%
High school graduates				
25 years or older .....	93.8%	91.8%	89.1%	85.6%

Source: 1950-2010 Decennial Census, 2010 American Community Survey, U.S. Bureau of the Census.

**Income**

Presented below are tables of median family income and per capita income for the most recent years available.

**MEDIAN FAMILY INCOME**

Year	Cambridge	Boston PMSA	Massachusetts	United States
2010	\$82,175	\$95,008	\$78,653	\$60,609
1999	59,423	64,427	61,664	50,046
1989	39,990	49,266	44,367	35,225
1979	17,845	22,848	21,166	19,917

Source: 1980-2000 Decennial Census, 2010 American Community Survey, U.S. Bureau of the Census.

**PER CAPITA INCOME**

<u>Year</u>	<u>Cambridge</u>	<u>Boston PMSA</u>	<u>Massachusetts</u>	<u>United States</u>
2010	\$43,437	\$39,184	\$33,203	\$26,059
1999	31,156	29,246	25,952	21,587
1989	19,879	23,746	22,236	17,592
1979	7,957	9,880	10,096	9,494

Source: 1980, 1990, 2000, and 2010 Decennial Census, U.S. Bureau of the Census.

**EDUCATION**

**Elementary and Secondary Schools**

The City of Cambridge public school enrollment totals 6,393 for the 2012-13 school year. It is projected that the figures will show increases from 2014-2017. In addition to the public school system, there are 1,258 Cambridge residents attending private and parochial schools throughout the Greater Boston area as of January 1, 2012. In addition there are 375 students attending the three charter schools located in Cambridge, five students attending a regional vocational school, and approximately 25 students being home-schooled.

Summarized below are selected items of information concerning the number and type of public facilities and the total annual school enrollments (actual and projected).

**CITY OF CAMBRIDGE  
PUBLIC EDUCATION FACILITIES  
2012-2013 SCHOOL YEAR**

- 12 Elementary Schools (1)
- 1 High School
- 1 Administrative Building
- 3 Miscellaneous Buildings

(1) 4 Upper Schools (Grades 6-8) are housed within the Elementary Schools.

Source: Cambridge School Department.

**SCHOOL ENROLLMENT ACTUAL AND PROJECTIONS  
SCHOOL YEARS 2013-2017 (1)**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Elementary	3,472	3,518	3,771	3,752	3,881
Upper	1,066	1,111	1,218	1,223	1,214
Secondary	1,684	1,697	1,604	1,658	1,666
Tuitioned-out	171	172	172	172	172
Total	6,393	6,498	6,767	6,805	6,933

(1) Enrollments are as of October 1 for the school years shown and include tuitioned-out students. The figures shown for 2013 are actual with the following years as projections. The tuitioned-out category includes special education and vocational education tuitioned-out students.

**CITY OF CAMBRIDGE  
PUBLIC SCHOOL ENROLLMENTS HISTORY (1)**

<b>Fiscal Year</b>	<b>K-5(2)</b>	<b>6-8</b>	<b>K-8</b>	<b>9-12</b>	<b>Tuitioned-out</b>	<b>Total</b>	<b>Percentage Change</b>
2013	3,472	1,066	4,538	1,684	171	6,393	2.72%
2012	n/a	n/a	4,436	1,611	177	6,224	0.35
2011	n/a	n/a	4,439	1,580	183	6,202	1.06
2010	n/a	n/a	4,367	1,583	187	6,137	3.14
2009	n/a	n/a	4,234	1,540	176	5,950	1.52
2008	n/a	n/a	4,151	1,546	164	5,861	1.10
2007	n/a	n/a	4,005	1,612	180	5,797	-3.40
2006	n/a	n/a	4,076	1,738	187	6,001	-6.96
2005	n/a	n/a	4,361	1,827	262	6,450	-4.53
2004	n/a	n/a	4,557	1,887	312	6,756	-4.99
2003	n/a	n/a	4,888	1,889	334	7,111	-2.54
2002	n/a	n/a	5,073	1,904	319	7,296	-0.96

(1) Enrollments are as of October 1, for the fiscal years shown.

(2) In FY13, the Cambridge Public School introduced four (4) Upper Schools for grades 6 through 8, as part of its Innovation Agenda.

Source: Cambridge School Department.

### **Higher Education**

The major institutions of higher education located in the City are Harvard University and the Massachusetts Institute of Technology (M.I.T.).

Harvard University, the nation's oldest institution of higher learning, was established by the Great and General Court of the Massachusetts Bay Colony in 1636, just 16 years after the Pilgrims landed at Plymouth Rock. Harvard has grown from a school of 12 students and a single master to a university with an enrollment of approximately 17,318 degree candidates in 2011-12, the most recent year for which figures are available.

Harvard University is located primarily in Harvard Square. The various schools and colleges include facilities of Harvard College (the undergraduate portion of the University) as well as the Graduate School of Arts and Sciences, Radcliffe College, the Graduate School of Education, the John F. Kennedy School of Government, the Harvard Law School, the Harvard Divinity School, the Graduate School of Design, the Widener Library and the Loeb Drama Center (home of the American Repertory Theater).

Additional facilities include many of Harvard's famous museums, including the Fogg Museum, The Busch Reisinger Museum, the Sackler Museum, the Museum of Comparative Zoology, the Peabody Museum, and the Botanical Museum. In addition to serving as teaching and research facilities, these museums are open to the public. Public exhibitions also are conducted at the Harvard College Observatory and the Harvard Smithsonian Observatory.

While the M.I.T. began its life across the Charles River, in Boston, the University moved to Cambridge in the early part of this century.

The facilities of the undergraduate and graduate schools for M.I.T., with an enrollment of over 10,622 degree candidates, are located in the Kendall Square area of the City. These include the Graduate School for Architecture and Planning, the Graduate School of Management, the Graduate School of Science, and the Graduate School of Humanities and Social Science.

Additional M.I.T. facilities include the Interdenominational Chapel, Kresge Auditorium, the Hayden Art Gallery, the Margaret Hutchinson Compton Gallery, the Hart Nautical Galleries, the Albert and Vera List Visual Arts Center, and the M.I.T. Museum and Historical Collections, as well as the famous laboratory of Professor Harold Edgerton for Stroboscopic Light Display and Photographs.

## THE CAMBRIDGE PUBLIC HEALTH COMMISSION

In June, 1996, the Massachusetts legislature enacted home rule legislation submitted by the City of Cambridge which created the Cambridge Public Health Commission. Under the enacted legislation, the City's Department of Health and Hospitals, which included the Cambridge Hospital and the Department of Public Health, was transferred to the Commission. The primary objective of the legislation was to give the Commission the flexibility to respond to the major changes in the health care industry resulting from the consolidation and mergers of health care providers. The Commission now operates as a public authority governed by a board of nineteen members who are appointed by the City Manager. Day to day administration of the Commission is overseen by a chief executive officer who is appointed by the Commission board.

In accordance with the home rule legislation, on July 1, 1996, all employees, assets and liabilities of the former City Department of Health and Hospitals were transferred from the City to the Commission, with the exception of existing pensions and general obligation debt liabilities. While the City will continue to carry these long-term obligations on its financial statements, the Commission will annually reimburse the City for the associated costs. The operation of the Department's real property was transitioned from the City to the Commission via a fifty year lease agreement.

As stated previously, the primary aim of the home rule legislation was to allow the Cambridge Hospital the flexibility to affiliate with or acquire other area health care providers, and in particular allowed the Commission to acquire Somerville Hospital's neighborhood health centers, and in July, 1996, the Commission acquired Somerville Hospital. The Commission was further expanded with the addition of Whidden Memorial Hospital in Everett in July 2001. The Commission will evaluate other affiliation opportunities as they arise.

The Commission completed a \$60 million renovation and expansion of the Cambridge Hospital. The project included the construction of a three story 70,000 square foot ambulatory care center, a 200 space underground parking facility, and major renovations of existing facilities. The ambulatory care center was constructed to meet substantial existing and projected demand for outpatient services in the Commission's service area. Financing for the project consisted of \$30 million in City general obligation bonds (issued in February, 1998), and a \$30 million equity contribution by the Commission. The City refunded \$13.5 million of these bonds in 2007 with proceeds from general obligation bonds issued in March 2007. While the bonds issued for the project were issued by the City and will remain on the City's financial statements, in practice debt service is being paid by the Commission.

The City has historically provided tax support to the Cambridge Hospital and has continued to do so for the Cambridge Public Health Commission. The level of future property tax support and the services to be provided by the Commission on behalf of the City is outlined in a seven year contract executed by the City and the Commission, effective July 2010.

The Board of Trustees at the Alliance has established a primary focus for the organization to create the key concept of financial viability and sustainability in order to maintain the mission and commitments to our communities. In March 2012, the Alliance welcomed Patrick Wardell as the new CEO, and in July 2012, welcomed four new trustees. The Alliance is searching for a new clinical strategic partner to affiliate with to enhance care and to deliver better, broader and more affordable care to improve the quality of life for patients in our communities.

The Commission completed FY12 with an audited net income of \$44.1 million compared to a net income of \$55.4 million in FY11.

# PART IV: CITY INDEBTEDNESS AND CAPITAL PLAN

## AUTHORIZATION OF GENERAL OBLIGATION BONDS AND NOTES

Serial bonds and notes are authorized by vote of two-thirds of all members of the City Council. Provision is made for a referendum on the borrowing authorization if there is a timely filing of a petition bearing the requisite number of signatures. Refunding bonds and notes are authorized by the City Council. Borrowings for some purposes require State administrative approval.

When serial bonds (or notes) have been authorized, bond anticipation notes may be issued by the officers authorized to issue the serial bonds (or notes). Temporary loans in anticipation of the revenue of the fiscal year in which the debt is incurred or in anticipation of authorized federal and state aid generally may be made by the Treasurer with the approval of the City Manager.

## DEBT LIMITS

### General Debt Limit

Under Massachusetts law, the General Debt Limit of a city or town consists of a Normal Debt Limit and a Double Debt Limit. The Normal Debt Limit of the City is 5 percent of the valuation of taxable property as last equalized by the State Department of Revenue. The City of Cambridge can authorize debt up to this amount without State approval. It can authorize debt up to twice this amount (the Double Debt Limit) with the approval of the state Municipal Finance Oversight Board composed of the State Treasurer, the State Auditor, the Attorney General and the Director of Accounts.

There are many categories of general obligation debt which are exempt from and do not count against the General Debt Limit. Among others, these exempt categories include revenue anticipation notes and grant anticipation notes, emergency loans, loans exempted by special laws, certain school bonds, sewer bonds, solid waste disposal facility bonds, and economic development bonds supported by tax increment financing and, subject to special debt limits, bonds for water (limited to 10 percent of equalized valuation), housing, urban renewal and economic development (subject to various debt limits), and electric, gas, community antenna television systems and telecommunications systems (subject to separate limits). Revenue bonds are not subject to these debt limits. The General Debt Limit and the special debt limit for water bonds apply at the time the debt is authorized. The other special debt limits generally apply at the time the debt is incurred.

### Revenue Anticipation Notes

The amount borrowed in each fiscal year through the issuance of revenue anticipation notes is limited to the tax levy of the prior fiscal year, together with the net receipts in the prior fiscal year from the motor vehicle excise and certain payments made by the Commonwealth in lieu of taxes. The City's fiscal year ends on June 30. Notes issued at the end of the fiscal year may mature in the following fiscal year, and notes may be refunded into the following fiscal year, to the extent of the uncollected unabated current tax levy and certain other items, including revenue deficits, overlay deficits, final judgements and lawful unappropriated expenditures, which are to be added to the next tax levy, but excluding revenue deficits arising from a failure to collect taxes of earlier years (see *Taxation to Meet Deficits* below). In any event, the period from an original borrowing to its final maturity cannot exceed one year.

## TYPES OF OBLIGATIONS

### General Obligations

Under Massachusetts law, the City of Cambridge is authorized to issue general obligation indebtedness of these types:

### Serial Bonds and Notes

These are generally required to be payable in annual principal amounts beginning no later than the end of the next fiscal year commencing after the date of issue and ending within the terms permitted by law. A level debt service schedule, or a schedule that provides for a more rapid amortization of principal than level debt service, is permitted. The principal amounts of certain economic development bonds supported by tax increment financing may be payable in equal, diminishing or increasing amounts beginning within 5 years after the date of issue. The maximum terms of serial

bonds and notes vary from one year to 40 years, depending on the purpose of the issue. The maximum terms permitted are set forth in the statutes. In addition, for many projects, the maximum term may be determined in accordance with useful life guidelines promulgated by the State Department of Revenue (“DOR”). Serial bonds and notes may be issued for the purposes set forth in the statutes. In addition, serial bonds and notes may be issued for any other public work improvement or asset not specifically listed in the Statutes that has a useful life of at least 5 years. Most of the purposes are capital projects. Bonds and notes may be made callable and redeemed prior to their maturity, and a redemption premium may be paid. Refunding bonds or notes may be issued subject to the maximum applicable term measured from the date of the original bonds or notes and must produce present value savings over the debt service of the refunded bonds. Generally, the first required principal payment of the refunding bonds cannot be later than the first principal payment of any of the bonds or notes being refunded thereby, however, principal payments made before the first required principal payment of any bonds or notes being refunded thereby may be in any amount.

Serial bonds may be issued as “qualified bonds” with the approval of the state Municipal Finance Oversight Board composed of the State Treasurer, the State Auditor, the Attorney General and the Director of Accounts, subject to such conditions and limitations (including restrictions on future indebtedness) as may be required by the Board. Qualified bonds may mature not less than 10 nor more than 30 years from their dates and are not subject to the amortization requirements described above. The State Treasurer is required to pay the debt service on “qualified” bonds and thereafter to withhold the amount of the debt service paid by the State from state aid or other state payments; administrative costs and any loss of interest income to the Commonwealth are to be assessed upon the City.

### **Tax Credit Bonds or Notes**

Subject to certain provisions and conditions, the officers authorized to issue bonds or notes may designate any duly authorized issue of bonds or notes as “tax credit bonds” to the extent such bonds and notes are otherwise permitted to be issued with federal tax credits or other similar subsidies for all or a portion of the borrowing costs. Tax credit bonds may be made payable without regard to the annual installments required by any other law, and a sinking fund may be established for the payment of such bonds. Any investment that is part of such a sinking fund may mature not later than the date fixed for payment or redemption of the applicable bonds.

### **Bond Anticipation Notes**

These generally must mature within two years of their original dates of issuance but may be refunded from time to time for a period not to exceed five years from their original dates of issuance, provided that for each year that the notes are refunded beyond the second year they must be paid in part from revenue funds in an amount at least equal to the minimum annual payment that would have been required if the bonds had been issued at the end of the second year. For certain school projects, however, notes may be refunded from time to time for a period not to exceed seven years without having to pay any portion of the principal of the notes from revenue funds. The maximum term of bonds issued to refund bond anticipation notes is measured (except for certain school projects) from the date of the original issue of the notes.

### **Revenue Anticipation Notes**

Revenue Anticipation Notes are issued to meet current expenses in anticipation of taxes and other revenues. They must mature within one year but, if payable in less than one year, may be refunded from time to time up to one year from the original date of issue.

### **Grant Anticipation Notes**

Grant Anticipation Notes are issued for temporary financing in anticipation of federal grants and state and county reimbursements. They must generally mature within two years but may be refunded from time to time as long as the municipality remains entitled to the grant or reimbursement.

### **Revenue Bonds**

Cities and towns may issue revenue bonds for solid waste disposal facilities, for projects financed under the Commonwealth’s water pollution abatement or drinking water revolving loan programs and for certain economic development projects supported by tax increment financing. In addition, cities and towns having electric departments may issue revenue bonds, and notes in anticipation of such bonds, subject to the approval of the State Department of Telecommunications and Energy. This article is not intended to summarize laws relating to revenue bonds or to notes issued in anticipation of them. Industrial revenue bonds are also outside the scope of this article. The City of Cambridge does not have an electric department. The legislation creating the Cambridge Public Health Commission authorizes the Commission to issue revenue bonds. No such bonds have been authorized. (see *The Cambridge Public Health Commission*).

**CITY OF CAMBRIDGE  
STATEMENT OF INDEBTEDNESS  
LONG-TERM BONDS AND TEMPORARY LOANS (1)  
AS OF JUNE 30, 2012**

**Bonds:**

	<u>Outstanding Bonds Prior To This Issue</u>	<u>Authorized Unissued Prior To This Issue (4)</u>	<u>Outstanding After This Issue</u>	<u>Authorized Unissued After This Issue</u>
Within General				
Debt Limit (2) .....	<u>\$321,988,511</u>	<u>\$133,715,235</u>	<u>\$387,248,511</u>	<u>\$71,455,235</u>
Outside General				
Debt Limit:				
Water .....	<u>18,360,000</u>	<u>—</u>	<u>18,360,000</u>	<u>—</u>
Sub Total .....	<u>18,360,000</u>	<u>—</u>	<u>18,360,000</u>	<u>—</u>
Total Bonds .....	<u><u>\$340,348,511</u></u>	<u><u>\$133,715,235</u></u>	<u><u>\$405,608,511</u></u>	<u><u>\$68,455,235</u></u>

**Temporary Loans:**

	<u>Outstanding Notes</u>
Bond Anticipation .....	\$0
Grant Anticipation .....	0
Revenue Anticipation: (3)	
For Current Year .....	0
For Prior Year .....	<u>0</u>
	\$0

- (1) Excludes lease and installment purchase obligations, overlapping debt, and unfunded pension liability.
- (2) Based upon the 2012 final equalized valuation of the City, the Normal General Debt Limit is \$1,332,006,270 and the Double General Debt Limit (see "Debt Limit" above) is \$2,664,012,540.
- (3) The City has not borrowed in anticipation of revenues since fiscal year 1987.
- (4) Includes \$81,500,000 authorized on September 10, 2012 for the Elementary School Reconstruction Program.

Source: City Department of Finance.

## CONTRACTS AND MUNICIPAL LEASES

Municipal contracts are generally limited to currently available appropriations. A city or town generally has authority to enter into contracts for the exercise of any of its corporate powers for any period of time deemed to serve its best interests, but generally only when funds are available for the first fiscal year; obligations for succeeding fiscal years generally are expressly subject to availability and appropriation of funds. Municipalities have specific authority in relatively few cases to enter long-term contractual obligations that are not subject to annual appropriation, including contracts for refuse disposal and sewage treatment and disposal. Municipalities may also enter into long-term contracts in aid of housing and renewal projects. There may be implied authority to make other long-term contracts required to carry out authorized municipal functions, such as contracts to purchase water from private water companies. The City is currently not a party to any such long-term service contracts.

Municipal contracts relating to solid waste disposal facilities may contain provisions requiring the delivery of minimum amounts of waste and payments based thereon and requiring payments in certain circumstances without regard to the operational status of the facilities.

Municipal electric departments have statutory power to enter into long-term contracts for joint ownership and operation of generating and transmission facilities and for the purchase or sale of capacity, including contracts requiring payments without regard to the operational status of the facility.

Pursuant to the Home Rule Amendment to the Massachusetts Constitution (see “Constitutional Status and Form of Government” below), cities and towns may also be empowered to make other contracts and leases.

The City has not entered into any substantial financing lease or installment purchase contracts, but does lease certain real estate at an annual aggregate rental cost of approximately \$738,000.

**CITY OF CAMBRIDGE  
GROSS AND NET DIRECT DEBT  
as of June 30, 2012 (1)**

General Obligation Bonds (before current issue).....	\$328,436,543
MWPAT and MWRA Loans .....	11,911,968
	<hr/>
Gross Direct Debt.....	340,348,511
Current Issue .....	65,260,000
	<hr/>
TOTAL GROSS DIRECT DEBT .....	405,608,511
Less:	
Self-Supporting GO Water Bonds.....	18,360,000
Self-Supporting GO Sewer Bonds .....	60,120,918
Self-Supporting GO Golf Course Bonds.....	85,000
Self-Supporting MWPAT and MWRA Loans .....	11,369,774
Self-Supporting GO Hospital Bonds.....	8,995,000
Self-Supporting HUD Section 108 Loan .....	235,000
Self-Supporting Current Issue for Sewer.....	21,405,000
	<hr/>
SUBTOTAL SELF-SUPPORTING .....	120,570,692
Less:	
Commonwealth Subsidy of MWPAT Loans (2).....	542,194
	<hr/>
TOTAL NET DIRECT DEBT .....	<u>\$284,495,625</u>

(1) Includes current issue, the “Bonds.”

(2) This figure represents the subsidies to be applied to the balance of the principal on sewer loans by the Massachusetts Water Pollution Abatement Trust (MWPAT).

Source: City Department of Finance.

**OVERLAPPING DEBT**

**Massachusetts Water Resources Authority**

The Massachusetts Water Resources Authority (the “MWRA”) provides wholesale drinking water services in whole or in part to 48 cities, towns and special purpose entities and provides wastewater collection and treatment services to 43 cities, towns and special purpose entities. Under its enabling legislation, as amended, the aggregate principal amount of all bonds issued by the MWRA for its corporate purposes may not exceed \$6.45 billion outstanding at any time. Its obligations are secured by revenues of the MWRA. The MWRA assesses member cities, towns and special purpose entities, which continue to provide direct retail water and sewer services to users. The cities, towns and other entities collect fees from the users to pay all or part of the assessments; some municipalities levy property taxes to pay part of the amounts assessed upon them.

**Massachusetts Bay Transportation Authority**

The Massachusetts Bay Transportation Authority (the “MBTA”) was created in 1964 to finance and operate mass transportation facilities within the greater Boston metropolitan area. Under its enabling act, the MBTA is authorized to issue bonds for capital purposes, other than refunding bonds, and for certain specified purposes to an outstanding amount, which does not exceed the aggregate principal amount of \$3,556,300,000. In addition, pursuant to certain of the Commonwealth’s transportation bond bills, the MBTA is authorized to issue additional bonds for particular capital projects. The MBTA also is authorized to issue bonds of the purpose of refunding bonds. Under the MBTA’s enabling act, debt service, as well as other operating expenses of the MBTA, are to be financed by a dedicated revenue stream consisting of the amounts assessed on the cities and towns of the MBTA and a dedicated portion of the statewide sales tax. The amount assessed to each city and town is based on its weighted percentage of the total population of the cities and towns in the MBTA as provided in the enabling act. The aggregate amount of such assessments is generally not permitted to increase by more than 2.5 percent per year.

The following table sets forth the portion of overlapping debt assessed to the City:

<b>CITY OF CAMBRIDGE OVERLAPPING DEBT(1)</b>				
	<u>Outstanding</u>	<u>Authorized Unissued</u>	<u>Estimated City Share</u>	<u>Overlapping Debt</u>
Massachusetts Water Resources Authority (2)				
Sewer.....	\$4,027,396,000	(see above)	4.821%	<u>\$194,165,739</u>
Total.....				<u><u>\$194,165,739</u></u>

(1) Excludes temporary loans and lease payments. Omits debt of the Commonwealth and of the MBTA.

(2) Source: MWRA. Debt as of June 30, 2012.

Source: City Department of Finance.

**CITY OF CAMBRIDGE  
KEY DEBT RATIOS  
as of June 30, 2012**

	<u>Amount (1)</u>	<u>Per Capita (2)</u>	<u>Ratio to Assessed Valuation (3)</u>
Gross Direct Debt .....	\$405,608,511	\$3,857	1.6%
Net Direct Debt (4).....	284,495,625	2,705	1.1
Gross Direct and Gross Overlapping Debt .....	599,774,250	5,703	2.4
Net Direct and Net Overlapping Debt .....	478,661,364	4,552	1.9

(1) Includes current bond issue.

(2) Based on 2010 population of 105,162.

(3) Based on January 1, 2012 value of \$25,213,972,501.

(4) Excludes general obligation bonds that are in practice repaid from user fees and thus are self-supporting. This includes GO bonds issued for water and sewer purposes. Also excludes portion of principal of school bonds expected to be paid with state grants and loans from the Massachusetts Water Pollution Abatement Trust (MWPAT) to be paid from state assistance.

Source: City Department of Finance.

**CITY OF CAMBRIDGE  
FIVE-YEAR DEBT SUMMARY  
OUTSTANDING GENERAL OBLIGATION DEBT  
FISCAL YEARS 2008 TO 2012 (1)(2)  
(\$ in 000s)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Inside .....	\$272,266	\$291,076	\$290,053	\$300,935	\$321,989
Outside:					
School .....	4,610	2,570	530	0	0
Water.....	39,486	33,201	26,853	21,895	18,360
Sub Total .....	44,096	35,771	27,383	21,895	18,360
Total.....	<u>\$316,362</u>	<u>\$326,847</u>	<u>\$317,436</u>	<u>\$322,830</u>	<u>\$340,349</u>

(1) Outstanding principal on general obligation bonds. Excludes temporary notes, lease and installment purchase obligations, overlapping debt, and unfunded pension liability. As of June 30 of each fiscal year.

(2) Does not include current issue.

Source: City Department of Finance.

**CITY OF CAMBRIDGE  
GENERAL OBLIGATION BONDS  
SCHEDULE OF PRINCIPAL AND INTEREST  
PAYMENTS BY FISCAL YEAR  
As of June 30, 2012 (1)(2)**

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal This Issue</b>	<b>Interest This Issue(2)</b>	<b>Total</b>
2013	\$39,238,061	\$11,112,458	\$ —	\$ —	\$ 50,350,519
2014	36,918,992	10,039,117	4,680,000	1,852,608	53,490,717
2015	34,304,940	8,861,660	4,675,000	1,817,400	49,659,000
2016	30,414,228	7,782,992	4,675,000	1,677,150	44,549,370
2017	28,730,736	6,864,349	4,675,000	1,536,900	41,806,985
2018	26,602,246	5,983,305	4,675,000	1,396,650	38,657,201
2019	22,143,758	5,156,473	4,675,000	1,256,400	33,231,631
2020	19,525,273	4,410,930	4,675,000	1,116,150	29,727,353
2021	18,161,790	3,751,937	4,675,000	975,900	27,564,627
2022	15,593,310	3,120,180	4,670,000	835,650	24,219,140
2023	12,225,177	2,696,957	4,665,000	695,550	20,282,684
2024	11,240,000	2,234,937	1,855,000	555,600	15,885,537
2025	10,915,000	1,786,787	1,855,000	499,950	15,056,737
2026	10,215,000	1,356,719	1,855,000	444,300	13,871,019
2027	7,665,000	950,457	1,855,000	388,650	10,859,107
2028	6,815,000	648,845	1,850,000	333,000	9,646,845
2029	4,805,000	377,138	1,850,000	277,500	7,309,638
2030	2,780,000	183,263	1,850,000	222,000	5,035,263
2031	1,530,000	76,725	1,850,000	166,500	3,623,225
2032	525,000	15,750	1,850,000	111,000	2,501,750
2033	—	—	1,850,000	55,500	1,905,500
	<u>\$340,348,511</u>	<u>\$77,410,979</u>	<u>\$65,260,000</u>	<u>\$16,214,358</u>	<u>\$499,233,848</u>

(1) Excludes lease and installment purchase obligations, overlapping debt, and unfunded pension liability. Includes full principal and interest on MWPAT and MWRA sewer loans.

(2) Totals may not agree with sum of figures due to rounding.

Source: City Department of Finance.

**RAPIDITY OF PRINCIPAL RETIREMENT  
ALL GENERAL OBLIGATION BONDS**

The following table shows the rate at which the City's principal amount of debt will be retired based on the amount outstanding on June 30, 2012 including these Bonds.

<b>Maturing Within</b>	<b>Amount to be Retired</b>	<b>Cumulative % Principal Retired</b>
5 years	\$219,589,203	51.14%
10 years	330,598,511	81.51
20 years	405,608,511	100.00

Source: City Department of Finance.

**CITY OF CAMBRIDGE  
RATIO OF GROSS DIRECT DEBT TO  
ASSESSED VALUE AND GROSS DIRECT DEBT  
PER CAPITA  
FISCAL YEARS 2008 TO 2012**

<b>Fiscal Year</b>	<b>Population (1)</b>	<b>Assessed Value (2)</b>	<b>Gross Direct Debt (3)</b>	<b>Ratio of Gross Direct Debt to Assessed Value</b>	<b>Gross Direct Debt Per Capita</b>
2008	101,355	\$23,541,195,566	\$363,746,605	1.5%	\$3,589
2009	101,355	23,876,058,621	359,071,716	1.5	3,543
2010	101,355	24,271,700,606	363,656,444	1.5	3,588
2011	105,162	24,446,954,999	369,261,560	1.5	3,511
2012	105,162	25,213,972,501	405,608,511 (4)	1.6	3,857

(1) Population estimates are from the U.S. Department of Commerce, Bureau of the Census.

(2) All of the assessed values shown reflect full market value.

(3) As of June 30 of that fiscal year.

(4) Includes current issue, the "Bonds".

Source: City Department of Finance.

**CITY OF CAMBRIDGE  
RATIO OF ANNUAL DEBT SERVICE FOR GENERAL BONDED DEBT  
TO TOTAL EXPENDITURES  
FISCAL YEARS 2008 TO 2012**

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service</b>	<b>Total Expenditures (1)</b>	<b>Ratio of Debt Service to Total Expenditures</b>
2008	\$34,825,374	\$10,766,060	\$45,591,434	\$418,093,422	10.9%
2009	38,999,889	11,939,717	50,939,606	436,611,627	11.7
2010	41,635,272	12,030,062	53,665,334	436,588,909	12.3
2011	40,826,427	11,607,229	52,433,656	457,716,895	11.5
2012	37,946,621	11,593,447	49,540,068	459,754,022	10.8

(1) Includes all categories of the City's operating budget.

**PUBLIC INVESTMENT PROGRAM**

The City's Public Investment Program provides for improvements to the City's public facilities for the ensuing fiscal year and four years thereafter, along with a means of financing these improvements. The first year of the program constitutes the capital budget for the current fiscal year; the remaining four years serve as a planning guide. The plan is reviewed periodically and is completely revised each year during the City's annual budget process. The approved Public Investment Program is the result of a process that balances the need for public facilities against the fiscal capability of the City to provide for these needs.

Since fiscal year 1985 the City has formally funded a portion of its Public Investment Program on a "pay-as-we-go" basis out of current general fund revenues. This financing source shows a slight cost decrease from the \$1,500,000 in fiscal year 2012 to the \$1,225,000 in fiscal year 2013 due primarily to the large increase in the property tax component of the Debt Service budget attributable to the planned phasing out of Debt Stabilization Fund revenues to cover a portion of certain large capital projects. The five year plan calls for a total of \$14,850,000 in general fund revenues to be allocated to the Public Investment Fund. Revenues from the Community Preservation Act (CPA), which are used to fund certain capital projects, are appropriated separately and are not included in this plan.

The present plan, which was approved by the City Council on May 21, 2012, is a program of capital spending for the five-year period beginning July 1, 2012 and ending June 30, 2017. The projects in the plan, however, are considered for planning purposes and may be deleted, altered, or rescheduled in any manner, at any time, by the City Council. The estimated cost of the five-year program is \$285,472,000. The uses by project categories and major funding sources for the total program as noted in the Public Investment Program are projected as follows:

**PUBLIC INVESTMENT PROGRAM  
SUMMARY OF EXPENDITURES BY CATEGORY  
FISCAL YEARS 2013 TO 2017**

<b>Expenditure Category</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Total</b>
General						
Government ....	\$ 215,000	\$ 570,000	\$ 270,000	\$ 570,000	\$ 270,000	\$1,895,000
Public Safety .....	1,380,000	100,000	560,000	100,000	585,000	2,725,000
Community						
Maintenance & Development ...	35,401,735	42,050,580	54,356,465	56,755,445	14,832,775	203,397,000
Human Resource						
Development	1,723,000	1,183,000	133,000	133,000	1,283,000	4,455,000
Education.....	—	73,000,000	—	—	—	73,000,000
<b>Total.....</b>	<b>\$38,719,735</b>	<b>\$116,903,580</b>	<b>\$55,319,465</b>	<b>\$57,558,445</b>	<b>\$16,970,775</b>	<b>\$285,472,000</b>

Source: "Public Investment Plan, Fiscal Year 2013 to Fiscal Year 2017,"  
Annual Budget Fiscal Year 2013, as adopted.

**PUBLIC INVESTMENT PROGRAM  
USES AND SOURCES OF FUNDS  
FISCAL YEARS 2013 TO 2017**

<b>Uses</b>	<b>Total Amount</b>	<b>Percent of Total</b>
General Government .....	\$ 1,895,000	0.66%
Public Safety.....	2,725,000	0.95
Community Maintenance and Development		
Housing Development .....	4,035,150	1.41
Economic Development.....	2,680,000	0.94
Streets, Highways & Transportation ...	25,303,650	8.86
Water & Sewer.....	162,148,550	56.80
Other.....	9,229,650	3.23
Human Resource Development.....	4,455,000	1.56
Education .....	73,000,000	25.57
<b>Total .....</b>	<b>\$285,472,000</b>	<b>100.00%</b>
<b>Sources</b>	<b>Total Amount</b>	<b>Percent of Total</b>
Property Taxes .....	\$ 7,500,000	2.63%
Block Grant.....	6,215,150	2.18
Parking Fund.....	4,250,000	1.49
Parking Fund Balance.....	1,000,000	0.35
Sewer Service Charge .....	7,250,000	2.54
Water Service Charge .....	16,750,000	5.87
Bond Proceeds .....	202,353,575	70.88
Chapter 90 Grant .....	12,858,650	4.50
MWRA Grant (inc. Interest) .....	22,700,000	7.95
Resident Sticker Revenues.....	2,125,000	0.74
Street Preservation Offset Fund .....	418,000	0.15
War Memorial Receipts.....	140,000	0.05
Golf Course Fees .....	100,000	0.04
Sewer Reimbursement .....	629,975	0.22
Roadway Reimbursement.....	475,000	0.17
Cable TV License Fee.....	706,000	0.25
<b>Total .....</b>	<b>\$285,472,000</b>	<b>100.00%</b>

Source: "Public Investment Plan, Fiscal Year 2013 to Fiscal Year 2017,"  
Annual Budget Fiscal Year 2013, as adopted.

**PUBLIC INVESTMENT PROGRAM  
SOURCES OF FINANCING  
FISCAL YEARS 2013 TO 2017**

<b>Financing Category</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Total</b>
<b>General Government:</b>						
Property Taxes	\$ 215,000	\$ 570,000	\$ 270,000	\$ 570,000	\$ 270,000	\$ 1,895,000
Subtotal	\$ 215,000	\$ 570,000	\$ 270,000	\$ 570,000	\$ 270,000	\$ 1,895,000
<b>Public Safety:</b>						
Property Taxes	\$ 135,000	\$ 100,000	\$ 560,000	\$ 100,000	\$ 585,000	\$ 1,480,000
Bond Proceeds	1,245,000	—	—	—	—	1,245,000
Subtotal	\$ 1,380,000	\$ 100,000	\$ 560,000	\$ 100,000	\$ 585,000	\$ 2,725,000
<b>Community Maintenance &amp; Development:</b>						
Property Taxes	\$ 740,000	\$ 745,000	\$ 710,000	\$ 745,000	\$ 710,000	\$ 3,650,000
Parking Fund	850,000	850,000	850,000	850,000	850,000	4,250,000
Parking Fund Balance	1,000,000	—	—	—	—	1,000,000
Sewer Service Charge	750,000	1,000,000	1,500,000	2,000,000	2,000,000	7,250,000
Water Service Charge	3,400,000	3,500,000	3,350,000	3,250,000	3,250,000	16,750,000
Block Grant	1,243,030	1,243,030	1,243,030	1,243,030	1,243,030	6,215,150
Chapter 90	2,571,730	2,571,730	2,571,730	2,571,730	2,571,730	12,858,650
Street Preservation Offset Fund	418,000	—	—	—	—	418,000
Roadway Reimbursement	475,000	—	—	—	—	475,000
MWRA Grant	8,100,000	13,600,000	1,000,000	—	—	22,700,000
Sewer Reimbursement	629,975	—	—	—	—	629,975
Resident Parking Sticker Revenues	425,000	425,000	425,000	425,000	425,000	2,125,000
Cable License Fees	141,330	141,330	141,330	141,330	141,330	706,650
Bond Proceeds	14,657,670	17,974,490	42,565,375	45,529,355	3,641,685	124,368,575
Subtotal	\$35,401,735	\$42,050,580	\$54,356,465	\$56,755,445	\$14,832,775	\$203,397,000
<b>Human Resource Development:</b>						
Property Taxes	\$ 135,000	\$ 85,000	\$ 85,000	\$ 85,000	\$ 85,000	\$ 475,000
Golf Course Fees	20,000	20,000	20,000	20,000	20,000	100,000
War Memorial Receipts	28,000	28,000	28,000	28,000	28,000	140,000
Bond Proceeds	1,540,000	1,050,000	—	—	1,150,000	3,740,000
Subtotal	\$ 1,723,000	\$ 1,183,000	\$ 133,000	\$ 133,000	\$ 1,283,000	\$ 4,455,000
<b>Education:</b>						
Bond Proceeds	\$ —	73,000,000	—	—	—	\$ 73,000,000
Subtotal	\$ —	\$73,000,000	\$ —	\$ —	\$ —	\$ 73,000,000
<b>Grand Total</b>	<b>\$38,719,735</b>	<b>\$116,903,580</b>	<b>\$55,319,465</b>	<b>\$57,558,445</b>	<b>\$16,970,775</b>	<b>\$285,472,000</b>

Source: "Public Investment Plan, Fiscal Year 2013 to Fiscal Year 2017."  
Annual Budget Fiscal Year 2013, as adopted.

# PART V: CITY FINANCIAL INFORMATION

## BASIS OF ACCOUNTING AND REPORTING STRUCTURE

All of the City's Governmental Funds and Expendable Trust Funds are reported under the modified accrual basis of accounting. Accordingly, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City recognizes funds received 60 days after the close of its fiscal year as revenue of that reporting period. All other amounts not received during that period are deferred and recognized in future accounting periods. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are however, essentially two types of these revenues. In one, moneys 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 expenditures recorded. In the other, moneys are virtually unrestricted as to purpose of expenditure and are usually revocable 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 is met.

The accrual basis of accounting is followed by proprietary and fiduciary fund types.

### Reporting Entity

The combined financial statements present information on organizations and activities of the City of Cambridge for which the City Council has oversight responsibility. These entities include the City's Water Department and the Cambridge Retirement System. The financial statements for the Retirement System are presented for the year ending December 31, 2012, which is the system's fiscal period for reporting to the Commissioner of the Retirement of the Commonwealth of Massachusetts. The financial statements are for the year ending December 31, 2012. The operations of the Cambridge Housing Authority and the Cambridge Redevelopment Authority are not defined as part of the reporting entities as they are not subject to the financial controls of the City Manager or the City Council.

### Fund Accounting

The activities of the City are accounted for through the use of several funds, each of which is accounted for separately. The operations of each fund are accounted for through a separate set of self-balancing accounts which are summarized by type in the financial statements. The following fund types and account groups are used by the City:

#### *Governmental Funds*

*General Fund*—This fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

*Special Revenue Funds*—These funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

*Public Investments Fund*—This fund is used to account for the financial resources and expenditures for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

### *Proprietary Funds*

*Enterprise Funds*—These funds are used to account for the City’s operations: (1) that are financed and operated in a manner similar to private business enterprises—where the intent is that the costs (expenses, including depreciation) of providing services to the public be financed or recovered primarily through user charges; or (2) where a periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

*Internal Service Funds*—These funds are used to account for the financing of services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis.

### *Fiduciary Funds*

*Trust and Agency Funds*—These funds are used to account for assets being held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Expendable trust and agency funds are accounted for and reported as governmental funds.

## **BUDGET AND APPROPRIATION PROCESS**

Under Massachusetts statutes and the City Charter, the City Manager is required to submit a budget of proposed expenditures for the fiscal year beginning on the next July 1 within 170 days after the annual organization of the City government (which is ordinarily in early January). The City Council may make appropriations for the recommended purposes and may reduce or reject any item. Without a recommendation of the City Manager, the Council may not make any appropriation for a purpose not included in the proposed budget (except by a two-thirds vote in the case of the failure of the City Manager to recommend an appropriation for such a purpose within 7 days after a request from the Council). The Council may not increase any item without the recommendation of the City Manager (except as provided by legislation, subject to local acceptance, under which the school budget can be increased upon recommendation of the school committee and by two-thirds vote of the Council, provided that such increase does not cause the total annual budget to exceed the property tax limitations). If the City Council fails to act on any item of the proposed budget within 45 days, that item takes effect.

City department heads are generally required to submit their budget requests to the city manager by mid-January. This does not apply to the school department, which must submit its requests in time for the manager to include them in his submission to the council.

If the City Manager does not make a timely budget submission, provision is made for preparation of a budget by the Council. Provision is also made for supplementary appropriations upon recommendation of the City Manager.

Under certain circumstances and subject to certain limits and requirements, the city council of a city, upon the recommendation of the mayor or city manager, may transfer amounts appropriated for the use of one department (except for a municipal light department or a school department) to another appropriation for the same department or for the use of any other department.

Water Department expenditures are included in the budgets adopted by the City Council. Under legislation enacted in 1981 any city or town which accepts the legislation may provide that the appropriation for the operating costs of any department may be offset, in whole or in part, by estimated receipts from fees charged for services provided by the department.

As a result of the Proposition 2½ legislation adopted in November of 1980, the Cambridge School Committee is no longer autonomous with respect to school expenditures for current purposes. The school budget is limited to the total amount appropriated by the City Council, but the School Committee retains full power to allocate the funds appropriated. State legislation known as the Education Reform Act of 1993, as amended, imposes certain minimum expenditure requirements on municipalities with respect to funding for education. The requirements are determined on the basis of formulas affected by various measures of wealth and income, enrollments, prior levels of local spending and state aid, and other factors.

State and county assessments, abatements in excess of overlays, principal and interest not otherwise provided for, and final judgements are included in the tax levy whether or not included in the budget. Revenues are not required to be set forth in the budget but estimated non-tax revenues are taken into account by the assessors in fixing the tax levy.

### **Budget Comparison**

The following table shows a comparison of the budgeted operating revenues and expenditures of the City for fiscal years 2009 through 2013. Health insurance, retirement and certain other employee benefit costs are included in departmental budgets. Debt service on school projects is included in the School budget. Debt service on the Cambridge Hospital project is included in the Debt Service budget.

The fiscal year 2013 budget of \$494,963,364 includes all appropriations made to operating budgets prior to the calculation of the fiscal year 2013 tax rate. This figure includes overlay deficits from the prior year as well as the overlay reserve and offsets for the current fiscal year. The fiscal year 2013 operating budget represents an increase of \$15,064,758, or 3.1%, over the fiscal year 2012 budget. Increases in the fiscal year 2013 budget include salary adjustments for employees which are spread over most City departments, debt service costs, health and retirement costs, Massachusetts Water Resources Authority and State (Cherry Sheet) Assessments, energy costs, and additional school expenditures of \$4,268,645.

The largest source of funding for the operating budget is property taxes. This revenue increased from a fiscal year 2012 level of \$299,090,638 (including an allocation of \$1,500,000 to the Public Investment Fund) to a fiscal year 2013 level of \$316,947,770 (including \$1,225,000 allocated to the Public Investment Fund). An additional \$20,052,065 from other current revenue sources has been combined with bond authorizations of \$17,442,670 for a total capital budget of \$38,719,735.

**CITY OF CAMBRIDGE**  
**BUDGETED REVENUES AND EXPENDITURES**  
**FISCAL YEARS 2009 THROUGH 2013**  
**(\$ in 000s)**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>Revenues:</b>					
Real & Personal Property Taxes(1)	\$253,745.6	\$268,163.0	\$282,111.7	\$299,090.6	\$316,947.8
<b>Local Estimated Receipts:</b>					
Motor Vehicle Excise .....	6,053.7	5,965.6	5,925.0	6,030.4	6,000.0
Water .....	17,223.6	17,041.2	16,412.5	15,346.6	14,599.7
Sewer .....	35,172.5	36,683.9	37,569.7	36,723.1	38,090.9
Interest Income .....	4,325.0	3,100.0	970.0	575.0	500.0
Other Local Receipts .....	50,718.3	54,475.1	59,543.4	61,006.7	54,742.6
Subtotal .....	<u>113,493.1</u>	<u>117,265.8</u>	<u>120,420.6</u>	<u>119,681.8</u>	<u>127,016.1</u>
State Aid .....	39,931.6	30,221.7	31,631.9	29,752.0	30,980.3
Other Available Funds .....	31,214.5	33,973.6	34,327.9	31,374.2	33,102.3
Total Revenues .....	<u>\$438,384.8</u>	<u>\$449,624.1</u>	<u>\$468,492.1</u>	<u>\$479,898.6</u>	<u>\$494,963.5</u>
<b>Expenditures:</b>					
<b>Deficits to be Raised:</b>					
Overlay .....	\$ 0.0	\$ 0.0	\$ 1,535.3	\$ 995.2	\$ 36.3
Other .....	153.3	119.3	112.6	124.7	129.1
Subtotal Deficits .....	<u>153.3</u>	<u>119.3</u>	<u>1,647.9</u>	<u>1,119.9</u>	<u>165.3</u>
Overlay Reserve .....	4,445.6	4,363.0	4,295.4	4,390.6	4,447.8
<b>Fixed Expenses:</b>					
State & County					
Assessments .....	8,020.1	7,890.4	10,885.4	11,733.6	12,930.0
Mass. Water Resources					
Authority .....	20,110.4	21,333.1	21,617.3	21,699.8	21,006.1
Debt Service(2) .....	40,211.5	43,293.7	45,305.7	44,594.8	50,350.5
Retirement System(3) .....	19,882.16	20,049.6	20,566.8	24,650.5	23,723.2
MBTA .....	8,174.5	8,305.7	8,618.1	8,743.6	8,891.7
Cambridge Public Health					
Commission .....	6,000.0	6,000.0	6,000.0	6,000.0	6,500.0
Other Fixed Costs(4) .....	2,754.3	2,518.1	3,041.2	3,098.8	3,356.8
Subtotal Fixed .....	<u>\$105,153.0</u>	<u>\$109,390.5</u>	<u>\$116,034.5</u>	<u>\$120,521.2</u>	<u>\$126,758.3</u>
<b>Variable Expense (Budget):</b>					
Schools .....	130,779.2	133,638.9	137,567.3	140,794.3	145,062.7
Police .....	37,526.7	40,336.1	42,148.0	43,496.3	45,643.1
Fire .....	35,577.7	36,110.9	38,018.4	39,055.1	40,111.1
Public Works:					
Water .....	17,998.6	17,985.1	16,416.1	14,902.6	14,144.1
Other .....	28,016.8	28,553.2	29,680.7	30,397.9	31,945.3
General Government .....	20,204.0	20,417.4	21,075.5	21,944.1	22,311.7
Other Variable(5) .....	58,529.9	58,709.6	61,608.3	63,276.1	64,374.1
Subtotal Variable .....	<u>\$328,632.9</u>	<u>\$335,751.2</u>	<u>\$346,514.3</u>	<u>\$359,377.3</u>	<u>\$373,592.0</u>
Total Expenditures .....	<u>\$438,384.8</u>	<u>\$449,624.0</u>	<u>\$468,492.1</u>	<u>\$479,898.6</u>	<u>\$494,963.5</u>

(1) Before tax abatements.

(2) School costs for this category are included in the School Budget and Water costs are included in the Water Budget.

(3) Contributory Retirement System costs are included in departmental budgets.

(4) Most of the components of the Other Fixed Costs category, including health insurance costs, are included in the departmental budgets.

(5) The Sewer and Highway Divisions now included in the "Other" category.

Source: City Department of Finance.

## PROPERTY TAXATION

### Tax Rate and Valuation—General

Property is classified for the purpose of taxation according to its use. The State Legislature has in substance created three classes of taxable property: (1) residential real property; (2) open space land; and (3) all other (commercial, industrial, and personal property). Within limits, cities and towns are given the option of determining the share of the annual levy to be borne by each of the three categories. The share required to be borne by residential real property is at least 50 percent of its share of the total taxable valuation; the effective rate for open space must be at least 75 percent of the effective rate for residential real property; and the share of commercial, industrial and personal property must exceed 175 percent of their share of the total valuation. The City may also exempt up to 20 percent of the valuation of residential real property (where used as the taxpayer's principal residence) under a special act applicable to the City and up to 10% of the valuation of commercial real property (where occupied by certain small businesses). Property may not be classified in a city or town until the State Commissioner of Revenue certifies that all property in the city or town has been assessed at its fair cash value. Such certification must take place every three years, or pursuant to a revised schedule as may be issued by the commissioner.

Related statutes provide that certain forest land, agricultural or horticultural land (assessed at the value it has for these purposes) and recreational land (assessed on the basis of its use at a maximum of 25 percent of its fair cash value) are all to be taxed at the rate applicable to commercial property. Land classified as forest land under an act adopted by the State Legislature in 1981 is valued for this purpose at five percent of fair cash value, but not less than ten dollars per acre.

In order to determine appropriate relative values for the purposes of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes his own re-determination of the fair cash value of the taxable property in each municipality. This is known as the "equalized value."

The following tables show assessed and equalized valuations for the current and past five fiscal years and total assessed valuation by property classification for the fiscal years 2011, 2012, and 2013.

**CITY OF CAMBRIDGE  
ASSESSED AND EQUALIZED VALUATIONS  
FISCAL YEARS 2009 TO 2013**

Fiscal Year	Assessed Value(1)			Equalized Valuation(2)	% of Total Assessed Valuation to Equalized
	Real Property	Personal Property	Total		
2013	\$24,143,725,561	\$1,070,246,940	\$25,213,972,501	\$26,640,125,400	94.6%
2012	23,495,974,749	950,980,250	24,446,954,999	28,162,029,300	86.8
2011	23,202,458,158	959,619,440	24,162,077,598	28,162,029,300	85.8
2010	23,360,624,506	911,076,100	24,271,700,606	26,124,313,400	92.9
2009	23,107,838,621	768,220,000	23,876,058,621	26,124,313,400	91.4

(1) As of January 1, 2012, 2011, 2010, 2009, and 2008, respectively.

(2) As of January 1, 2012, 2010, and 2008, respectively. Equalized valuations are determined biennially by the Commissioner of Revenue.

Source: City Department of Finance.

**CITY OF CAMBRIDGE  
TOTAL ASSESSED VALUATION BY CLASSIFICATION  
FISCAL YEARS 2011, 2012, AND 2013**

Class	2011 Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential .....	\$14,823,583,710	61.35%	34.56%
Commercial .....	5,528,883,160	22.88	38.74
Industrial.....	2,849,991,288	11.80	19.97
Personal Property .....	959,619,440	3.97	6.73
	<u>\$24,162,077,598</u>	<u>100.0%</u>	<u>100.0%</u>

Class	2012 Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential .....	\$15,018,134,067	61.43%	34.56%
Commercial .....	5,492,364,037	22.47	38.12
Industrial.....	2,985,476,645	12.21	20.72
Personal Property .....	950,980,250	3.89	6.60
	<u>\$24,446,954,999</u>	<u>100.0%</u>	<u>100.0%</u>

Class	2013 Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential .....	\$15,566,609,253	61.74%	34.56%
Commercial .....	5,405,660,055	21.44	36.67
Industrial.....	3,171,456,253	12.58	21.51
Personal Property .....	1,070,246,940	4.24	7.26
	<u>\$25,213,972,501</u>	<u>100.0%</u>	<u>100.0%</u>

Source: City Department of Finance.

The following table shows the actual tax rates per \$1,000 of assessed valuation for fiscal years 2009-2013 and the estimated full value rate based on the equalized valuations for the latest fiscal years:

**CITY OF CAMBRIDGE  
PROPERTY TAX RATE  
FISCAL YEARS 2009 to 2013**

<u>Fiscal Year</u>	<u>Actual Tax Rate</u>	<u>Category</u>	<u>Estimated Full Value Tax Rate(1)(3)</u>	<u>Average Rate(2)</u>
2013	\$ 8.66	Residential	\$11.90	\$12.57
	21.50	Commercial/Industrial		
2012	\$ 8.48	Residential	\$11.23	\$12.23
	20.76	Commercial/Industrial		
2011	\$ 8.16	Residential	\$10.08	\$11.75
	19.90	Commercial/Industrial		
2010	\$ 7.72	Residential	\$10.28	\$11.07
	18.75	Commercial/Industrial		
2009	\$ 7.56	Residential	\$ 9.88	\$10.68
	17.97	Commercial/Industrial		

(1) Based on an equalized valuation for that fiscal year as determined by the State Department of Revenue.

(2) The average rate is determined by dividing the total tax levy by the total assessed valuation, multiplied by 1,000.

(3) The 2012 Estimated Full Value Tax Rate has been restated to reflect the final FY2012 equalized value.

Source: City Department of Finance.

The following table sets forth the City's 10 largest taxpayers of real estate and personal property taxes and the assessed value of property owned by each such taxpayer. The aggregate assessed value of the 10 largest taxpayers represents 20.0 percent of the City's total assessable base for fiscal year 2013.

**CITY OF CAMBRIDGE  
10 LARGEST TAXPAYERS  
Fiscal Year 2013 (1)**

<u>Owner</u>	<u>Nature of Business</u>	<u>Assessed Valuation</u>	<u>Real Property Taxes</u>	<u>% of Total Tax Levy</u>
Mass. Institute of Technology .....	Educational(2)	\$1,811,175,900	\$36,490,355	11.51%
BioMed Realty Trust .....	Commercial	935,211,800	20,012,641	6.31
Boston Properties .....	Commercial	559,733,000	12,034,260	3.80
Equity Partners .....	Commercial	364,188,000	7,351,557	2.32
Presidents & Fellows of Harvard College.....	Educational(2)	377,125,700	5,435,269	1.71
New England Development.....	Commercial	232,700,000	5,003,050	1.58
Novartis Pharmaceuticals. ....	Commercial	222,727,600	4,788,643	1.51
PREEF American Reit II Corp. ....	Commercial	198,976,500	4,277,995	1.35
RB Kendall Fee LLC .....	Commercial	179,527,300	3,846,386	1.21
Alexandria Real Estate .....	Commercial	162,993,400	3,440,417	1.09
Totals.....		<u>\$5,044,359,400</u>	<u>\$102,680,573</u>	<u>32.39%</u>

(1) As of January 1, 2012.

(2) Excludes in lieu payments on exempt property.

Source: City Department of Finance.

**TAX LEVIES**

**Levy-General**

The principal tax of Massachusetts cities and towns is the tax on real and personal property. The amount to be levied in each year is the amount appropriated or required by law to be raised for municipal expenditures less estimated receipts from other sources and less appropriations voted from funds on hand. The total amount levied is subject to certain limits prescribed by law; for a description of those limits see *Tax Limitations* below. As to the inclusion of debt service and final judgements, see "Security and Remedies" above.

The estimated receipts for a fiscal year from sources other than the property tax may not exceed the actual receipts during the preceding fiscal year from the same sources unless approved by the State Commissioner of Revenue. Excepting special funds, the use of which is otherwise provided for by law, the deduction for appropriations voted from funds on hand for a fiscal year cannot exceed the "free cash" as of the beginning of the prior fiscal year as certified by the State Director of Accounts plus up to nine months' collections and receipts on account of earlier years' taxes after that date. Subject to certain adjustments, free cash is surplus revenue less uncollected overdue property taxes from earlier years.

Although an allowance is made in the tax levy for abatements (see *Abatements and Overlay* below) no reserve is generally provided for uncollectible real property taxes. Since some of the levy is inevitably not collected, this creates a cash deficiency which may or may not be offset by other items (see *Taxation to Meet Deficits* below).

**Taxation to Meet Deficits**

As noted elsewhere (see *Abatements and Overlay* below), overlay deficits, i.e. tax abatements in excess of the overlay included in the tax levy to cover abatements, are required to be added to the next tax levy. It is generally understood that revenue deficits resulting from non-property tax revenues being less than anticipated are also required to be added to the tax levy (at least to the extent not covered by surplus revenue).

Amounts lawfully expended since the prior tax levy and not included therein are also required to be included in the annual tax levy. The circumstances under which this can arise are limited since

municipal departments are generally prohibited from incurring liabilities in excess of appropriations except for major disasters, mandated items, contracts in aid of housing and renewal projects and other long-term contracts. In addition, utilities must be paid at established rates and certain established salaries, e.g. civil service, must legally be paid for work actually performed, whether or not covered by appropriations.

In the opinion of Bond Counsel, cities and towns are authorized to appropriate sums, and thus to levy taxes, to cover deficits arising from other causes, such as “free cash” deficits arising from a failure to collect taxes. This is not generally understood, however, and it has not been the practice to levy taxes to cover free cash deficits. Except to the extent that such deficits have been reduced or eliminated by subsequent collections of uncollected taxes (including sales of tax titles and tax possessions), lapsed appropriations, non-property tax revenues in excess of estimates, other miscellaneous items or funding loans authorized by special act, they remain in existence.

### **Tax Limitations**

Chapter 59, Section 21C of the General Laws, also known as “Proposition 2<sup>1/2</sup>,” imposes two separate limits on the annual tax levy of a city or town.

The primary limitation is that the tax levy cannot exceed 2½ percent of the full and fair cash value. If a city or town exceeds the primary limitation, it must reduce its tax levy by at least 15 percent annually until it is in compliance, provided that the reduction can be reduced in any year to not less than 7½ percent by majority vote of the voters, or to less than 7½ percent by two-thirds vote of the voters.

For cities and towns at or below the primary limit, a secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than 2½ percent (subject to exceptions for property added to the tax rolls, or property which has had an increase, other than as part of a general revaluation, in its assessed valuation over the prior year’s valuation).

This “growth” limit on the tax levy may be exceeded in any year by a majority vote of the voters. But an increase in the secondary or growth limit under this procedure does not permit a tax levy in excess of the primary limitations, since the two limitations apply independently. In addition, if the voters vote to approve taxes in excess of the “growth” limit for the purpose of funding a stabilization fund, such increased amount may only be taken into account for purposes of calculating the maximum levy limit in each subsequent year if the board of selectmen of a town or the city council of the city votes by a two-thirds vote to appropriate such increased amount in such subsequent year to the stabilization fund.

The applicable tax limits may also be reduced in any year by a majority vote of the voters.

The State Commissioner of Revenue may adjust any tax limit “to counterbalance the effect of extraordinary, non-recurring events which occurred during the base year.”

The statute further provides that the voters may exclude from the taxes subject to the tax limits and from the calculation of the maximum tax levy: (a) the amount required to pay debt service on bonds and notes issued before November 4, 1980, if the exclusion is approved by a majority vote of the voters, and (b) the amount required to pay debt service on any specific subsequent issue for which similar approval is obtained. Even with voter approval, the holders of the obligations for which unlimited taxes may be assessed do not have a statutory priority or security interest in the portion of the tax levy attributed to such obligations. Voters may also exclude from the Proposition 2½ limits the amount required to pay specified capital outlay expenditures or for the City’s apportioned share for certain capital outlay expenditures by a regional government unit. In addition, the city council may vote to exclude from Proposition 2½ limits taxes raised in lieu of sewer or water charges to pay debt service on bonds or notes issued by the municipality (or an independent authority, commission or district) for water or sewer purposes, provided that the municipality’s sewer or water charges are reduced accordingly.

In addition, Proposition 2½ limits the annual increase in the total assessments on cities and towns by any county, district, authority, the Commonwealth or any other governmental entity (except regional school districts, the Massachusetts Water Resources Authority and certain districts for which special legislation provides otherwise) to the sum of (a) 2½ percent of the prior year’s assessments and (b) “any increases in costs, charges or fees for services customarily provided locally or for services subscribed to at local option.” Under Proposition 2½ any State law to take effect on or after January 1, 1981 imposing a direct service or cost obligation on a city or town will become effective only if accepted or voluntarily funded by the city or town or if State funding is provided. State rules or regulations imposing additional costs on a city or town or laws granting or increasing local tax exemptions are to take effect only if adequate State appropriations are provided. These statutory provisions do not apply to costs resulting from judicial decisions.

## **Pledged Taxes**

Taxes on the increased value of certain property in designated development districts may be pledged for the payment of costs of economic development projects within such districts and may therefor be unavailable for other municipal purposes.

## **Initiative Petitions**

Various proposals have been made in recent years for legislative amendments to the Massachusetts Constitution to impose limits on state and local taxes. To be adopted such amendments must be approved by two successive legislatures and then by the voters at a state election.

## **Tax Limitations: Effect on the City**

### *Property Tax Levy*

Cambridge, like most municipalities in Massachusetts, was severely impacted by the initial implementation of Proposition 2 1/2 in fiscal year 1981. Due to the extensive amount of tax-exempt properties located in the City and the City's dependence on property taxes as a funding source, Cambridge was initially forced to reduce its tax levy in order to comply with the new tax limitation. As the Northeast began to participate in the economic boom of the 1980's, the City also experienced unprecedented levels of new construction activity. This new qualified construction growth translated into record increases in the assessed valuation of real and personal property, allowing the City's secondary levy limit to increase by over 57 percent between fiscal years 1984-1990, while actual tax levy and total City expenditure growth over the same period was significantly less. In 1991, new construction activity declined by almost sixty percent as an economic recession hit the Northeast. The loss of new growth caused the City's levy limit growth to decline, forcing a significant reduction in the gap between the levy limit and the City's actual tax levy. In fiscal year 1995, the margin between the actual tax levy and the levy limit was \$489,000, the lowest point in many years. However, by stabilizing the tax levy at \$144.4 million in fiscal year 1996, the City was able to increase the gap between the actual levy and the levy limit to \$6.2 million by taking advantage of moderate growth in the tax base as well as new growth of \$74.3 million. In the following years, the gap between the levy limit and the actual levy grew from \$6.2 million in FY96 to \$104.1 million in FY13.

### *Motor Vehicle Excise Tax*

Other revenue sources available to the City were also significantly impacted due to the passage of Proposition 2 1/2. The motor vehicle excise tax rate was reduced from \$66 per \$1,000 to \$25 per \$1,000 in 1980, causing a substantial reduction in receipts. However, in recent years, the City has been able to record substantial increases from this revenue source due mainly to the significant improvement in the local economy, implementation of an in-house tracking and collector system, and an agreement with the State not to renew drivers' licenses and automobile registrations if there are delinquent excise taxes.

### *State Aid*

In order to partially offset the reduction in local tax revenues caused by Proposition 2 1/2, the Massachusetts Legislature appropriated increasing amounts of local aid throughout the 1980's. However, after reaching a peak of \$44,426,564 in fiscal year 1988, state aid declined to \$32,135,332 in fiscal year 1992. In the ensuing years, this trend was reversed and aid to the City from the Commonwealth moved steadily upward to its fiscal year 2002 level of \$43,956,481. However, due to reductions in state aid in fiscal year 2003, the amount that the City received in that fiscal year decreased to \$37,776,619 which was the lowest amount since the early 1990's. The downward trend was reversed in fiscal year 2004 when the City received \$38,533,452 in state aid. The positive trend continued with the City receiving \$40,129,925 in fiscal year 2005, \$41,506,405 in fiscal year 2006, \$41,918,510 in fiscal year 2007 and \$45,331,957 in fiscal year 2008. This trend has again been reversed. Actual revenues in fiscal year 2009 were \$34,955,472, \$29,315,720 in fiscal year 2010, \$29,276,565 in fiscal year 2011 and \$29,600,413 in fiscal year 2012.

## **Tax Limitations: Five-Year Projections**

Fiscal year 2013 valuations of \$25,213,972,501 in real and personal property valuations were certified by the Massachusetts Department of Revenue. This figure represents a \$767,017,506, or 3.14%, increase over fiscal year 2012 valuations. The chart on the following page illustrates that total assessed values are anticipated to increase by an average of just under 2.8% annually over the fiscal year 2013 to fiscal year 2017 period due to a moderate increase in the value of existing properties and new construction. The chart on the following page illustrates the impact the anticipated increase in property values will have on the City's levy and levy limits through fiscal year 2017.

**CITY OF CAMBRIDGE  
PROJECTED GROWTH IN PROPERTY VALUATION  
FISCAL YEARS 2013 TO 2017**

<b>Fiscal Year</b>	<b>Projected Assessments(1)</b>	<b>Projected Levy</b>	<b>Primary Levy Limit(2)</b>	<b>Secondary Levy Limit(3)</b>
2013	\$25,213,972,501	\$316,947,770	\$630,349,313	\$421,051,728
2014	25,834,720,820	334,838,338	645,868,021	439,543,521
2015	26,603,211,382	351,606,973	665,080,285	459,792,442
2016	27,387,834,596	370,794,599	684,695,865	481,464,277
2017	28,205,577,437	387,710,481	705,139,436	504,499,101

- (1) The figures for fiscal year 2013 are those which have been certified by the Massachusetts Department of Revenue and the figures for 2014-2017 are estimates.
- (2) The primary levy limit is calculated at 2.5 percent of the projected assessment.
- (3) The secondary levy limit is the previous fiscal year's maximum allowable limit times 102.5 percent plus qualified new construction.

Source: City Department of Finance.

**The Revaluation Process: A Review and Update**

Massachusetts state law requires that real and personal property assessments be maintained at 100 percent of full market value. Every three years, values must be certified by the Massachusetts Department of Revenue (DOR) as meeting this standard. In the intervening years, values are updated based on the use of statistical standards set by the Department of Revenue. In 1983, the first complete revaluation of real and personal property in over sixty years was completed and certified at \$2.9 billion for fiscal year 1984. The most recent statistical validation of the City's assessing model by the DOR, as required during the interim years between the full triennial review and recertification process, was performed in fiscal year 2013 and yielded \$25.2 billion in real and personal property values.

The City has several general policies with respect to property assessments. First, values should be maintained at approximately 100 percent. Thus, Cambridge adjusts values annually and thereby avoids the disrupting shifts in value (and taxes) which might otherwise occur every third year when values must be certified by the state. This policy, which the City has been practicing for several years, is now mandated by the State.

Secondly, the City's valuation program is almost exclusively an "in-house" operation. Assessing Department personnel include appraisal and analysis professionals as well as permanent, full time staff members dedicated to data collection and maintenance. Also, the Department has full service data management, analysis and valuation software systems on its computers. All residential and commercial real estate valuations are currently handled by the Assessing Department permanent staff.

The City has upgraded its assessing computer system in concert with the implementation of the city-wide Geographic Information System (GIS). As a component of the GIS, the assessing database is available to most City departments.

The following table shows the calculation of the tax levies for fiscal years 2009 to 2013.

**CITY OF CAMBRIDGE  
CALCULATION OF PROPERTY TAX LEVIES  
FISCAL YEARS 2009 TO 2013  
(\$ in 000s)**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Gross Amount to be Raised:					
Total Appropriations.....	\$492,208	\$489,404	\$481,028	\$488,733	\$541,045
Overlay Deficits from Prior Years.....	0	0	1,535	995	36
Other Local Expenditures.....	1,107	1,365	989	1,048	998
State and County Assessments.....	16,536	16,196	19,504	20,477	21,822
Overlay for Current Year.....	4,445	4,363	4,295	4,391	4,448
Total to be Raised .....	<u>\$514,296</u>	<u>\$511,328</u>	<u>\$507,351</u>	<u>\$515,645</u>	<u>\$568,349</u>
Offsets:					
Estimated Receipts from State .....	\$ 39,932	\$ 30,221	\$ 31,632	\$ 29,752	\$ 30,980
Prior Year's Overestimates of					
State & County Assessments .....	0	0	0	0	0
Local Estimated Receipts .....	128,894	129,964	134,199	138,341	142,193
Other Available Funds .....	90,524	82,480	57,558	48,461	78,228
Total Offsets .....	<u>\$259,350</u>	<u>\$242,665</u>	<u>\$223,389</u>	<u>\$216,554</u>	<u>\$251,401</u>
Tax Levy.....	<u>\$254,946</u>	<u>\$268,663</u>	<u>\$283,962</u>	<u>\$299,091</u>	<u>\$316,948</u>

Source: City Department of Finance.

**TAX COLLECTIONS AND ABATEMENTS**

**Payment Dates**

The taxes for each fiscal year are due in two installments on November 1 subject to deferral if tax bills are sent out late and May 1. (A city or town may accept a statute providing for quarterly tax payments. The City has chosen not to accept this statute.) Interest accrues on delinquent taxes at the rate of 14 percent per annum.

**Lien**

Real property (land and buildings) is subject to a lien for the taxes assessed upon it, (subject to any paramount federal lien and subject to bankruptcy and insolvency laws). (In addition, real property is subject to a lien for certain unpaid municipal charges or fees.) If the property has been transferred, an unenforced lien expires on the fourth December 31 after the end of the fiscal year to which the tax relates. If the property has not been transferred by the fourth December 31, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien when it could not be enforced because of a legal impediment.

**Personal Liability**

The persons against whom real and personal property taxes are assessed are personally liable for the tax (subject to bankruptcy and insolvency laws). In the case of real property, this personal liability is effectively extinguished by sale or taking of the property as described in *Taking and Sale* below.

**Abatements and Overlay**

A city or town is authorized to increase each tax levy by up to five percent (or a larger amount approved by the State Commissioner of Revenue) as an “overlay” to provide for tax abatements. If abatements are granted in excess of the applicable overlay, the excess is required to be added to the next tax levy.

Abatements are granted where exempt real or personal property has been assessed or where taxable real and personal property has been overvalued or disproportionately valued. The City Assessor may also abate uncollectible personal property taxes. The Assessor may abate real and personal property taxes on broad grounds (including inability to pay) with the approval of the State Commissioner of Revenue. But uncollected real property taxes are ordinarily not written off until they become municipal “tax titles” by purchase at the public sale or by taking, at which time the tax is written off in full by reserving the amount of the tax and charging surplus.

The following table shows the total tax levy, the reserve for abatements, the net levy, and the amounts collected during each fiscal year for each of the last five fiscal years:

**CITY OF CAMBRIDGE  
TOTAL TAX LEVY, OVERLAY RESERVE, AND TAX COLLECTIONS  
FISCAL YEARS 2008 TO 2012**

Fiscal Year	Tax Commitment	Collections During Fiscal Year Payable (2)		Collections as of 6/30/12(3)	
		Amount	% of Tax Commitment	Amount	% of Tax Commitment
2012	\$299,269,635	\$294,569,421	98.4%	\$294,569,421	98.4%
2011	285,237,707	280,979,635	98.5	282,354,112	99.0
2010	269,094,125	263,057,040	97.8	265,370,228	98.6
2009	258,512,759	250,159,641	96.8	252,683,918	97.7
2008	243,009,337	237,913,702	97.9	237,930,506	97.9

- (1) Tax levy less overlay reserve for abatements.
- (2) Actual collection of levy less refunds and amounts refundable including proceeds of tax titles and tax possessions but not including abatements or other credits.
- (3) All figures shown are from KPMG audited financial statements.

Source: City Department of Finance.

**CITY OF CAMBRIDGE  
OVERLAY RESERVES AND ABATEMENTS  
FISCAL YEARS 2008 TO 2012**

Fiscal Year	Overlay Reserve		Abatements	
	Amount	% of Total Levy	During Fiscal Year of Each Tax Levy	Since Fiscal Year Ended (through 6/30/12)(1)
2012	\$4,390,639	1.5%	\$1,362,467	\$1,363,467
2011	4,295,422	1.5	1,471,642	1,947,854
2010	4,362,984	1.6	2,018,228	2,893,367
2009	4,445,578	1.7	3,011,039	3,659,891
2008	4,535,813	1.9	1,170,749	3,798,653

(1) All figures shown are from KPMG audited statements.

Source: City Department of Finance.

**TAXES OUTSTANDING**

**Taking and Sale**

Massachusetts law permits a municipality either to sell by public sale (at which the municipality may become the purchaser) or to take real property for non-payment of taxes. In either case, the property owner can redeem the property by paying the unpaid taxes, with interest and other charges, but if the right of redemption is not exercised within six months (which may be extended an additional year in the case of certain installment payments), it can be foreclosed by petition to the Land Court. Upon foreclosure, a tax title purchased or taken by the municipality becomes a "tax possession" and may be held and disposed of in the same manner as other land held for municipal purposes.

Cities and towns are authorized to sell delinquent property tax receivables by public sale or auction, either individually or in bulk.

**OVERDUE PROPERTY TAXES  
FISCAL YEARS 2008 TO 2012**

Fiscal Year	Aggregate(1)(2)	For Current Year(1)(2)	Tax Title and Tax Possessions(2)
2012	\$ 4,351,203	\$ 3,300,803	\$ 3,216,887
2011	3,969,474	2,777,185	3,056,350
2010	5,528,500	4,070,855	2,503,794
2009	5,840,301	4,992,579	2,800,018
2008	4,598,274	3,956,667	2,596,898

(1) Excludes tax titles, tax possessions, and abated taxes. Includes taxes in litigation, if any.

(2) All figures shown are from KPMG audited financial statements.

Source: City Department of Finance.

**FEDERAL AND STATE AID**

**Federal**

Although the major source of federal aid to the City, Community Development Block Grant funds, has been reduced in recent years, programs funded through this source have not been affected. Current revenues have been used, in most cases, to fund programs previously supported by Block Grant funds. In addition, bond proceeds have been utilized to offset reductions in funding of capital projects.

The following table shows federal moneys received over the last five fiscal years:

**CITY OF CAMBRIDGE  
PRINCIPAL FEDERAL AID BY SOURCE  
FISCAL YEARS 2008 TO 2012**

<u>Fiscal Year</u>	<u>Community Development Block Grant</u>	<u>Other</u>	<u>Total From Federal Government</u>
2012	\$2,256,340	\$14,321,430	\$16,577,770
2011	3,273,271	17,914,922	21,188,193
2010	2,914,396	14,537,724	17,452,120
2009	2,993,476	14,426,119	17,419,595
2008	3,064,051	12,747,888	15,811,939

Source: City Department of Finance.

**State**

In addition to grants for specified capital purposes (some of which are payable over the life of the bonds issued for the projects), the Commonwealth provides financial assistance to cities and towns for current purposes. Payments to cities and towns are derived primarily from a percentage of the State's personal income, sales and use, and corporate excise tax receipts, together with the net receipts from the State Lottery. A municipality's state aid entitlement is based on a number of different formulas, of which the "schools" and "lottery" formulas are the most important. Both of the major formulas tend to provide more state aid to poorer communities. The formulas for determining a municipality's state aid entitlement are subject to amendment by the state legislature and, while a formula might indicate that a particular amount of state aid is owed, the amount of state aid actually paid is limited to the amount appropriated by the state legislature. The state annually estimates state aid, but the actual state aid payments may vary from the estimate.

In the fall of 1986, both the State Legislature (by statute repealed as of July 1, 1999) and the voters (by initiative petition) placed limits on the growth of state tax revenues. Although somewhat different in detail, each measure essentially limited the annual growth in state tax revenues to an average rate of growth in wages and salaries in the Commonwealth over the three previous calendar years. If not amended, the remaining law could restrict the amount of state revenues available for state aid to local communities.

Legislation was enacted in 1991 to help municipalities compensate for additional local aid reductions by the Commonwealth for fiscal year 1992. Under that law, municipalities may defer budgeting for teacher's summer compensation payable by the end of the fiscal years 1992 and 1993. Municipalities choosing to defer such amounts are required to amortize the resulting budget deficiency by raising at least one fifteenth of the deferred amount in each of the fiscal years 1997 through 2013, or in accordance with a more rapid amortization schedule. The City did not choose to defer payment of teachers' summer compensation.

## **State School Building Assistance Program**

Under its school building assistance program, the Commonwealth of Massachusetts provides grants to cities, towns and regional school districts for school construction projects. Until July 26, 2004, the State Board of Education was responsible for approving grants for school projects and otherwise administering the program. Grant amounts ranged from 50% to 90% of approved project costs. Municipalities generally issued bonds to finance the entire project cost, and the Commonwealth disbursed the grants in equal annual installments over the term of the related bonds.

Pursuant to legislation which became effective on July 26, 2004, the state legislature created the Massachusetts School Building Authority (the "Authority") to finance and administer the school building assistance program. The Authority has assumed all powers and obligations of the Board of Education with respect to the program. In addition to certain other amounts, the legislation dedicates a portion of Commonwealth sales tax receipts to the Authority to finance the program.

Projects previously approved for grants by the State Board of Education are entitled to receive grant payments from the Authority based on the approved project cost and reimbursement rate applicable under the prior law. The Authority either has paid and is expected to continue to pay the remaining amounts of the grants for such projects in either annual installments to reimburse debt service on bonds issued by the municipalities to finance such projects, or as lump sum payments to contribute to the defeasance of such bonds.

Projects on the priority waiting list as of July 1, 2004 are also entitled to receive grant payments from the Authority based on the eligible project costs and reimbursement rates applicable under the prior law. With limited exceptions, the Authority is required to fund the grants for such projects in the order in which they appear on the waiting list. Grants for any such projects that have been completed or substantially completed have been paid and are expected to continue to be paid by the Authority in lump sum payments, thereby eliminating the need for the Authority to reimburse interest expenses that would otherwise be incurred by the municipalities to permanently finance the Authority's share of such project costs. Interest on debt issued by municipalities prior to July 1, 2004 to finance such project costs, and interest on temporary debt until receipt of the grant, is included in the approved costs of such projects. Grants for any such projects that have not yet commenced or that are underway have been and are expected to continue to be paid by the Authority as project costs are incurred by the municipality pursuant to a project funding agreement between the Authority and the municipality eliminating the need for the municipality to borrow even on a temporary basis to finance the Authority's share of the project costs in most cases.

The range of reimbursement rates for new project grant applications submitted to the Authority on or after July 1, 2007 has been reduced to between 40% and 80% of approved project costs. The Authority promulgated new regulations with respect to the application and approval process for projects submitted after July 1, 2007. The Authority pays grants for such projects as project costs are incurred pursuant to project funding agreements between the Authority and the municipalities. None of the interest expense incurred on debt issued by municipalities to finance their portion of the costs of new projects will be included in the approved project costs eligible for reimbursement.

The following table sets forth the actual cherry sheet State aid received by the City in each of the last five fiscal years:

**CITY OF CAMBRIDGE  
MAJOR STATE ASSISTANCE BY SOURCE  
FISCAL YEARS 2008 TO 2012**

<u>Fiscal Year</u>	<u>School Construction</u>	<u>School Operations</u>	<u>Other</u>	<u>Total From State</u>
2012	\$ 0	\$10,648,835	\$18,951,578	\$29,600,413
2011	0	10,393,382	18,883,183	29,276,565
2010	0	9,741,701	19,574,019	29,315,720
2009	0	9,108,389	25,847,083	34,995,472
2008	6,895,068	10,083,324	28,353,545	45,331,937

Source: City Department of Finance. See also *Tax Limitations: Effect on the City*, above.

**MOTOR VEHICLE EXCISE TAX**

An excise tax is imposed on the registration of motor vehicles (subject to exemptions) at the rate of \$25 per \$1,000 of valuation. Valuations are determined by a statutory formula based on a manufacturer's list price and year of manufacture. Bills not paid when due bear interest at 12 percent from the due date. Provision is also made for suspension of registration by the Registrar of Motor Vehicles, who may also after a hearing suspend the owner's operating license.

During fiscal year 1984, the City purchased a computerized "in-house" excise tax billing system, allowing the City to discontinue a contractual agreement with an outside service bureau. As a result of this new system, the excise billing and enforcement process is both more timely and efficient.

Between fiscal year 1985 and fiscal year 2012, motor vehicle excise tax revenue increased from \$2.0 million to approximately \$6.2 million. This increase has been due to several factors, including the economic recovery that occurred during the 1990's, increased automobile sales, and the City's implementation of an in-house tracking and collection system.

The valuations of motor vehicles are in addition to the real and personal property valuations.

The following table shows the actual motor vehicle excise tax receipts in each of the last five fiscal years:

**RECEIPTS FROM MOTOR VEHICLE EXCISE TAX  
FISCAL YEARS 2008 TO 2012**

<u>Fiscal Year</u>	<u>Receipts(1)(2)</u>
2012	\$6,238,835
2011	6,452,602
2010	6,182,561
2009	6,139,574
2008	6,649,769

(1) Net after refunds, includes receipts from prior years.

(2) All figures shown are from KPMG audited financial statements.

Source: City Department of Finance.

## ROOM OCCUPANCY EXCISE

Since fiscal year 1986 the City has imposed a room occupancy excise tax at a rate of four percent on hotel, motel, lodging house, and bed and breakfast rooms. The tax is paid by the operator of each establishment to the State Commissioner of Revenue, who in turn pays the tax back to the City.

On July 27, 2009, the City Council voted to accept Chapter 65G, section 3A of the Massachusetts General Laws which allows the City to increase the room occupancy excise tax from four to six percent.

### RECEIPTS FROM ROOM OCCUPANCY EXCISE FISCAL YEARS 2008 to 2012

<u>Fiscal Year</u>	<u>Receipts(1)</u>
2012	\$11,219,831
2011	10,201,206
2010	7,601,971
2009	6,802,768
2008	6,862,581

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(1) All figures shown are from KPMG audited financial statements.

Source: City Department of Finance.

Legislation relating to the Massachusetts Convention Center imposed a “convention center financing fee” in an amount equal to 2.75% of the total room rent paid in any hotel, motel or other lodging establishment in the City (as well as the cities of Springfield and Worcester) for the purpose of financing the construction of the facilities authorized by such legislation.

## LOCAL MEALS EXCISE TAX

On July 27, 2009, the City Council voted to accept Chapter 64L, Section 2(a) of the Massachusetts General Laws which imposes a local meals excise tax in the City of Cambridge. The State Meals Tax was increased from 5.0% to 6.25% with cities and towns having the option of approving an additional .75% in order to mitigate the effects of a substantial reduction in State Aid in fiscal year 2010. During Fiscal Year 2010 actual receipts from local meals excise tax were \$1,759,717, \$3,551,926 in Fiscal Year 2011, and \$3,734,594 in fiscal year 2012.

## COMMUNITY PRESERVATION ACT

The Massachusetts Community Preservation Act (the “CPA”) permits cities and towns that accept its provisions to levy a surcharge on its real property tax levy and to receive state matching funds for the acquisition, creation, preservation, rehabilitation and restoration of open space, historic resources and affordable housing. The provisions of the CPA must be accepted by the voters of the city or town at an election after such provisions have first been accepted by either a vote of the legislative body of the city or town or an initiative petition signed by 5% of its registered voters.

A city or town may approve a surcharge of up to 3% of the real property tax levy, and it may accept one or more exemptions to the surcharge under the CPA, including an exemption for low-income individuals and families and for low and moderate-income senior citizens, an exemption for \$100,000 of the value of each taxable parcel of residential real property, and an exemption for commercial and industrial properties in cities and towns with classified tax rates. The surcharge is not counted in the total taxes assessed for the purpose of determining the permitted levy amount under Proposition 2½ (see “Tax Limitations” under “PROPERTY TAX” above). A city or town may revoke its acceptance of the provisions of the CPA at any time after 5 years from the date of such acceptance and may change the amount of the surcharge or the exemptions to the surcharge at any time, provided that any such revocation or change must be approved pursuant to the same process as acceptance of the CPA.

Any city or town that accepts the provisions of the CPA will receive annual state matching grants to supplement amounts raised by its surcharge on the real property tax levy. The state matching funds are raised from certain recording and filing fees of the registers of deeds. Those amounts are deposited into a state trust fund and are distributed to cities and towns that have accepted the provisions of the CPA, which distributions are not subject to annual appropriation by the state legislature. The amount distributed to each city and town is based on a statutory formula which requires that 80% of the amount in the state trust fund be used to match an equal percentage of the amount raised locally by each city and town, and that the remaining 20% of the amount in the fund be distributed only to those cities and towns that levy the maximum 3% surcharge based on a formula which takes into account equalized property valuation and population, resulting in larger distributions to those communities with low valuations and small populations. The total state distribution made to any city or town may not, however, exceed 100% of the amount raised locally by the surcharge on the real property tax levy.

The amounts raised by the surcharge on real property taxes and received in state matching funds are required to be deposited in a dedicated community preservation fund. Each city or town that accepts the provisions of the CPA is required to establish a community preservation committee to study the community preservation needs of the community and to make recommendations to the legislative body of the city or town regarding the community preservation projects that should be funded from the community preservation fund. Upon the recommendations of the committee, the legislative body of the city or town may appropriate amounts from the fund for permitted community preservation purposes or may reserve amounts for spending in future fiscal years, provided that at least 10% of the total annual revenues to the fund must be spent or set aside for open space purposes, 10% for historic resource purposes and 10% for affordable housing purposes.

The CPA authorizes cities and towns that accept its provisions to issue bonds and notes in anticipation of the receipt of surcharge revenues to finance community preservation projects approved under the provisions of the CPA. Bonds and notes issued under the CPA are general obligations of the city or town and are payable from amounts on deposit in the community preservation fund. In the event that a city or town revokes its acceptance of the provisions of the CPA, the surcharge shall remain in effect until all contractual obligations incurred by the city or town prior to such revocation, including the payment of bonds or notes issued under the CPA, have been fully discharged.

The City has accepted the provisions of the CPA.

## **PUBLISHED FINANCIAL INFORMATION**

The City annually contracts with a Certified Public Accounting firm to conduct an independent audit of its financial operations for each fiscal year. Since fiscal year 1979, the City's independent auditor has been KPMG LLP, Certified Public Accountants, Boston, Massachusetts. Copies of the annual audit are available to the public upon request from the Department of Finance, City Hall, 795 Massachusetts Avenue, Cambridge, Massachusetts 02139.

In addition to the annual independent audit, the City annually publishes a Comprehensive Operating Budget, which includes a five-year Public Investment Program. This document is available through the City Manager's Office, City Hall, 795 Massachusetts Avenue, Cambridge, Massachusetts 02139.

The first table shows general fund balance sheets for fiscal years 2008 through 2012, while the second table compares City revenues, expenditures, and changes in fund balance for fiscal years 2008 through 2012.

**CITY OF CAMBRIDGE  
GENERAL FUND BALANCE SHEETS  
FISCAL YEARS 2008 TO 2012(1)  
(as of June 30)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>ASSETS</b>					
Cash .....	\$193,401,156	\$184,961,474	\$178,909,465	\$183,045,990	\$192,187,580
Receivables(2)					
Taxes .....	4,198,322	5,371,460	4,950,755	3,336,193	3,866,014
Tax Title and Possessions.....	2,496,898	2,800,018	2,503,794	3,056,350	3,216,887
Motor Vehicle Excise .....	1,153,628	1,012,999	995,487	946,975	1,043,063
Departmental .....	9,536,320	10,627,764	10,319,844	10,448,658	10,486,691
Intergovernmental.....	1,148,862	—	—	—	—
Due From Component.....					
Unit.....	15,000,000	13,500,000	11,995,000	10,495,000	8,995,000
Other Assets.....	2,103,996	1,549,978	1,084,131	1,748,986	2,266,162
Total Assets .....	<u>\$229,139,182</u>	<u>\$219,823,693</u>	<u>\$210,758,476</u>	<u>\$213,078,152</u>	<u>\$222,061,397</u>
<b>LIABILITIES AND FUND EQUITY</b>					
Warrants Payable.....	\$3,983,530	\$ 4,809,911	\$ 7,781,381	\$ 6,656,223	\$ 6,827,640
Tax Abatement Refunds .....	3,500,000	3,500,000	3,000,000	3,300,000	2,000,000
Other .....	21,886,059	22,772,466	24,560,322	32,160,712	23,340,775
Deferred Revenue.....	32,250,869	32,245,978	29,118,877	27,531,381	26,723,055
Total Liabilities .....	<u>\$ 61,620,458</u>	<u>\$63,328,355</u>	<u>\$ 64,460,580</u>	<u>\$ 69,648,316</u>	<u>\$58,891,470</u>
<b>FUND BALANCES:</b>					
Nonspendable .....	2,037,345	1,469,978	1,004,131	1,668,986	2,186,162
Restricted .....	—	—	—	—	—
Committed .....	59,858,799	59,650,472	50,207,982	42,061,955	34,256,986
Unassigned .....	105,622,580	95,374,888	95,085,783	99,698,895	126,726,779
Total Fund Balance .....	<u>167,518,724</u>	<u>156,495,338</u>	<u>146,297,896</u>	<u>143,429,836</u>	<u>163,169,927</u>
Total Liabilities & Fund Equity ...	<u>\$229,139,182</u>	<u>\$219,823,693</u>	<u>\$210,758,476</u>	<u>\$213,078,152</u>	<u>\$222,061,397</u>

(1) See Appendix A for complete financial report for 2012. Copies of the financial reports for 2008, 2009, 2010 and 2011 are available upon request.

(2) The amounts shown for receivables are the total receivables with an allowance for uncollectible receivables shown on a separate line.

Source: Audit Reports of KPMG LLP for the fiscal years ended June 30, 2008, 2009, 2010, 2011 and 2012.

**CITY OF CAMBRIDGE**  
**GENERAL FUND—COMPARATIVE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
**ACTUAL FOR FISCAL YEARS 2008 TO 2012 (1)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues:					
Property Taxes .....	\$238,747,275	\$251,255,629	\$266,861,794	\$281,812,153	\$297,723,747
In Lieu of Tax Receipts .....	7,318,567	7,011,953	7,105,643	7,344,911	7,586,219
Hotel/Motel/Meals Tax .....	6,862,581	6,802,768	9,361,688	13,573,132	14,954,425
Intergovernmental Revenue .....	47,575,390	37,234,500	32,138,738	31,795,812	31,954,472
Sewer Use .....	36,874,045	36,058,033	36,825,469	40,346,895	40,579,119
Motor Vehicle Excise .....	6,649,769	6,139,573	6,182,561	6,452,602	6,238,835
Interest .....	9,295,172	4,256,527	1,273,261	1,064,224	864,286
Other .....	30,721,070	26,889,246	30,070,728	34,561,571	43,555,600
Total Revenues .....	<u>\$384,043,869</u>	<u>\$375,648,229</u>	<u>\$389,819,882</u>	<u>\$416,951,300</u>	<u>\$443,456,703</u>
Expenditures:					
General Government .....	32,571,741	31,765,295	40,100,913	35,891,674	35,852,058
Public Safety .....	89,514,125	95,816,587	95,716,808	100,413,995	103,388,702
Community Maintenance and Development .....	33,331,070	35,040,010	34,126,970	36,459,244	36,682,794
Human Resource Development .....	23,943,570	25,464,435	28,133,379	29,586,338	30,919,537
Education .....	124,531,085	129,030,651	132,652,341	134,077,602	139,276,389
Judgements and Claims .....	114,641	170,865	924,862	9,029,151	4,112,551
State Assessments .....	39,567,157	41,020,229	42,447,468	44,892,107	46,146,725
Debt Service:					
Principal .....	25,381,700	30,202,892	32,775,576	34,865,929	33,939,454
Interest .....	8,742,505	9,966,282	10,439,315	10,381,632	10,623,015
Total Expenditures .....	<u>\$377,697,594</u>	<u>\$398,477,246</u>	<u>\$417,317,632</u>	<u>\$435,597,672</u>	<u>\$440,941,225</u>
Transfers from (to) Other Funds: (Net).	\$ 8,511,790	\$ 11,805,631	\$ 17,300,308	\$ 15,778,312	\$ 17,225,613
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses .....	14,858,065	(11,023,386)	(10,197,442)	( 2,868,060)	19,740,091
Fund Equity at beginning of year ....	<u>152,660,659</u>	<u>167,518,724</u>	<u>156,495,338</u>	<u>146,297,896</u>	<u>143,429,836</u>
Fund Equity at end of year .....	<u>\$167,518,724</u>	<u>\$156,495,338</u>	<u>\$146,297,896</u>	<u>\$143,429,836</u>	<u>\$163,169,927</u>

(1) Does not include water revenues and expenditures.

Source: Audit Reports of KPMG LLP for the fiscal years ended June 30, 2008, 2009, 2010, 2011 and 2012.

## SURPLUS REVENUE AND FREE CASH

Under Massachusetts law an amount known as “free cash” is certified as of the beginning of each fiscal year by the State Bureau of Accounts and this, together with certain subsequent tax receipts, is used as the basis for subsequent appropriations for available funds, which are not required to be included in the annual tax levy. Subject to certain adjustments, free cash is surplus revenue less uncollected and overdue property taxes from prior years.

The following table sets forth the surplus revenue and certified free cash for the most recent fiscal years:

### CITY OF CAMBRIDGE SURPLUS REVENUE AND CERTIFIED FREE CASH FISCAL YEARS 2008 TO 2012

July 1	Surplus Revenue or (Deficit)(1)(2)	Free Cash
2012	\$144,634,283	\$115,826,900
2011	129,703,375	102,239,071
2010	117,772,487	89,315,773
2009	114,794,796	84,569,498
2008	122,278,874	91,754,033

- (1) Surplus revenue is not reduced by revenue deficits from tax abatements in excess of overlay or revenue deficits resulting from non-property tax receipts being less than estimates, both of which are added to the next tax levy. It also does not include special funds, such as water.
- (2) The calculation of Free Cash by the Department of Revenue is based on financial statements prepared by the City’s Finance Department in accordance with Uniform Municipal Accounting System (UMAS) principles. This method differs in certain areas from Generally Accepted Accounting Principles (GAAP), which causes a difference between the figures shown here as Surplus Revenue or (Deficit), or Unassigned Fund Balance, and those shown in the KPMG LLP audited financial statements in Appendix A.

Source: City Department of Finance.

## INVESTMENTS

Investments of funds of cities and towns, except for trust funds, are generally restricted by Massachusetts General Laws Chapter 44, §55. That statute permits investments of available revenue funds and bond and note proceeds in term deposits and certificates of deposits of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government or an agency thereof with a maturity of not more than one year, in repurchase agreements with a maturity of not more than 90 days secured by federal or federal agency securities, in participation units in the Massachusetts Municipal Depository Trust (“MMDT”), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

MMDT is an investment pool created by the Commonwealth. The State Treasurer is the sole trustee, and the funds are managed under contract by an investment firm under the supervision of the State Treasurer’s office. According to the State Treasurer the Trust’s investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U.S. Government obligations and highly-rated corporate securities with maturities of one year or less.

The City periodically bids out cash investments to local banks to ensure that we are receiving maximum interest on idle cash. All investments are made in accordance with State law and City financial policies governing the security and liquidity of assets.

Trust funds, unless otherwise provided by the donor, may be invested in accordance with §54 of Chapter 44, which permits a broader range of investments than §55, including any bonds or notes that are legal investments for savings banks in the Commonwealth. The restrictions imposed by §§54 and 55 do not apply to city and town retirement systems.

## TAX INCREMENT FINANCING FOR DEVELOPMENT DISTRICTS

Under recent legislation, cities and towns are authorized to establish development districts to encourage increased residential, industrial and commercial activity. All or a portion of the taxes on growth in assessed value in such districts may be pledged and used solely to finance economic development projects pursuant to the city or town's development program for the district. This includes pledging such "tax increments" for the payment of bonds issued to finance such projects. As a result of any such pledge, tax increments raised from new growth properties in development districts are not available for other municipal purposes. Tax increments are taken into account in determining the total taxes assessed for the purpose of calculating the maximum permitted tax levy under Proposition 2<sup>1/2</sup> (see "Property Tax Limitations" under "PROPERTY TAXATION" above.) The City has not to date established any such districts.

## RETIREMENT PLAN

The Massachusetts General Laws (Chapter 32, Sections 1-28) provide for the establishment of contributory retirement systems for state employees, for teachers and for county, city, and town employees other than teachers. Teachers are assigned to a separate statewide teacher's system and not to the City system. Substantially all employees of the City are covered.

In addition to the contributory systems, the City provides non-contributory pensions to a limited number of employees, primarily persons who entered service prior to July 1, 1937 and their dependents.

The Public Employee Retirement Administration Commission ("PERAC") provides oversight and guidance for and regulates all state and local retirement systems.

The obligations of the City of Cambridge under the Contributory Pension Law are contractual legal obligations and are required to be included in the annual tax levy.

If a city or town, or the county system of which it is a member, has not established a retirement system funding schedule as described below, the city or town is required to provide for the payment of the portion of its current pension obligations which is not otherwise covered by employee contributions and investment income. "Excess earnings," or earnings on individual employees' retirement accounts in excess of a predetermined rate, are required to be set aside in a pension reserve fund for future, not current, pension liabilities. Cities and town may voluntarily appropriate to their system's pension reserve fund in any given year up to five percent of the preceding year's tax levy. The aggregate amount in the fund may not exceed ten percent of the equalized valuation of the city or town.

If a city or town, or each member city and town of a county retirement system, has accepted the applicable law, it is required to annually appropriate an amount sufficient to pay not only its current pension obligations, but also a portion of its future pension liability. The portion of each such annual payment allocable to future pension obligations is required to be deposited in the pension reserve fund. The amount of the annual city or town appropriation for each such system is prescribed by a retirement system funding schedule which is periodically reviewed and approved by PERAC. Each system's retirement funding schedule is designed to reduce the unfunded actuarial pension liability of the system to zero by not later than June 30, 2030, with annual increases in the scheduled payment amounts of not more than 4.5 percent. The funding schedule must provide that payment in any year of the schedule is not less than 95 percent of the amount appropriated in the previous fiscal year. City, town and county systems which have an approved retirement funding schedule receive annual pension funding grants from the Commonwealth for the first 16 years of such funding schedule. Pursuant to recent legislation, a system (other than the state employees' retirement system and the teachers' retirement system) which conducts an actuarial valuation of January 1, 2009, or later, may establish a revised schedule which reduces the unfunded actuarial liability to zero by not later than June 30, 2040, subject to certain conditions. If the schedule is so extended under such provisions and a later updated valuation allows for the development of a revised schedule with reduced payments, the revised schedule shall be adjusted to provide that the appropriation for each year shall not be less than that for such year under the prior schedule, thus providing for a shorter schedule rather than reduced payments.

City, town and county systems may choose to participate in the Pension Reserves Investment Trust Fund (the "PRIT Fund"), which receives additional state funds to offset future pension costs of participating state and local systems. If a local system participates in the PRIT Fund, it must transfer ownership and control of all assets of its system to the Pension Reserves Investment Management Board, which manages the investment and reinvestment of the PRIT Fund. Cities and towns with systems participating in the PRIT Fund continue to be obligated to fund their pension obligations in the manner described above. The additional state appropriations to offset future pension liabilities of state and local systems participating in the PRIT Fund are required to total at least 1.3 percent of state payroll. Such additional state appropriations are deposited in the PRIT Fund and shared by all participating systems in proportion to their interests in the assets of the PRIT Fund as of July 1 for each fiscal year.

Cost-of-living increases for retirees in the City retirement system would be granted and funded by the retirement system. Those statutory provisions are subject to acceptance by the Retirement Board with the approval of the City Council, which acceptance may not be revoked. The City Council approved this legislation on June 1, 1998 and it took effect on July 1, 1998. Legislation provides that upon local acceptance and subject to certain conditions and limitations, a municipality may establish and implement an early retirement incentive program. Any plan for such program must have been submitted to PERAC by September 27, 2010.

The annual contributions of the City to the contributory and non-contributory retirement system for the 2009 to 2013 fiscal years are set forth below:

**CITY OF CAMBRIDGE  
CONTRIBUTIONS TO CITY PENSION FUNDS  
FISCAL YEARS 2009 TO 2013**

<b>Fiscal Year</b>	<b>Contributory (1)</b>	<b>Non-contributory</b>	<b>Total</b>
2013	\$30,369,208	\$1,350,000	\$31,719,208
2012	30,729,303	1,350,000	32,079,303
2011	27,314,492	1,350,000	28,664,492
2010	26,637,614	1,350,000	27,987,614
2009	25,869,686	1,350,000	27,219,686

(1) Contributory figure indicated has been determined by the Commonwealth.

Source: City Department of Finance.

An actuarial study conducted by an independent audit firm determined that the unfunded pension liability of the Cambridge Retirement System was \$237,773,699 as of January 1, 2012. In January, 1991, the City established a state-approved funding schedule, which is updated biennially. The latest study dated January 1, 2012, estimates that the City's unfunded actuarial liabilities will be eliminated by June 30, 2029.

**OTHER POST-EMPLOYMENT BENEFITS**

In addition to pension benefits, cities and towns may provide retired employees with health care and life insurance benefits. The portion of the cost of such benefits paid by cities or towns is generally provided on a pay-as-you-go basis. The pay-as-you-go cost to the City for such benefits in recent years has been as follows:

**CITY OF CAMBRIDGE  
COSTS OF OTHER POST-EMPLOYMENT BENEFITS  
FISCAL YEARS 2008 TO 2012**

<b>Fiscal Year</b>	<b>Amount</b>
2012	\$22,548,438
2011	22,255,165
2010	23,884,547
2009	18,557,960
2008	17,122,400

The Governmental Accounting Standards Board ("GASB") promulgated its Statement Nos. 43 and 45 (the "GASB Statements") in June 2004, which, for the first time, required public sector entities to report the future costs of these non-pension, post-employment benefits in their financial statements. These new accounting standards do not require pre-funding such benefits, but the basis applied by the standards for measurement of costs and liabilities for these benefits is conservative if they continue to be funded on a pay-as-you-go basis and will result in larger yearly cost and liability accruals than if such benefits were pre-funded in a trust fund in the same manner as traditional pension benefits. Cities and towns that choose to self-insure all or a portion of the cost of the health care benefits that they provide to employees and retirees may establish a trust fund for the purpose of paying claims. In addition, cities and towns may establish a trust fund for the purpose of pre-funding other post-employment benefits liability in the same manner as traditional pension benefits.

The City was required to implement the new GASB statements for other post-employment benefits beginning in fiscal year 2008. An actuarial valuation dated May 18, 2007 of the City's post-employment welfare benefit program was prepared for the City by The Segal Company with an updated report prepared by Gallagher Benefit Services, Inc. dated November 24, 2009 indicating that the unfunded actuarial accrued liability (the "UAAL") as of July 1, 2010, rolled forward to 2011, as of June 30, 2012 was \$611,012,294.

The GASB Statements provide the method for selecting the investment return assumption (discount rate). If the benefits are pre-funded, the discount rate is based on the estimated long-term investment yield on the investments expected to be used to finance the payment of benefits. A pre-funded discount rate is used when the City's funding policy is to contribute consistently an amount at least equal to the Annual Required Amount (the "ARC"), an amount equal to the normal cost of the benefits plus an amount to amortize the unfunded actuarial accrued liability relating to the benefits (the "UAAL"). If financing continues to be pay-as-you-go, the discount rate is based on the expected yield on the assets of the employer. The City's valuation report used a discount rate of 4.5%.

The City selected the pay-as-you-go (4.50% interest rate) projected unit credit cost method with figures in the next paragraph based on an Annual Required Contribution (ARC) of \$49,369,000.

During fiscal year 2013 the City estimates it will pay claims and expenses (net of retiree contributions) on behalf of all retired employees of approximately \$24,659,765. Based on the methodology selected by the City using the latest actuarial report, the resulting ARC would require an additional payment by the City for fiscal year 2013 of approximately \$24,709,235.

The City accepted Chapter 32B, Section 20 of the Massachusetts General Laws which established an Other Post Employment Liability Trust by a vote of the City Council on December 21, 2009. This is an irrevocable trust fund into which contributions will be made to meet the unfunded liability. The City Council also approved a transfer from the Health Claims Trust Fund to the Other Post Employment Liability Trust of \$2,000,000 to begin the process of funding the unfunded liability, in FY10. The City made a \$1 million contribution to the Fund in Fiscal Year 2013 and it projects to increase this contribution to \$2,000,000 in FY14.

A copy of the actuarial valuation report can be obtained from the City Treasurer (617) 349-4220.

For additional information relating to the City's pension system as well as certain life insurance and health care benefits for retirees, see footnotes 9 and 10 of the City's audited financial statements in Appendix A.

**EMPLOYEE RELATIONS AND COLLECTIVE BARGAINING**

City employees (other than managerial and confidential employees) are entitled to join unions and to bargain collectively on questions of wages, hours, and other terms and conditions of employment.

The City has approximately 3,500 employees, of whom approximately 67 percent belong to unions or other collective bargaining groups.

**CITY OF CAMBRIDGE  
CITY UNIONS AND COLLECTIVE BARGAINING GROUPS**

<u>Groups</u>	<u>Department</u>	<u>Number of Employees Represented</u>	<u>Contract Expires</u>
Teamsters Local 25	City	217	6/30/14
Teachers and Administrators (Mass. Teachers Assoc.)	School	857	8/31/13
Clerical	School	56	6/30/15
Custodians (Local 1611 AFL-CIO)	School	79	6/30/15
Food Service	School	59	6/30/15
Safety Specialist	School	13	6/30/15
Paraprofessionals (affiliated with Mass. Teachers Assoc.)	School	210	8/31/15
Substitute Teachers	School	44	8/31/12(1)
Family Resource Liaison (AFSNE)	School	16	6/30/12(1)
International Assoc. of Firefighters	Fire	264	6/30/12
Patrol Officers	Police	213	6/30/14(1)
Superior Officers	Police	51	6/30/14
Traffic Supervisors	Police	45	6/30/14
Independent Water Workers Association	Water	22	6/30/14
Professional Librarians	Library	80	6/30/12(1)
Inspectional Services (Building, Trades)	Inspectional	18	6/30/14
Childcare Workers	Human Services	34	6/30/14
Supervisors	Public Works	11	6/30/15
		<u>2,289</u>	

(1) Contracts still under negotiation.  
Source: City Personnel Department.

/s/ Louis A. DePasquale  
City Treasurer

February 19, 2013

## **APPENDIX A**

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**CITY OF CAMBRIDGE, MASSACHUSETTS**

Basic Financial Statements, Required Supplementary Information,  
and Supplemental Schedules

June 30, 2012

(With Independent Auditors' Report Thereon)

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Comprehensive  
Annual Financial Report

June 30, 2012

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KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Cambridge, Massachusetts (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to amounts included for that entity, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report 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 business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Cambridge, Massachusetts, as of June 30, 2012, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



U.S. generally accepted accounting principles require that the management's discussion and analysis on pages A-3-A-13, schedules of funding progress and schedule of employers' contributions on page A-55, and the schedule of revenues and expenditures – budgetary basis on page A-56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplemental statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplemental statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

December 14, 2012

## CITY OF CAMBRIDGE, MASSACHUSETTS

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

June 30, 2012

(Unaudited)

Management of the City of Cambridge (the City) provides this Management's Discussion and Analysis as part of the City's Comprehensive Annual Financial Report (CAFR) to assist readers of the basic financial statements in understanding the financial activities of the City for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the transmittal letters at the front of this report and the City's basic financial statements, which follow this section.

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

The City's financial statements present two types of statements each with a different view of the City's finances. This approach focuses on both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the City as whole. The fund financial statements focus on the individual parts of the City government, reporting the City's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the City's accountability. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government. An additional part of the basic financial statements are the notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

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

The government-wide statements report information about the City as a whole, with the exception of fiduciary activities, and use accounting methods similar to those used by private-sector companies. The statements provide both short-term and long-term information about the City's financial position, which assists in assessing the City's economic position at the end of the fiscal year. The statements are prepared using the flow of economic resources measurement focus and the full accrual basis of accounting. All revenues and expenses connected with the fiscal year are reported even if cash involved has not been received or disbursed. The government-wide financial statements include two statements:

**Statement of Net Assets** – Presents all of the government's assets and liabilities, with the difference being reported as "net assets". The amount of net assets is widely considered a good measure of the City's financial health as increases and decreases in the City's net assets serve as a useful indicator of whether the City's financial position is improving or deteriorating. The reader should consider other nonfinancial factors, such as the condition of the City's infrastructure and changes to the property tax base, to assess the overall health of the City.

**Statement of Activities** – Presents information showing how the government's net assets changed during the most recent fiscal year. Revenues and expenses are reported for some items that will not result in cash flows until future fiscal periods, i.e., uncollected taxes or earned but unused sick and vacation time. This statement also presents a comparison between direct expenses and program revenues for each function of the City.

## CITY OF CAMBRIDGE, MASSACHUSETTS

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

June 30, 2012

(Unaudited)

In the government-wide statements, financial information is presented in three columns in order to summarize the City's programs or activities. The types of activities presented are as follows:

**Governmental Activities** – Taxes and intergovernmental revenues primarily support the functions of the government and are reported in this section. Most of the City's basic services are reported here including general government, public safety, public works, parks and recreation, library, schools, human services, public health programs, state and district assessments, debt service and other employee benefits.

**Business-Type Activities** – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The Water Fund operation is considered a business-type activity.

**Discretely Presented Component Unit** – Includes a separate legal entity for which the City has financial accountability and provides operating subsidies. This entity, The Cambridge Health Alliance, (CHA) operates similar to a private sector business and the business-type activity described above.

Complete financial statements for the CHA can be obtained from its administrative offices located at 101 Station Landing, 5th Floor, Medford, Massachusetts, 02155.

### Fund Financial Statements

Traditional users of government financial statements will find the fund financial statement presentation to be most familiar. A fund is a grouping of related accounts that is used to keep control over resources that have been allocated to specific projects or activities. The City uses fund accounting to ensure and demonstrate compliance with several finance-related legal requirements.

All of the funds of the City can be divided into three categories as follows:

**Governmental Funds** – Most of the basic services provided by the City are financed through governmental funds. Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, the governmental fund financial statements focus on near-term inflows and outflows of resources to be spent. The focus is also on the balances left at the end of the fiscal year available for spending. This information is useful in evaluating the City's near-term financing requirements. This approach is the modified accrual basis of accounting, which uses the flow of current financial resources measurement focus. Such statements provide a detailed short-term view of the City's finances that assist in determining whether there will be adequate financial resources available to meet current needs.

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. This comparison will assist the reader in understanding the long-term impact of the government's near-term financing decisions. The governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide reconciliations to facilitate the comparison.

## CITY OF CAMBRIDGE, MASSACHUSETTS

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

June 30, 2012

(Unaudited)

The reconciliations are presented on the page immediately following each respective governmental fund financial statement.

The City has several governmental funds; three are considered major funds for presentation purposes. Each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds are aggregated and shown as other governmental funds.

**Proprietary Fund** – Provides services for which the City charges customers a fee and operates like a commercial business. The proprietary fund provides the same type of information as in the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for the business-type activity and the proprietary fund financial statements.

**Fiduciary Funds** – Such 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 full accrual basis of accounting is used for fiduciary funds and is much like that used for proprietary funds.

The City's fiduciary funds are the Employee Retirement System, the OPEB Trust Fund and the Agency funds, which are used to account for assets held in agency capacity.

### 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 fund financial statements.

### Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule for the City's general fund – the only fund for which an annual budget is legally adopted. The budgetary comparison also includes a reconciliation of revenues and expenditures reported on the City's budgetary basis of accounting and the revenues and expenditures reported on a GAAP basis. Also included is historical information for the City's pension and other postemployment benefit obligations and related schedules of employers' contributions.

### Government-Wide Financial Analysis

#### *Statement of Net Assets*

The following table reflects the condensed net assets based on the statement of net assets found on page A-14.

The City's combined net assets (governmental and business-type activities) exceeded its liabilities at June 30, 2012 by \$759.7 million (presented as net assets). Of this amount, \$108.3 million was reported as "unrestricted

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Required Supplementary Information  
Management's Discussion and Analysis

June 30, 2012

(Unaudited)

net assets". Unrestricted net assets represent the amount available to be used to meet the City's ongoing obligations to citizens and creditors.

The components of net assets are comprised of the following: the investment in capital assets such as land, buildings, equipment, and infrastructure (roads, sewer pipes, dams, and other immovable assets), less any related debt used to acquire that asset that is still outstanding – the amount is \$636.9 million indicating the amount of capital debt does not exceed the net book value of the City's capital assets. Since most of the City's debt has a ten-year life, a considerable amount of the City's capital asset lives extend beyond the life of the debt. The City uses these capital assets to service the community; therefore, they are not available for future spending. It is important to note that other resources are needed to repay the debt because the capital assets cannot be used to finance these liabilities.

Included within the governmental activities current and other assets are cash and investments of \$321.3 million, up 1.8% from prior year; net receivables of \$35.7 million; and \$9.0 million due from the Cambridge Health Alliance.

Governmental activities long-term liabilities include \$332.2 million in general obligation bonds and notes payable; \$18.2 million in compensated absence liabilities for unused sick and vacation; and \$11.9 million in future year workers' compensation, health benefits and possible judgments. The major increase in the long-term liabilities is due to an increase in other postemployment benefit obligations of \$26.8 million and an increase of \$21.6 million in general obligation bonds which was planned to provide funding for Capital Plan.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Required Supplementary Information  
Management's Discussion and Analysis

June 30, 2012

(Unaudited)

Business-type activity long-term liabilities include \$18.6 million in general obligation bonds, \$502 thousand in compensated absences and \$765 thousand in future year workers' compensation and health benefits. The net reduction of \$3.5 million in general obligation bonds compared to prior year is attributable to an aggressive ten-year repayment schedule for most debt.

**Condensed Schedule of Net Assets**

June 30, 2012 and 2011

(In millions)

	<b>Governmental activities</b>		<b>Business-type activity</b>		<b>Total primary government</b>	
	<b>June 30</b>		<b>June 30</b>		<b>June 30</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Current and other assets	\$ 370.0	359.1	10.2	8.8	380.2	367.9
Capital assets	792.6	756.9	131.3	131.4	923.9	888.3
<b>Total assets</b>	<b>\$ 1,162.6</b>	<b>1,116.0</b>	<b>141.5</b>	<b>140.2</b>	<b>1,304.1</b>	<b>1,256.2</b>
Long-term liabilities	\$ 427.5	441.6	16.7	23.6	444.2	465.2
Other liabilities	95.9	47.9	4.3	1.1	100.2	49.0
<b>Total liabilities</b>	<b>\$ 523.4</b>	<b>489.5</b>	<b>21.0</b>	<b>24.7</b>	<b>544.4</b>	<b>514.2</b>
Net assets:						
Invested in capital assets, net of debt	\$ 524.2	497.7	112.7	109.2	636.9	606.9
Restricted	14.5	13.6	—	—	14.5	13.6
Unrestricted	100.5	115.2	7.8	6.3	108.3	121.5
<b>Total net assets</b>	<b>\$ 639.2</b>	<b>626.5</b>	<b>120.5</b>	<b>115.5</b>	<b>759.7</b>	<b>742.0</b>

***Statement of Changes in Net Assets***

The City's total net assets increased by \$17.7 million in fiscal year 2012 of which the governmental activities net assets increased \$12.7 million and the business-type activity increased \$5.0 million.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

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This summary of net changes is based upon the statement found on page A-15.

**Condensed Schedule of Changes in Net Assets**

June 30, 2012 and 2011

(In millions)

	<u>Governmental activities</u>		<u>Business-type activity</u>		<u>Total primary government</u>	
	<u>June 30</u>		<u>June 30</u>		<u>June 30</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 94.0	85.7	18.8	19.2	112.8	104.9
Operating grants and contributions	23.1	25.6	—	—	23.1	25.6
Capital grants and contributions	13.1	9.1	—	—	13.1	9.1
General revenues:						
Taxes:						
Property taxes levied	298.0	282.2	—	—	298.0	282.2
Excises	21.3	20.0	—	—	21.3	20.0
Payment in lieu of taxes	7.6	7.3	—	—	7.6	7.3
Grants and contributions not restricted	31.9	31.8	—	—	31.9	31.8
Investment income	1.5	1.3	0.1	0.1	1.6	1.4
Miscellaneous	25.2	18.9	—	—	25.2	18.9
Total revenues	<u>515.7</u>	<u>481.9</u>	<u>18.9</u>	<u>19.3</u>	<u>534.6</u>	<u>501.2</u>
Expenses:						
General government	39.8	46.6	—	—	39.8	46.6
Public safety	124.0	122.0	—	—	124.0	122.0
Community maintenance and development	103.7	90.9	—	—	103.7	90.9
Human resource development	46.7	45.8	—	—	46.7	45.8
Education	181.2	171.3	—	—	181.2	171.3
Water department	—	—	13.2	13.5	13.2	13.5
Interest	8.3	9.8	—	—	8.3	9.8
Total expenses	<u>503.7</u>	<u>486.4</u>	<u>13.2</u>	<u>13.5</u>	<u>516.9</u>	<u>499.9</u>
Excess before transfers	12.0	(4.5)	5.7	5.8	17.7	1.3
Transfers	<u>0.7</u>	<u>0.7</u>	<u>(0.7)</u>	<u>(0.7)</u>	<u>—</u>	<u>—</u>
Change in net assets	12.7	(3.8)	5.0	5.1	17.7	1.3
Net assets – beginning	<u>626.5</u>	<u>630.3</u>	<u>115.5</u>	<u>110.4</u>	<u>742.0</u>	<u>740.7</u>
Net assets – ending	<u>\$ 639.2</u>	<u>626.5</u>	<u>120.5</u>	<u>115.5</u>	<u>759.7</u>	<u>742.0</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

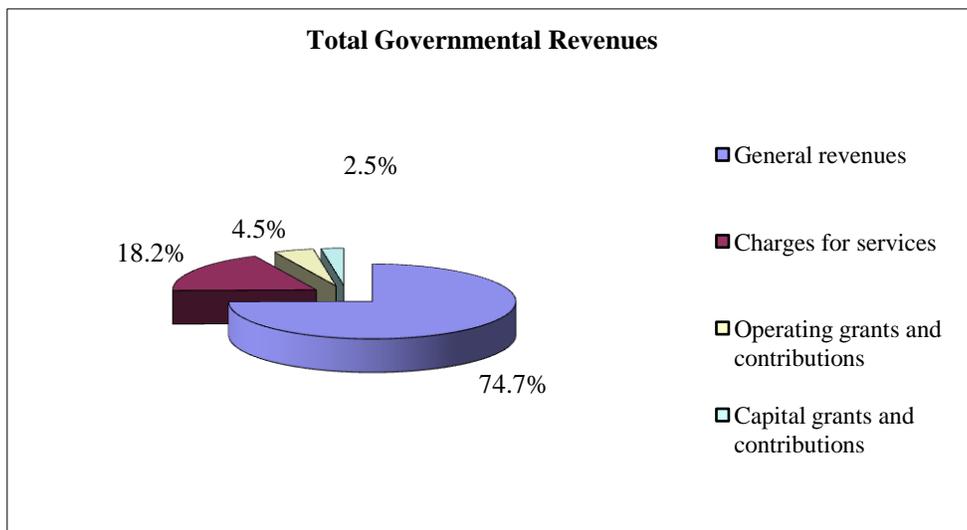
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***Total Revenues***

Total governmental activities revenues for the City are comprised of general revenues of \$386.2 million, charges for services \$94.0 million, operating grants and contributions \$23.1 million and capital grants and contributions of \$13.1 million.



***General***

Real estate tax revenues are the City's largest revenue source at \$298.0 million representing 77.9% of general revenues. The assessed tax valuation base is \$24.4 billion up from \$24.2 billion assessed in the prior year showing a 1.2% increase mainly due to a slight increase in new construction.

Grants and contributions not restricted to specific programs is \$32.0 million representing 8.3% of general revenues and include state cherry sheet revenues and other unrestricted contributions.

***Program***

Charges for services are \$94.0 million and represent a variety of department revenues. Charges for services increased \$8.3 million from the prior year. The public safety portion of \$45.6 million includes several types of permit revenues, traffic and moving violation revenues, and City garage revenues. This category of revenues increased approximately 20% over prior year mainly due to an increase in building permit revenues from the universities and bio medical firms. The community maintenance and development portion of \$42.3 million includes sewer service revenues, community cable revenues, as well as, other public works type fees.

Operating grants and contributions of \$23.1 million represents several federal and state grants restricted to specific grant conditions. This amount accounts for approximately 6.0% of the total City revenues.

## CITY OF CAMBRIDGE, MASSACHUSETTS

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Capital grants and contributions of \$13.1 million include community development capital grants, state revolving grants, state school construction grants, and other capital restricted revenues.

#### ***Expenses***

For the fiscal year ended June 30, 2012, expenses for government activities totaled \$503.7 million, which cover a range of services. On the whole, the City's expenditures increased slightly by \$17.3 million or 3.6% over prior year. The increase is attributable to higher depreciation costs, increases in other postemployment benefits costs, increased employee insurance costs and pension costs.

Education continues to be one of the City's highest priorities and commitments, representing \$181.2 million or 36.0% of the total governmental activities expenses.

Another important issue to the City is affordable housing and the preservation of open space. This is the ninth year of the Community Preservation Act (CPA). This program fosters the investment into permanent affordable housing projects, preservation of historic locations and the protection of open space. Expenditures related to these initiatives are recorded in the Community Maintenance and Development category. During 2012, the City spent \$18.8 million from the Affordable Housing Trust to subsidize housing projects.

#### **Business-Type Activity**

Business-type activity increased net assets by \$5.0 million, which is the same as prior years rise in net assets. The main reason for the \$5.0 million increase is due to the drop off in debt service payments.

#### **Financial Analysis of the Government's Funds**

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

#### ***Governmental Funds***

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$296.7 million. Of this amount, \$4.3 million has been categorized as nonspendable which includes permanent funds and health care deposits. Another \$84.4 million was restricted because the funds include grants or bonded projects that are controlled by external sources. Finally, \$81.4 million has been committed for specific purposes such as stabilization funds, health claims trust fund, parking fund, etc. for which the movement of these funds must be approved by the highest legislative level at the City, which is the City Council. The remainder of the Fund balance \$126.7 million is considered "Unassigned".

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance was \$126.7 million, while the total fund balance was \$163.2 million.

As a measure of liquidity, it may be useful to compare both unassigned and total fund balances to total fund expenditures. Unassigned fund balance represents 28.7% of total General Fund expenditures, while the total balance represents 37.0% of that same amount.

## CITY OF CAMBRIDGE, MASSACHUSETTS

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The capital fund is the fund that captures all the capital projects expenditures for the City. At the end of fiscal year 2012, the total fund balance was \$65.3 million. This reflects an increase over the prior fiscal year of \$13.3 million. The major increase in fund balance is due to proceeds received from the issuance of debt to fund capital projects.

The affordable housing trust fund is the fund that captures all the affordable housing project expenditures for the City. At the end of fiscal year 2012, the total fund balance was \$31.9 million. This fund was established in the 90's to provide funding for housing projects to increase the supply of affordable housing units for the City.

#### ***Proprietary Fund***

The City's Proprietary Fund provides the same type of information found in the government-wide statements, but in more detail.

Net assets of the Water Fund at the end of the year consisted of unrestricted net assets of \$7.8 million and an investment in capital assets, net of related debt of \$112.7 million.

#### **General Fund Budgetary Highlights**

The City submits its budget to the City Council in April and six months later sets the tax rate at the Massachusetts Department of Revenue. During this process, the City reviews and revises its revenue and expenditure plan for final adoption before setting the tax rate. The following are some of the major changes:

1. Cherry sheet revenues and expenditures are estimated in the original budget based upon previous year's cherry sheet revenues and adjusted, if needed, for the final budget.
2. Certain other revenues were adjusted based upon the previous year's actual and slightly increased estimates this year.

The following information pertains to the revenues and expenditures of the general fund. This data is included in the schedule of revenues and expenditures-budgetary basis-budget-and actual, which presents financial information on the budgetary basis of accounting.

#### **Revenues and Other Financing Sources**

Fiscal year 2012 actual revenues on a budgetary basis totaled \$434.2 million. This represents an increase of \$26.0 million or 6.4% from fiscal year 2011. Property taxes are the single largest revenue source, representing approximately 67.8% of general fund revenues, net of abatements. Sewer use receipts comprise the City's next largest revenue source, representing 9.3%.

#### ***Expenditures***

During fiscal year 2012, total expenditures increased on a budgetary basis by 4.7% from \$433.8 million to \$454.0 million.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

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***Capital Asset and Debt Administration***

**Capital Assets**

As of June 30, 2012, the City's capital assets of its governmental activities and business-type activity amounted to \$923.9 million (net of depreciation). The City's capital assets include land, buildings, improvements, machinery and equipment, open space, road and highways.

Some of the major capital asset events during the current fiscal year included several ongoing sewer separation projects scattered throughout the City, which are funded through bonds and state grants, completion of park improvements and City building renovations.

Additional information on the City's capital assets can be found in note 5.

**Debt**

At year-end, the City had \$345.7 million in outstanding bonds and notes compared to \$328.6 million last year.

	Governmental activities		Business-type activity		Totals	
	2012	2011	2012	2011	2012	2011
	(In millions)					
General obligation bonds and notes payable \$	327.3	306.7	18.4	21.9	345.7	328.6

The City maintains bond ratings with Fitch ratings of AAA, Moody's Investors Service Inc. of Aaa, and Standard & Poor's Corporation of AAA.

Additional information on the City's debt can be found in note 8.

***Economic Factors and Next Year's Budgets and Rates***

The City's tax levy increased \$17.9 million, or 5.97%, to \$317.0 million in fiscal year 2013. Despite this increase, the City's excess tax capacity, an extremely important indication of the City's financial health, increased from \$102.6 million in FY 12 to \$104.1 million in FY 13, a 1.5% increase.

The FY 13 operating budget increased by 2.87% over the FY 12 adjusted budget. The increase is attributable to an 3% increase of employee salary costs, 5% increase in employee health insurance, a 5.85% increase in employee pension costs. The capital budget of \$38.7 million is a decrease of approximately \$17.2 million from the prior year.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Required Supplementary Information  
Management's Discussion and Analysis

June 30, 2012

(Unaudited)

***Future Pronouncements***

GASB has issued Statement Nos. 55-68, which have various effective dates. These Statements are not expected to have a significant impact on the City's financial statements.

***Contacting the City's Financial Management***

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions concerning the information provided in this report or requests for additional information should be addressed to: City of Cambridge, Attn: City Auditor, 795 Massachusetts Avenue, Cambridge, MA 02139-3219.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Statement of Net Assets

June 30, 2012

Assets	Primary government			Component unit
	Governmental activities	Business-type activity	Total	
Cash and investments	\$ 320,664,732	5,451,162	326,115,894	253,347,971
Cash and investments held by trustees	600,000	—	600,000	23,401,873
Receivables, net:				
Property taxes	3,866,014	—	3,866,014	—
Motor vehicle excise	1,043,063	—	1,043,063	—
Tax title and possessions	3,216,887	—	3,216,887	—
Intergovernmental	11,286,879	—	11,286,879	—
Other	16,267,730	4,656,373	20,924,103	33,262,335
Other assets	4,132,598	55,065	4,187,663	31,582,076
Internal balances	(32,723)	32,723	—	—
Due from component unit	8,995,000	—	8,995,000	—
Capital assets:				
Nondepreciable	386,734,063	42,311,219	429,045,282	9,654,156
Depreciable, net	405,857,151	88,954,313	494,811,464	176,940,968
<b>Total assets</b>	<b>1,162,631,394</b>	<b>141,460,855</b>	<b>1,304,092,249</b>	<b>528,189,379</b>
<b>Liabilities</b>				
Warrants and accounts payable	19,200,398	666,196	19,866,594	25,203,784
Accrued liabilities:				
Tax abatements	2,700,000	—	2,700,000	—
Accrued payroll	13,053,265	73,672	13,126,937	12,584,792
Accrued interest	4,308,962	353,942	4,662,904	—
Other	4,615,471	—	4,615,471	11,117,566
Unearned revenue	—	—	—	45,346,920
Due to primary government	—	—	—	8,995,000
Long-term liabilities:				
Due within one year:				
Bonds and notes payable	36,960,381	2,840,000	39,800,381	55,303
Capital leases	—	—	—	4,205,106
Due to third parties	—	—	—	17,924,053
Compensated absences	6,643,000	175,000	6,818,000	16,190,303
Landfill	25,000	—	25,000	—
Judgments and claims	5,774,000	176,000	5,950,000	—
Pollution remediation	2,595,993	—	2,595,993	—
Due in more than one year:				
Bonds and notes payable	295,268,515	15,785,501	311,054,016	620,200
Capital leases	—	—	—	9,791,428
Due to third parties	—	—	—	30,465,704
Compensated absences	11,584,000	327,000	11,911,000	—
Landfill	200,000	—	200,000	—
Judgments and claims	6,082,000	589,000	6,671,000	—
Other postemployment benefit obligation	113,529,824	—	113,529,824	36,802,959
Pollution remediation	859,861	—	859,861	—
<b>Total liabilities</b>	<b>523,400,670</b>	<b>20,986,311</b>	<b>544,386,981</b>	<b>219,303,118</b>
<b>Net Assets</b>				
Investment in capital assets, net of related debt	524,201,859	112,708,862	636,910,721	162,928,087
Restricted for:				
Community preservation	10,323,970	—	10,323,970	—
Expendable permanent funds	1,426,710	—	1,426,710	—
Nonexpendable permanent funds	2,106,473	—	2,106,473	—
Other purposes	600,000	—	600,000	4,332,362
Unrestricted	100,571,712	7,765,682	108,337,394	141,625,812
<b>Total net assets</b>	<b>\$ 639,230,724</b>	<b>120,474,544</b>	<b>759,705,268</b>	<b>308,886,261</b>

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Statement of Activities  
Year ended June 30, 2012

Functions/programs	Expenses	Program revenues			Net (expense) revenue and changes in net assets			Component unit
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Primary government Business-type activity	Total	
Primary government:								
Governmental activities:								
General government	\$ 39,836,031	447,317	—	—	(39,388,714)	—	(39,388,714)	
Public safety	124,013,170	45,572,456	—	—	(78,440,714)	—	(78,440,714)	
Community maintenance and development	103,733,414	42,296,774	3,114,049	12,906,426	(45,416,165)	—	(45,416,165)	
Human resource development	46,689,220	3,883,114	8,766,088	—	(34,040,018)	—	(34,040,018)	
Education	181,180,963	1,807,664	11,257,561	187,432	(167,928,306)	—	(167,928,306)	
Interest on long-term debt	8,253,614	—	—	—	(8,253,614)	—	(8,253,614)	
Total governmental activities	503,706,412	94,007,325	23,137,698	13,093,858	(373,467,531)	—	(373,467,531)	
Business-type activity:								
Water	13,223,002	18,824,741	—	—	—	5,601,739	5,601,739	
Total business-type activity	13,223,002	18,824,741	—	—	—	5,601,739	5,601,739	
Total primary government	\$ 516,929,414	112,832,066	23,137,698	13,093,858	(373,467,531)	5,601,739	(367,865,792)	
Component unit:								
Cambridge Public Health Commission	\$ 793,003,999	282,231,793	504,338,796	—				(6,433,410)
Total component units	\$ 793,003,999	282,231,793	504,338,796	—				(6,433,410)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					\$ 297,981,301	—	297,981,301	—
Excises					21,289,347	—	21,289,347	—
Payments in lieu of taxes					7,586,219	—	7,586,219	—
Grants and contributions not restricted					31,954,472	—	31,954,472	—
Investment income					1,458,430	113,475	1,571,905	350,037
Miscellaneous					25,230,542	—	25,230,542	50,443,823
Transfers					693,955	(693,955)	—	—
Total general revenues and transfers					386,194,266	(580,480)	385,613,786	50,793,860
Change in net assets					12,726,735	5,021,259	17,747,994	44,360,450
Net assets – beginning					626,503,989	115,453,285	741,957,274	264,525,811
Net assets – ending					\$ 639,230,724	120,474,544	759,705,268	308,886,261

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Balance Sheet – Governmental Funds

June 30, 2012

<b>Assets</b>	<b>General</b>	<b>Capital fund</b>	<b>Affordable Housing Trust fund</b>	<b>Other governmental funds</b>	<b>Total governmental funds</b>
Cash and investments	\$ 192,187,580	64,457,094	28,451,179	35,568,879	320,664,732
Cash and investments held by trustees	—	—	600,000	—	600,000
Receivables, net:					
Property taxes	3,866,014	—	—	—	3,866,014
Motor vehicle excise	1,043,063	—	—	—	1,043,063
Tax title and possessions	3,216,887	—	—	—	3,216,887
Intergovernmental	—	9,001,221	—	2,285,658	11,286,879
Departmental and other	10,486,691	—	4,845,699	935,340	16,267,730
Total receivables	18,612,655	9,001,221	4,845,699	3,220,998	35,680,573
Other assets	2,266,162	—	—	—	2,266,162
Due from other funds	—	804,969	—	—	804,969
Due from component unit	8,995,000	—	—	—	8,995,000
Total assets	\$ 222,061,397	74,263,284	33,896,878	38,789,877	369,011,436
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Warrants and accounts payable	\$ 6,827,640	8,910,583	1,983,950	1,478,225	19,200,398
Accrued liabilities:					
Tax abatements	2,000,000	—	—	—	2,000,000
Judgments and claims	5,774,000	—	—	—	5,774,000
Accrued payroll	12,958,430	8,368	—	86,467	13,053,265
Other	4,575,622	—	—	39,849	4,615,471
Deferred revenue	26,723,055	—	—	64,340	26,787,395
Due to other funds	32,723	—	—	804,969	837,692
Total liabilities	58,891,470	8,918,951	1,983,950	2,473,850	72,268,221
Fund balances:					
Nonspendable	2,186,162	—	—	2,106,473	4,292,635
Restricted	—	65,344,333	600,000	18,417,343	84,361,676
Committed	34,256,986	—	31,312,928	15,792,211	81,362,125
Unassigned	126,726,779	—	—	—	126,726,779
Total fund balances	163,169,927	65,344,333	31,912,928	36,316,027	296,743,215
Total liabilities and fund balances	\$ 222,061,397	74,263,284	33,896,878	38,789,877	369,011,436

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

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

June 30, 2012

Total fund balance – governmental funds	\$ 296,743,215
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	792,591,214
Adjust deferred revenues to record revenues on an accrual basis	26,787,395
Bond issuance costs are capitalized in the government-wide statements	1,866,436
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, net	332,228,896
Accrued interest on bonds	4,308,962
Compensated absences	18,227,000
Landfill	225,000
Judgments and claims	6,082,000
Tax abatements	700,000
Other postemployment benefits	113,529,824
Pollution remediation	3,455,854
	<hr/>
	478,757,536
	<hr/>
Net assets of governmental activities	\$ <u><u>639,230,724</u></u>

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

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

Year ended June 30, 2012

	<u>General</u>	<u>Capital fund</u>	<u>Affordable Housing Trust fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Revenues:					
Real and personal property taxes	\$ 297,723,747	—	—	—	297,723,747
Excises:					
Hotel/motel/meals	14,954,425	—	—	—	14,954,425
Motor vehicles	6,238,835	—	—	—	6,238,835
Payments in lieu of taxes	7,586,219	—	—	—	7,586,219
Intergovernmental	31,954,472	13,093,858	—	23,137,698	68,186,028
Investment income	864,286	8,621	468,121	117,402	1,458,430
Sewer use charges	40,579,119	3,961,957	—	—	44,541,076
Departmental and other	43,555,600	—	131,453	32,460,692	76,147,745
Total revenues	<u>443,456,703</u>	<u>17,064,436</u>	<u>599,574</u>	<u>55,715,792</u>	<u>516,836,505</u>
Expenditures:					
Current:					
General government	35,852,058	—	—	171,374	36,023,432
Public safety	103,388,702	—	—	1,327,220	104,715,922
Community maintenance and development	36,682,794	—	18,766,888	2,558,058	58,007,740
Human resource development	30,919,537	—	—	8,228,736	39,148,273
Education	139,276,389	—	—	13,906,443	153,182,832
Judgments and claims	4,112,551	—	—	—	4,112,551
State and district assessments	46,146,725	—	—	—	46,146,725
Capital outlays	—	65,406,232	—	—	65,406,232
Debt service	44,562,469	—	—	—	44,562,469
Total expenditures	<u>440,941,225</u>	<u>65,406,232</u>	<u>18,766,888</u>	<u>26,191,831</u>	<u>551,306,176</u>
Excess (deficiency) of revenues over expenditures	<u>2,515,478</u>	<u>(48,341,796)</u>	<u>(18,167,314)</u>	<u>29,523,961</u>	<u>(34,469,671)</u>
Other financing sources (uses):					
Premium on debt issuance	5,851,746	—	—	—	5,851,746
Issuance of debt	24,850,000	56,515,115	—	—	81,365,115
Transfers in	19,478,490	5,462,402	7,680,000	417,972	33,038,864
Transfers out	(3,926,506)	(367,972)	—	(28,050,431)	(32,344,909)
Payment to Fiscal Escrow Agent	(29,029,117)	—	—	—	(29,029,117)
Total other financing (uses) sources	<u>17,224,613</u>	<u>61,609,545</u>	<u>7,680,000</u>	<u>(27,632,459)</u>	<u>58,881,699</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>19,740,091</u>	<u>13,267,749</u>	<u>(10,487,314)</u>	<u>1,891,502</u>	<u>24,412,028</u>
Fund balance – beginning	<u>143,429,836</u>	<u>52,076,584</u>	<u>42,400,242</u>	<u>34,424,525</u>	<u>272,331,187</u>
Fund balance – ending	<u>\$ 163,169,927</u>	<u>65,344,333</u>	<u>31,912,928</u>	<u>36,316,027</u>	<u>296,743,215</u>

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

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

Year ended June 30, 2012

Net change in fund balances – total governmental funds	\$	24,412,028
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, applicable to capital assets, (\$62,132,657) exceeded depreciation expense (\$26,471,849)		35,660,808
Revenues are recorded on an accrual basis		(1,097,314)
Proceeds of long-term debt (\$81,365,115) increase long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Repayment of bond principal, including amounts to defease long-term debt, (\$65,011,844) is an expenditure the governmental funds, but reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded payments.		(16,353,271)
Premiums received are revenues in the governmental funds, but are increases to long-term liabilities, net of amortization, in the statement of net assets		(4,840,201)
Deferred loss on refunding is amortized in the statement of activities and is not reported in the governmental funds		(380,711)
Bond issuance costs are expenditures in the governmental funds, but are deferred assets, net of amortization, in the statement of net assets		50,575
Other postemployment benefits expense reported in the statement of activities does require the use of current financial resources, and therefore, is not reported as an expenditure in the governmental funds		(26,820,562)
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 decrease in landfill liabilities (\$25,000), noncurrent claims (\$4,189,000) and accrued interest (\$167,461) offset by the increase in compensated absences (\$167,000) and pollution remediation (\$2,119,078)		<u>2,095,383</u>
Change in net assets of governmental activities	\$	<u><u>12,726,735</u></u>

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Statement of Net Assets – Proprietary Fund

June 30, 2012

	<b>Enterprise fund</b>
	<b><u>Water fund</u></b>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 5,451,162
Receivables, net	4,656,373
Due from other funds	32,723
Total current assets	<u>10,140,258</u>
Noncurrent assets:	
Other	55,065
Capital assets:	
Nondepreciable	42,311,219
Depreciable, net	88,954,313
Total noncurrent assets	<u>131,320,597</u>
Total assets	\$ <u><u>141,460,855</u></u>
Liabilities:	
Current liabilities:	
Warrants and accounts payable	\$ 666,196
Accrued liabilities:	
Claims	176,000
Compensated absences	175,000
Accrued payroll	73,672
Interest	353,942
Current portion of long-term debt	2,840,000
Total current liabilities	<u>4,284,810</u>
Noncurrent liabilities:	
Bonds payable	15,785,501
Accrued liabilities:	
Claims	589,000
Compensated absences	327,000
Total noncurrent liabilities	<u>16,701,501</u>
Total liabilities	\$ <u><u>20,986,311</u></u>
Net assets:	
Investment in capital assets, net of related debt	\$ 112,708,862
Unrestricted	7,765,682
Total net assets	\$ <u><u>120,474,544</u></u>

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

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

Year ended June 30, 2012

	<u>Enterprise fund</u> <u>Water fund</u>
Operating revenues:	
Charges for services	\$ 18,824,741
Total operating revenues	<u>18,824,741</u>
Operating expenses:	
Administration	3,256,572
Service and support programs	5,991,819
Depreciation	<u>3,116,449</u>
Total operating expenses	<u>12,364,840</u>
Operating income	<u>6,459,901</u>
Nonoperating revenue (expense):	
Investment earnings – other	113,475
Interest expense	<u>(858,162)</u>
Nonoperating expense	<u>(744,687)</u>
Income before transfers	5,715,214
Transfers to other funds	<u>(693,955)</u>
Change in net assets	5,021,259
Total net assets – beginning	<u>115,453,285</u>
Total net assets – ending	\$ <u><u>120,474,544</u></u>

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Statement of Cash Flows – Proprietary Fund

Year ended June 30, 2012

	<u>Enterprise fund Water fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 18,829,624
Cash paid to vendors	(6,086,409)
Cash paid to employees	<u>(3,153,515)</u>
Net cash provided by operating activities	<u>9,589,700</u>
Cash flows from noncapital financing activities:	
Transfers	<u>(693,955)</u>
Net cash used in noncapital financing activities	<u>(693,955)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(2,959,104)
Interest paid on debt	(1,093,079)
Repayment of long-term debt	<u>(3,535,000)</u>
Net cash used in capital and related financing activities	<u>(7,587,183)</u>
Cash flows from investing activities:	
Investment income	<u>113,475</u>
Net cash provided by investing activities	<u>113,475</u>
Increase in cash and cash equivalents	1,422,037
Cash and cash equivalents, beginning of year	<u>4,029,125</u>
Cash and cash equivalents, end of year	\$ <u><u>5,451,162</u></u>
Reconciliation of operating income to cash provided by operating activities:	
Operating income	\$ 6,459,901
Reconciliation of operating income to net cash provided by operating activities:	
Depreciation	3,116,449
Amortization of deferred loss on refunding	98,104
Changes in operating assets and liabilities:	
Accounts receivable	(4,883)
Other liabilities	<u>(79,871)</u>
Net cash provided by operating activities	\$ <u><u>9,589,700</u></u>

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Statement of Fiduciary Net Assets

June 30, 2012

<b>Assets</b>	<b>Employee retirement plan (as of December 31, 2011)</b>	<b>OPEB Trust fund</b>	<b>Agency funds</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Cash and cash equivalents	\$ 9,920,833	1,664,060	4,945,025
Dividend and interest receivable	1,112,056		
Contributions receivable:			
City of Cambridge	4,186,879	—	—
Cambridge Health Alliance	2,940,447	—	—
Other	358,208	—	—
Other assets	2,588,738	—	—
Investments, at fair value:			
Fixed income securities	74,085,288	74,060	—
Equities	257,234,749	438,586	—
Pooled investments:			
Fixed income	51,675,689	—	—
Real estate	86,437,139	—	—
Domestic equities	59,104,085	—	—
International equities	114,059,589	—	—
International fixed income	36,210,663	—	—
Alternative	71,961,309	—	—
Total investments	<u>750,768,511</u>	<u>512,646</u>	<u>—</u>
Cash collateral on security lending	94,708,022		
Total assets	<u>866,583,694</u>	<u>2,176,706</u>	<u>4,945,025</u>
<b>Liabilities</b>			
Accrued liabilities	734,657	—	—
Guarantee deposits	—	—	4,945,025
Due to brokers for securities purchased	1,614,311	—	—
Cash collateral on security lending	94,708,022	—	—
Total liabilities	<u>97,056,990</u>	<u>—</u>	<u>4,945,025</u>
<b>Net Assets</b>			
Held in trust for pension benefits and other purposes	<u>\$ 769,526,704</u>	<u>2,176,706</u>	<u>—</u>

See accompanying notes to basic financial statements.



# CITY OF CAMBRIDGE, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2012

### (1) The Financial Reporting Entity

#### (a) *Primary Government*

Settled in 1630 by a group from the Massachusetts Bay Company, the City of Cambridge (the City) was incorporated as a town in 1636 and became a city in 1846. Since 1940, the City has operated under a Council Manager form of government. The legislative body of the City is the City Council, consisting of nine members elected at-large every two years; the Mayor and Vice Mayor are elected by the Council from among its members for a two-year term. Executive authority resides with the City Manager, who is appointed by the Council and is responsible for the delivery of services to City residents.

The Mayor also serves as Chair of the School Committee. The School Committee, whose members are elected, has full authority for operations of the school system and appoints a superintendent to administer the system's day-to-day operations.

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

#### (b) *Retirement System*

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

The System is on a calendar fiscal year. As a result, the financial information of the System is as of and for the year ended December 31, 2011. The System does not issue stand alone financial statements. The System is included in the City's fiduciary fund financial statements.

#### (c) *Discretely Presented Component Unit*

The Cambridge Health Alliance (CHA) is reported in a separate column to emphasize that it is legally separate from the City, but is included because the City is financially accountable for, is able to impose its will on the organization, and is responsible for the appointment of the hospital's board of trustees. Unless otherwise indicated, the notes to the basic financial statements pertain only to the primary government because certain disclosures of the component unit are not significant relative to the primary government. A description of the component unit, criteria for inclusion and its relationship with the City are as follows:

CHA is a body politic and corporate and public instrumentality of the Commonwealth of Massachusetts (the Commonwealth) established by Chapter 147 of the Acts of 1996. CHA is

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2012

governed by a nineteen member board, all of whom are appointed by the City Manager. CHA is responsible for the implementation of public health programs in the City.

Complete financial statements for the CHA for its fiscal year ended June 30, 2012 are available from its offices on 101 Station Landing, 5th Floor, Medford, Massachusetts 02155.

**(d) Related Organizations**

The Manager is also responsible for appointing four of five board members to the Cambridge Housing Authority, subject to confirmation by the Council. However, the City's accountability for this organization does not extend beyond making these appointments.

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

The following is a summary of the more significant policies followed by the City:

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

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

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

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

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

**Government-Wide Financial Statements**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*, as are the proprietary fund and Nonagency fiduciary fund financial statements. The agency fund has no basis of accounting and only reports assets and liabilities. 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

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2012

the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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

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

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

The City applies the susceptible to accrual criteria to intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended for a specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized as expenditures are incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with proscribed requirements. These resources are reflected as revenues when cash is received, or earlier if the susceptible to accrual criteria are met. State aid is accrued as revenue in the year that the funds are appropriated by the Commonwealth.

Property taxes are recorded as revenue in the year for which the taxes have been levied, provided they are collected within 60 days after year-end. Investment income is recorded as earned. Other revenues are recorded when received in cash because they are generally not measurable until actually received.

Expenditures are recorded when the related fund liability is incurred except for (1) interest on general obligation debt, which is recorded when due; and (2) tax abatements and judgments and claims, all of which are recorded as expenditures to the extent that they have matured or are expected to be paid with expendable available financial resources.

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for water service. Operating expenses for the enterprise fund include the cost of preparing and delivering the water, administrative expenses,

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2012

and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

The *capital fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities.

The *affordable housing trust fund* accounts for financial resources to be used for the acquisition or construction of affordable housing units.

*Proprietary Fund* – The City reports the following major proprietary fund:

The water fund accounts for activities related to the preparation and delivery of water to City residents.

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

The pension trust fund accounts principally for the activities of the System, which accumulates resources for pension benefit payments to retired City employees.

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

The agency fund is used to report assets held in a trustee or agency capacity for others.

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

**(c) *Cash Equivalents***

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

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

Investments are presented in the accompanying basic financial statements at fair value. Where applicable, fair values are based on quotations from national securities exchanges, except for certain investments of the System, which are described in note 9. Further, income from investments is recognized in the same fund as the related investments.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

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

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

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

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

**(g) *Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Capital assets of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20 – 40
Infrastructure	15 – 50
Furniture and equipment	5 – 15

**(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 cost of compensated absences for employees is recorded as earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if it has matured (i.e., come due for payment). The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on the amount accumulated at the balance sheet date (vesting method).

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2012

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

Premiums, discounts, and issue costs – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activity, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective-interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

(j) ***Net Assets and Fund Balance***

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

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

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

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

For purposes of net asset classification, when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

The flow of expenditures for unrestricted resources is to use the committed when possible first and then the unassigned when needed.

The Unrestricted/Unassigned Fund balance policy adopted by the City Council is as follows:

- General Fund (GAAP) balance as of June 30 of each year is equal to or greater than 15% of the ensuing fiscal year's operating revenue.

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2012

The responsibility for tracking this policy is with the City Treasurer who estimates the surplus or deficit for the current year and prepares a projection for the year-end unassigned general fund balance. Any anticipated balance in excess of the targeted maximum unassigned balance maybe budgeted to reduce the ensuing year's property tax levy, transferred to stabilization fund, or fund one-time capital projects.

This policy is reviewed annually during the City's Annual Budget and Public Investment Program process.

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.

*Unassigned:* Amounts in the general fund that are not otherwise constrained for a specific purpose more narrow than the general operations of the City.

**(k) *Securities Lending Transactions***

Collateral received on securities lending transactions is reported as an asset with a corresponding liability to the borrower. The underlying securities lent to the borrower under these transactions are reported as investments. Borrower rebates and administrative fees are reported as expenses; interest and dividends on the underlying securities and related collateral are reported as revenues.

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

State and federal regulations required the City to place a final cover on its Danehy Park landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. At June 30, 2012, 100% of the landfill site had been used and has not accepted solid waste for several years. This estimate is subject to changes due to inflation, deflation, technology or applicable laws, and regulations. The City has completed the covering of this site in accordance with applicable laws and regulations.

The liability for postclosure care is estimated based on current costs to perform certain maintenance and monitoring over the next twenty years. The total liability is reported in the statement of net assets.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

**(m) Use of Estimates**

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

**(a) Deposits**

State and local statutes place certain limitations on the nature of deposits and investments available to the City. The City's policies require that deposits, including demand deposits, money markets, and certificates of deposit in any one financial institution, may not exceed certain levels unless collateralized or insured by the financial institution involved.

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned. As of June 30, 2012, the bank balances of uninsured and uncollateralized deposits are as follows:

Primary government	\$	117
Discretely presented component unit (CHA)		—
	\$	<u>117</u>

**(b) Investments**

Investments may be made in unconditionally guaranteed U.S. government obligations having maturities of a year or less from the date of purchase, or through repurchase agreements with maturities of no greater than 90 days in which the underlying securities consist of such obligations. Other allowable investments include authorized bonds of all states, bankers' acceptances, commercial paper rated within the three highest classifications established by rating agencies, and units in the Massachusetts Municipal Depository Trust (MMDT). The Treasurer of the Commonwealth of Massachusetts oversees the financial management of the MMDT, a local investment pool for cities, towns, and other state and local agencies within the Commonwealth. The City's fair value of its investment in the MMDT represents their value of the pool's shares.

The City's pension system and OPEB irrevocable trust fund have additional investment powers, most notably the ability to invest in common stocks, corporate bonds and other specified investments.

**(i) System Investment Policy**

The provisions of Massachusetts General Laws (M.G.L.) c. 32, sec 3(2) govern the System's investment practice.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

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

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

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

**(ii) Interest Rate Risk**

The following is a listing of the primary government's fixed income investments and related maturity schedule (in years) as of June 30, 2012:

<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
City:					
Money market/MMDT	\$ 202,383,063	202,383,063	—	—	—
Certificates of deposit	66,851,646	45,119,821	15,214,975	6,026,864	489,986
U.S. agencies	7,327,981	202,996	2,157,896	4,967,089	—
Subtotal city	<u>276,562,690</u>	<u>247,705,880</u>	<u>17,372,871</u>	<u>10,993,953</u>	<u>489,986</u>
System (as of December 31, 2011):					
Cash collateral pool	94,708,022	94,708,022	—	—	—
U.S. treasury notes and bonds	4,542,405	3,020,731	812,733	431,408	277,533
U.S. agencies	2,110,683	—	1,551,411	—	559,272
Domestic corporate	59,597,104	3,115,057	14,169,131	28,690,683	13,622,233
Asset-backed:					
CMOs	3,576,741	—	—	—	3,576,741
Other	4,258,355	—	1,037,731	192,539	3,028,085
Pooled fixed-income investments	87,886,352	—	—	87,886,352	—
Subtotal system	<u>256,679,662</u>	<u>100,843,810</u>	<u>17,571,006</u>	<u>117,200,982</u>	<u>21,063,864</u>
OPEB Trust:					
Money market	27,614	27,614	—	—	—
Certificates of deposit	1,636,017	—	1,124,722	268,208	243,087
Corporate fixed income	74,060	—	—	—	74,060
Subtotal OPEB Trust	<u>1,737,691</u>	<u>27,614</u>	<u>1,124,722</u>	<u>268,208</u>	<u>317,147</u>
Total	<u>\$ 534,980,043</u>	<u>348,577,304</u>	<u>36,068,599</u>	<u>128,463,143</u>	<u>21,870,997</u>
Discretely presented component unit (CHA):					
Money market	\$ 87,428,994	87,428,994	—	—	—
MMDT	131,656,282	131,656,282	—	—	—
Total discretely presented component unit (CHA)	<u>\$ 219,085,276</u>	<u>219,085,276</u>	<u>—</u>	<u>—</u>	<u>—</u>

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

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

The collateralized mortgage obligations (CMOs) held by the System are highly sensitive to changes in interest rates.

**(iii) 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 primary government’s fixed income investments as of June 30, 2012 were rated by Standard and Poor’s and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor’s rating scale:

<u>Investment type</u>	<u>Fair value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>Less than BB</u>	<u>Not rated</u>
City:								
Money market/MMDT	\$ 202,383,063	—	—	—	—	—	—	202,383,063
Certificates of deposit	66,851,646	—	—	—	—	—	—	66,851,646
U.S. agencies	7,327,981	7,327,981	—	—	—	—	—	—
Subtotal city	<u>276,562,690</u>	<u>7,327,981</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>269,234,709</u>
System (as of December 31, 2011):								
Cash collateral pool	94,708,022	—	—	—	—	—	—	94,708,022
U.S. agencies	2,110,683	2,110,683	—	—	—	—	—	—
Domestic corporate	59,597,104	1,811,100	5,739,728	11,711,106	5,943,638	14,052,190	19,094,809	1,244,533
Asset-backed:								
CMOs	3,576,741	2,134,936	—	840,980	600,825	—	—	—
Other	4,258,355	1,230,270	—	524,668	—	—	—	2,503,417
Pooled fixed-income investments	87,886,352	—	—	—	—	—	—	87,886,352
Subtotal system	<u>252,137,257</u>	<u>7,286,989</u>	<u>5,739,728</u>	<u>13,076,754</u>	<u>6,544,463</u>	<u>14,052,190</u>	<u>19,094,809</u>	<u>186,342,324</u>
OPEB Trust:								
Money market	27,614	—	—	—	—	—	—	27,614
Certificates of deposit	1,636,017	—	—	—	—	—	—	1,636,017
Corporate fixed income	74,060	—	—	—	74,060	—	—	—
Subtotal OPEB Trust	<u>1,737,691</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>74,060</u>	<u>—</u>	<u>—</u>	<u>1,663,631</u>
Total	<u>\$ 530,437,638</u>	<u>14,614,970</u>	<u>5,739,728</u>	<u>13,076,754</u>	<u>6,618,523</u>	<u>14,052,190</u>	<u>19,094,809</u>	<u>457,240,664</u>
Discretely presented component unit (CHA):								
Money market	\$ 87,428,994	Not rated						
MMDT	131,656,282	Not rated						
Total discretely presented component unit (CHA)	<u>\$ 219,085,276</u>							

In addition to the above schedule, the System had \$4,542,405 invested in U.S. government securities, which are not rated as they are explicitly guaranteed by the U.S. government.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

**(iv) Concentration Risk**

The System has no individual investments, at fair value, that exceed 5% of the System's net assets held in trust for pension benefits as of December 31, 2011.

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

**(v) 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. The System's asset allocation model which serves as a proxy for a foreign currency policy, limits the amount of foreign currency exposure to 19% of the System's total investments. Similar to the investments in domestic equities, the System employs or encourages its investment advisor to employ diversification, asset allocation, and quality strategies. Currency hedging is permitted for defensive purposes. Currency hedging shall be effected through the use of forward currency contracts. At December 31, 2011, there were no open forward currency contracts.

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

Currency:

International equity pooled funds (various currencies)	\$ 114,059,589
International fixed income pooled funds (various currencies)	<u>36,210,663</u>
	<u>\$ 150,270,252</u>

**(4) Property Taxes**

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

The City bills and collects its property taxes on a semiannual basis following the January 1 assessment. The due dates for those tax billings are November 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. 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

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

cannot increase by more than 2 ½% of the prior year's levy plus the taxes on property newly added to the tax rolls. Certain provisions of Proposition 2 ½ can be overridden by a Citywide referendum.

**(5) Capital Assets**

Capital asset activity for the year ended June 30, 2012 was as follows:

***Primary Government***

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 165,207,775	—	—	165,207,775
Construction in progress	<u>175,208,406</u>	<u>54,898,602</u>	<u>(8,580,720)</u>	<u>221,526,288</u>
Total capital assets not being depreciated	<u>340,416,181</u>	<u>54,898,602</u>	<u>(8,580,720)</u>	<u>386,734,063</u>
Capital assets being depreciated:				
Buildings and improvements	333,065,604	1,278,071	—	334,343,675
Improvements – nonbuilding	96,548,918	1,202,500	—	97,751,418
Furniture and equipment	54,179,979	5,616,425	—	59,796,404
Infrastructure	<u>262,265,131</u>	<u>7,717,779</u>	—	<u>269,982,910</u>
Total capital assets being depreciated	<u>746,059,632</u>	<u>15,814,775</u>	—	<u>761,874,407</u>
Less accumulated depreciation for:				
Buildings and improvements	(107,815,623)	(9,770,873)	—	(117,586,496)
Improvements – nonbuilding	(20,026,352)	(3,783,786)	—	(23,810,138)
Furniture and equipment	(41,034,778)	(2,864,597)	—	(43,899,375)
Infrastructure	<u>(160,668,654)</u>	<u>(10,052,593)</u>	—	<u>(170,721,247)</u>
Total accumulated depreciation	<u>(329,545,407)</u>	<u>(26,471,849)</u>	—	<u>(356,017,256)</u>
Total capital assets being depreciated, net	<u>416,514,225</u>	<u>(10,657,074)</u>	—	<u>405,857,151</u>
Governmental activities capital assets, net	<u>\$ 756,930,406</u>	<u>44,241,528</u>	<u>(8,580,720)</u>	<u>792,591,214</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

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

Governmental activities:

General government	\$ 793,763
Public safety	3,418,846
Community maintenance and development	15,135,814
Human resource development	1,882,575
Education	<u>5,240,851</u>
Total depreciation expense – governmental activities	<u>\$ 26,471,849</u>

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activity:				
Capital assets not being depreciated:				
Land	\$ 39,264,325	—	—	39,264,325
Construction in progress	<u>7,590,526</u>	<u>1,855,785</u>	<u>(6,399,417)</u>	<u>3,046,894</u>
Total capital assets not being depreciated	<u>46,854,851</u>	<u>1,855,785</u>	<u>(6,399,417)</u>	<u>42,311,219</u>
Capital assets being depreciated:				
Buildings and improvements	81,117,638	19,235	—	81,136,873
Furniture and equipment	1,895,170	4,539,677	—	6,434,847
Infrastructure	<u>36,580,716</u>	<u>2,950,650</u>	—	<u>39,531,366</u>
Total capital assets being depreciated	<u>119,593,524</u>	<u>7,509,562</u>	—	<u>127,103,086</u>
Less accumulated depreciation for:				
Buildings and improvements	(20,002,184)	(2,058,916)	—	(22,061,100)
Furniture and equipment	(1,355,208)	(280,252)	—	(1,635,460)
Infrastructure	<u>(13,674,932)</u>	<u>(777,281)</u>	—	<u>(14,452,213)</u>
Total accumulated depreciation	<u>(35,032,324)</u>	<u>(3,116,449)</u>	—	<u>(38,148,773)</u>
Total capital assets being depreciated, net	<u>84,561,200</u>	<u>4,393,113</u>	—	<u>88,954,313</u>
Business-type activity capital assets, net	<u>\$ 131,416,051</u>	<u>6,248,898</u>	<u>(6,399,417)</u>	<u>131,265,532</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

**(6) Receivables**

Receivables as of year-end for the government's individual major funds and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	Government funds				Enterprise fund	
	General	Capital fund	Affordable Housing Trust fund	Other governmental funds	Total governmental funds	Water fund
Receivables:						
Property taxes	\$ 4,351,203	—	—	—	4,351,203	—
Motor vehicle taxes	3,390,596	—	—	—	3,390,596	—
Other taxes	3,574,319	—	—	—	3,574,319	—
Intergovernmental	—	10,873,693	—	2,285,658	13,159,351	—
Other	10,672,950	—	8,227,699	935,340	19,835,989	4,703,407
Gross receivables	21,989,068	10,873,693	8,227,699	3,220,998	44,311,458	4,703,407
Less allowance for uncollectibles	3,376,413	1,872,472	3,382,000	—	8,630,885	47,034
Net total receivables	\$ 18,612,655	9,001,221	4,845,699	3,220,998	35,680,573	4,656,373

**(7) Receivable and Payable Balances between Funds and Component Unit**

Individual fund receivable and payable balances at June 30, 2012, are as follows:

Interfund balances	Receivable	Payable
General fund – payable to water fund – for bond premium transfer	\$ —	32,723
Capital fund – receivable from other governmental funds – for capital items	804,969	—
Enterprise fund – receivable from general fund for bond premium	32,723	—
Other governmental funds – community development block grant payable to capital fund – for capital items	—	804,969
Balance at June 30, 2012	\$ 837,692	837,692

Receivable and payable balances between the primary government and CHA at June 30, 2012 are as follows:

Discrete component unit balances	Receivable	Payable
Primary government:		
General	\$ 8,995,000	—
Discretely presented component unit:		
CHA	—	8,995,000
Balance at June 30, 2012	\$ 8,995,000	8,995,000

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

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In 1998, the City issued \$30 million of general obligation hospital bonds. The proceeds were provided to the CHA for the construction of an ambulatory care center. CHA has assumed responsibility for paying to the City an amount equal to current debt service on all outstanding general obligation bonds of the City issued for public health and hospital purposes. In 2007, the City refunded a portion of the original general obligation hospital bond. As of June 30, 2012, the amount outstanding on hospital related debt is \$8,995,000.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

**(8) Long-Term Obligations**

Following is a summary of the governmental activities long-term obligations of the City as of June 30, 2012:

	<u>Date of issue</u>	<u>Interest rates</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>	<u>Due within one year</u>
General obligation bonds:							
General purpose, serial maturities through February 15, 2032	12/15/01 to 3/22/12	2.0% – 4.5%	\$ 217,053,178	46,331,543	43,442,598	219,942,123	18,272,255
Urban redevelopment, serial maturities through February 15, 2022	1/15/03 to 2/15/12	2.0% – 4.25%	17,800,500	4,600,000	4,450,000	17,950,500	4,785,000
Schools, serial maturities through February 1, 2018	2/1/08	3.0% – 3.25%	3,305,169	—	472,167	2,833,002	472,167
Sewer, serial maturities through July 15, 2022	1/15/03 to 6/13/12	2.0% – 5.0%	52,016,170	30,433,572	10,416,856	72,032,886	11,338,639
Hospital, serial maturities through February 1, 2018	3/15/07	4.0%	10,495,000	—	1,500,000	8,995,000	1,500,000
Sub-total general obligation bonds			<u>300,670,017</u>	<u>81,365,115</u>	<u>60,281,621</u>	<u>321,753,511</u>	<u>36,368,061</u>
Notes payable:							
Section 108 HUD notes payable, serial maturities through August 1, 2014	9/14/06	5.07%	265,000	—	30,000	235,000	30,000
Note payable serial maturities through July 1, 2021	4/20/00 to 6/30/01	2.00%	5,786,728	—	521,106	5,265,622	562,320
Sub-total notes payable			<u>6,051,728</u>	<u>—</u>	<u>551,106</u>	<u>5,500,622</u>	<u>592,320</u>
Total governmental obligation bonds and notes payable			<u>\$ 306,721,745</u>	<u>81,365,115</u>	<u>60,832,727</u>	<u>327,254,133</u>	<u>36,960,381</u>
Add (deduct):							
Unamortized bond premium						8,923,020	
Deferred loss on refunding						(3,948,257)	
Current portion of long-term debt						(36,960,381)	
						<u>\$ 295,268,515</u>	
Other long-term obligations:							
Judgments and claims			\$ 24,606,000	43,084,279	55,834,279	11,856,000	5,774,000
Compensated absences			18,060,000	18,102,900	17,935,900	18,227,000	6,643,000
Landfill postclosure care costs			250,000	—	25,000	225,000	25,000
Other postemployment benefits			86,709,262	49,369,000	22,548,438	113,529,824	—
Pollution remediation			1,336,776	2,859,672	740,594	3,455,854	2,595,993
Total other governmental long-term obligations			<u>\$ 130,962,038</u>	<u>113,415,851</u>	<u>97,084,211</u>	<u>147,293,678</u>	<u>15,037,993</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

Following is a summary of the business-type activity long-term obligations of the City as of June 30, 2012:

	<u>Date of issue</u>	<u>Interest rates</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>	<u>Due within one year</u>
General obligation bonds:							
General purpose, serial maturities through August 1, 2019	12/15/01 to 3/15/07	2.5% – 5.0%	\$ 21,895,000	—	3,535,000	18,360,000	2,840,000
Total business-type bonds payable			<u>\$ 21,895,000</u>	<u>—</u>	<u>3,535,000</u>	18,360,000	<u>2,840,000</u>
Add (deduct):							
Unamortized bond premium						756,021	
Deferred loss on refunding						(490,520)	
Current portion of long-term debt						<u>(2,840,000)</u>	
						<u>\$ 15,785,501</u>	
Other long-term obligations:							
Judgments and claims			\$ 887,000	2,605,901	2,727,901	765,000	176,000
Compensated absences			496,000	414,800	408,800	502,000	175,000
Total other long-term obligations			<u>\$ 1,383,000</u>	<u>3,020,701</u>	<u>3,136,701</u>	<u>1,267,000</u>	<u>351,000</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

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

General obligation bonds are backed by the full faith and credit of the City. The annual debt service requirements of the City's general obligation governmental bonds and notes payable outstanding as of June 30, 2012, are as follows:

	Principal		Interest		Total	
	G/O bonds	Notes	G/O bonds	Notes	G/O bonds	Notes
Year ending June 30:						
2013	\$ 36,368,061	592,320	10,258,516	111,317	46,626,577	703,637
2014	34,043,992	608,671	9,321,614	98,329	43,365,606	707,000
2015	31,594,940	755,250	8,285,049	82,557	39,879,989	837,807
2016	27,994,228	597,062	7,336,492	65,434	35,330,720	662,496
2017	26,310,736	609,114	6,538,849	53,383	32,849,585	662,497
2018 – 2022	96,726,377	2,338,205	22,123,324	90,950	118,849,701	2,429,155
2023 – 2027	52,260,177	—	9,025,856	—	61,286,033	—
2028 – 2031	16,455,000	—	1,301,720	—	17,756,720	—
	<u>\$ 321,753,511</u>	<u>5,500,622</u>	<u>74,191,420</u>	<u>501,970</u>	<u>395,944,931</u>	<u>6,002,592</u>

The City has entered into loan agreements with the President and Fellows of Harvard College. The loans provide funding to further the development of affordable housing within the City. The notes carry interest at 2% per year for a period of twenty years with principal payments beginning in 2010. Interest costs will be \$117,000 annually. At June 30, 2012, the principal amount outstanding is \$5,265,622.

Principal retirement of governmental funds has been reflected in the basic financial statements as debt service expenditures of \$33.9 million and education expenditures of \$.5 million totaling \$34.4 million of principal costs.

In February 2012, the City issued \$40,485,000 in general obligation bonds to fund various capital purchases and improvements throughout the City. Interest on the general obligation bonds is due semiannually on each February 15 and August 15, with principal payments due each February 15 until maturity in fiscal 2032.

In March 2012, the City issued general obligation bonds with interest rates ranging from 1.0% to 5.0% to advance refund \$25,900,000 of City general obligation bonds with interest rates ranging from 3.3% to 4.3%. The net proceeds of approximately \$29,100,000 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide future debt service payments. As a result, the bonds are considered to be defeased and the liability of those bonds has been removed from the City's long-term debt obligations. The expected cash flow savings are approximately \$1.062 million. The economic gain realized from the advanced refunding is approximately \$1.0 million.

The City entered into a loan agreement with the Massachusetts Water Pollution Abatement Trust (MWPAT) for \$10,083,572 on June 13, 2012. Principal on the loan is due each July 15 until maturity in fiscal 2023 and there is zero interest. The MWPAT loans provide funding for sewer separation and drinking water projects. According to the loan agreements, the City will be subsidized on a periodic basis for debt and interest costs. The City received approximately \$94,000 in subsidies during 2012 and expects to receive subsidies totaling approximately \$677,700 through fiscal 2023. Other MWPAT Loan payments

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

commenced on February 1, 2005 and end on August 1, 2014, with interest rates ranging from 4.0% to 5.0%.

In July 2011, City entered into a loan agreement with the Massachusetts School Building Authority (MSBA) for \$5,946,543 to provide funding for the Cambridge Rindge and Latin School Renovations Project. The loan agreement stipulates annual interest and principle payments a commenced on November 1, 2012 and ending in 2021 with an interest rate of 2.0%.

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

As of June 30, 2012, the City may issue approximately \$1.0 billion additional general obligation debt under the normal debt limit. The City has approximately \$23.9 million of debt exempt from the debt limit.

The annual debt service requirements of the City's water enterprise fund as of June 30, 2012 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2013	\$ 2,840,000	842,801	3,682,801
2014	2,840,000	708,000	3,548,000
2015	2,540,000	572,301	3,112,301
2016	2,420,000	446,501	2,866,501
2017	2,420,000	325,501	2,745,501
2018 – 2020	5,300,000	299,503	5,599,503
	<u>\$ 18,360,000</u>	<u>3,194,607</u>	<u>21,554,607</u>

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

In 2007, the CHA entered into a commercial loan of \$8 million to finance renovations at one of its leased facilities. CHA has swapped its variable rate (30 day LIBOR +0.50 basis points) for a fixed rate of 5.69%. The commercial loan was paid off in its entirety during 2012. The swap agreement was also terminated and the CHA paid a termination amount of \$1,030,000. Collateral that had been posted for this commercial loan was released at the termination of the agreement and payoff of the obligation.

In 2012, the CHA purchased space for \$850,000 which was previously rented through an operating lease agreement. Of the total purchase price, \$680,000 was financed through a note payable to the seller. The note is to be amortized over 10 years with monthly payments of \$7,047 at an interest rate of 4.5%.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

**(9) Retirement Plan**

**(a) Plan Description**

The City contributes to the System, a cost sharing, multi employer public employee retirement system. The System provides retirement, disability, and death benefits to plan members and beneficiaries of the following governmental units:

- (i) City of Cambridge
- (ii) Cambridge Redevelopment Authority
- (iii) Cambridge Housing Authority
- (iv) Cambridge Health Alliance

The System is a member of the Massachusetts Contributory System, which is governed by Chapter 32 of the Massachusetts General Laws (MGL).

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 Manager and a fifth member chosen by the other members.

**(b) Basis of Accounting**

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

Investments of the System are stated as follows:

- (i) Fixed income securities are stated at quoted market value.
- (ii) Equity securities are stated at quoted market value.
- (iii) Real estate funds are stated at partner's account value based upon the appraised value of the underlying investments.
- (iv) Venture capital funds are stated at the lower of contributed cost or fair value.
- (v) International investments are stated at quoted market value and are included in equities and fixed income categories.
- (vi) Alternative investments are stated at partner's account or unit value.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

**(c) Membership**

Membership in the System consisted of the following at January 1, 2012, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	1,893
Terminated plan members entitled to, but not receiving benefits	1,041
Terminated plan members with a vested right to a deferred or immediate benefit	113
Active plan members	<u>3,332</u>
Total membership	<u><u>6,379</u></u>
Total number of participating employers	4

**(d) Contributions**

Plan members are required to contribute to the System. Depending on their employment date, active members must contribute a range of 5% to 9% of their regular gross compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. Participating employers are required to pay into the System their share of the remaining system-wide actuarially determined contribution, which is apportioned among the employers based on active covered payroll. The contributions of plan members and the participating employers are governed by Chapter 32 of the MGL. The City's and CHA's actual contributions equaled their required contributions to the System for the years ended June 30, 2012, 2011, and 2010 were \$25,125,788, \$22,096,592, and \$21,565,919, respectively, and \$5,603,515, \$5,017,900, and \$4,871,695 respectively.

The Commonwealth reimburses the System for a portion of the benefits payments for cost of living increases granted before July 1998.

**(e) Legally Required Reserve Accounts**

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

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity savings fund	\$ 224,419,942	Active members' contribution balance
Annuity reserve fund	53,906,749	Retired members' contribution account
Military service credit fund	5,894	Members' contribution account while on military leave
Pension reserve fund	490,569,000	Amounts appropriated to fund future retirement benefits
Pension fund	<u>625,119</u>	Remaining net assets
	<u><u>\$ 769,526,704</u></u>	

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2012

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

**(f) *Securities Lending***

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

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

The System does not impose any restrictions on the amount of securities lent on its behalf by the custodian. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses from a default of the borrowers or the custodian for the year ended December 31, 2011. The cash collateral received by the custodian on each loan was invested, together with the cash collateral of other qualified tax exempt plan lenders, in a collective investment pool. The relationship between the average maturities of the investment pool and loans was affected by the maturities of the loans made by other plans that invested cash collateral in the collective investment pool, which the System could not determine. At December 31, 2011, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts owed to the System. Borrower rebates and fees paid to the custodian for the year ended December 31, 2011 were \$274,938.

At December 31, 2011, the fair value of securities loaned by the System amounted to \$91,962,652 against which was held collateral of \$94,708,022.

For loans having collateral other than cash, the related collateral securities are not recorded as assets in the statement of fiduciary net assets, and a corresponding liability is not recorded, since the System cannot pledge or sell the collateral securities except in the event of a borrower's default.

**(g) *Massachusetts Teachers' Retirement System***

In addition, teachers, certain administrators, and other professionals of the School Department participate in a contributory defined benefit plan administered by the Massachusetts Teachers' Retirement System. The City has no obligation to contribute to this plan. The Commonwealth funds plan benefits to the extent that funding is not provided through employee contributions. However, the Commonwealth does not separately calculate the amount of its annual contribution attributable to benefits earned by City employees.

**(h) *Administrative Costs***

The System's administrative costs are funded from investment earnings.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

(i) ***Funded Status and Funding Progress***

The funded status of the System as of January 1, 2012, the most recent actuarial valuation, is as follows:

Actuarially accrued liability (AAL)	\$ 1,070,070,414
Actuarial value of plan assets	<u>832,296,715</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 237,773,699</u></u>
Funded ratio (actuarial value of plan assets/AAL)	77.8%
Covered payroll (active plan members)	\$ 217,086,299
UAAL as a percentage of covered payroll	109.5%

In the January 1, 2012 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions included an 8% investment rate of return, projected salary increases of 4% per year in 2012 and 2013 and 4.75% per year thereafter, and cost of living adjustments of 3% of first \$14,000 of retirement income. The actuarial value of assets was determined using the difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period. The System's unfunded actuarial accrued liability is being amortized as increasing amortization for remaining unfunded liability. The remaining amortization period is 17 years from July 1, 2012 for remaining unfunded liability.

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 termination rates, retirement rates, mortality and salary increases. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year 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.

**(10) Other Postemployment Benefit Disclosures**

In addition to the pension benefits described in note 9, the City provides postemployment healthcare and life insurance benefits, in accordance with state statute and City ordinance, to participating retirees and their beneficiaries. As of the valuation date, approximately 2,285 retirees and 2,788 active members meet the eligibility requirements as put forth in Chapter 32B of MGL. The City sponsors and participates in an agent multi-employer defined benefit OPEB plan. The OPEB plan is administered by the City and does not issue a stand-alone financial report.

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

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

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

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

**(a) Funding Policy**

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

**(b) Annual OPEB Cost and Net OPEB Obligation**

The City's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2012, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of July 1, 2010, rolled forward to July 1, 2011:

Annual Required Contribution (ARC)	\$ 49,096,000
Interest on net OPEB obligation	3,902,000
Adjustment to ARC	<u>(3,629,000)</u>
Annual OPEB cost	49,369,000
Contributions made	<u>(22,548,438)</u>
Change in net OPEB obligation	26,820,562
Net OPEB obligation – beginning of year	<u>86,709,262</u>
Net OPEB obligation – end of year	<u>\$ 113,529,824</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

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

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of OPEB cost contributed</u>	<u>Net OPEB obligation</u>
2012	\$ 49,369,000	45.67%	\$ 113,529,824
2011	46,624,000	47.73	86,709,262
2010	44,892,610	53.20	62,340,427

**(c) Funded Status and Funding Progress**

The funded status of the plan, based on an actuarial valuation as of July 1, 2010 rolled forward to July 1, 2011, as of June 30, 2012 was as follows:

Actuarially accrued liability (AAL)	\$ 613,189,000
Actuarial value of plan assets	<u>2,176,706</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 611,012,294</u>
Funded ratio (actuarial value of plan assets/AAL)	0.4%
Covered payroll (active plan members)	\$ 166,594,082
UAAL as a percentage of covered payroll	366.8%

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

In January 2009, the Commonwealth adopted Chapter 479, which amends Chapter 32B and allows local municipalities to establish an OPEB liability trust fund and a funding schedule for the trust fund. On December 21, 2009, the City Council approved the establishment of an irrevocable OPEB trust fund and \$2,000,000 was transferred to the fund.

**(d) Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2012

each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010 actuarial valuation, the projected unit credit cost method was used and the actuarial accrued liability is being amortized over a period of 28 years on a closed basis and is calculated assuming a level percentage of projected payroll.

As of July 1, 2010 the discount rate was 4.5%. In general, the discount rate is to be equal to the long term rate of return of the assets paying retiree costs.

As of July 1, 2010, the healthcare cost trend rates begin with 10% and decrease 0.5% annually to an ultimate rate of 5.0%. The healthcare cost trend rates as of July 1, 2010 are based on current market conditions and updated normative trend data and studies.

As of July 1, 2010, the expected annual trend rates begin with 6% and decreases 0.25% annually to an ultimate rate of 5.0%. The healthcare cost trend rates as of July 1, 2010 are based on past annual increases in the Medicare Part B premium.

As of July 1, 2010, the payroll growth rate was 3.5%. This assumption should represent long-term expectations of the City's payroll growth. Therefore, recent salary increase rates, current economic environment, and the prior increases were considered. In addition, 3.5% appears to be a reasonable long-term rate of return for the City. This assumption does not affect the liability of the plan, but does affect the amortization of the unfunded actuarial accrued liability and, consequently, the annual costs.

As of July 1, 2010, the inflation rate was 3.5%. This assumption should represent long-term increases in salary rates and healthcare costs.

As of July 1, 2010, future retirees electing spouse coverage is based on the employees' current coverage election. In other words, employees in the current census data with spouse coverage are assumed to have spouse coverage at retirement.

As of July 1, 2010, the percent of participants assumed to not be Medicare eligible at 65 was 7% based on the current 156 retirees over 65 in the non-Medicare plans divided by the total 1,646 retirees over age 65. Based on this updated information, the percent of new retirees not being Medicare eligible at 65 decreased and is likely to continue to decrease. Therefore, it was assumed that 7% of retirees attaining 65 in the future would not be eligible for Medicare.

Current and future retirees contribute an amount based on the costs or premiums of the plan they elect.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

**(11) Transfers**

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

	<b>Governmental funds</b>				
	<b>General</b>	<b>Capital</b>	<b>Affordable Housing Trust fund</b>	<b>Other</b>	<b>Enterprise fund water</b>
Capital – to fund capital expenditures	\$ (3,876,506)	3,876,506	—	—	—
Parking – reimbursement of administrative costs and other eligible City expenditures	18,744,535	1,585,896	—	(20,330,431)	—
Other Grants – License Commission matching grant	(50,000)	—	—	50,000	—
Cemetery – reimbursement of operational costs to fund renovations of administration, buildings and grounds	40,000	—	—	(40,000)	—
Capital – reimbursement of eligible CDBG program costs		(367,972)	—	367,972	—
Water – reimbursement of administrative costs	693,955	—		—	(693,955)
Affordable housing fund – from CPA Fund	—	—	7,680,000	—	—
CPA Fund – to affordable housing fund	—	—	—	(7,680,000)	—
<b>Total</b>	<b>\$ 15,551,984</b>	<b>5,094,430</b>	<b>7,680,000</b>	<b>(27,632,459)</b>	<b>(693,955)</b>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

**(12) Fund Balance Classification Details**

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

	<u>General</u>	<u>Capital fund</u>	<u>Affordable Housing Trust fund</u>	<u>Other governmental funds</u>
Fund balances:				
Nonspendable:				
Deposits	\$ 2,186,162	—	—	—
Nonexpendable permanent funds	—	—	—	2,106,473
Restricted:				
Property and Development	—	19,610,630	—	—
Streets and Sidewalks	—	5,501,427	—	—
Parks and Recreation	—	—	—	—
Sewer Projects	—	30,902,706	—	—
Library	—	103,631	—	—
Schools	—	3,849,520	—	—
General Government	—	5,376,419	—	—
Affordable Housing	—	—	600,000	—
Community Preservation	—	—	—	10,259,630
CDBG Funds	—	—	—	—
Other City Grants Fund:				
Parks and Recreation	—	—	—	35,490
General Government	—	—	—	854,956
Human Services	—	—	—	1,619,093
School Grants Fund Federal/State	—	—	—	4,221,464
Expendable permanent funds	—	—	—	1,426,710
Committed:				
Parking Fund	—	—	—	15,792,211
Health Claims	17,588,044	—	—	—
Budget Stabilization	5,668,942	—	—	—
Affordable Housing	—	—	31,312,928	—
Subsequent year's expenditures	11,000,000	—	—	—
Unassigned	<u>126,726,779</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total fund balances	<u>\$ 163,169,927</u>	<u>65,344,333</u>	<u>31,912,928</u>	<u>36,316,027</u>

**(13) Risk Management**

The City is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, unemployment and employee health insurance claims. The City is self insured for other general liability; however, Chapter 258 of the MGL limits the liability to a maximum of \$100,000 per claim in all matters except actions relating to federal/civil rights, eminent domain and breach of contract. The City is also self insured for property and casualty, workers' compensation and unemployment claims.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

The City has medical plans with Tufts, Harvard Pilgrim and Blue Cross/Blue Shield under which it makes actual claims payments. The medical plan providers act as claim processors and a transfer of risk does not occur. Approximately 90% of the City's employees participate in the self-insured plan with the remainder electing preferred provider plans that are premium based. The amount of settlements exceeded insurance coverage for premium based health insurance elections by \$0, \$2.7 million, and \$1.7 million for fiscal years ended June 30, 2012, 2011, and 2010, respectively.

Active employees contribute at least 12% of the cost of healthcare with the remainder paid by the City. These costs are accounted for in the general fund. The contribution rate for retirees is 1% for those who are currently enrolled in indemnity plans and 15% for those who enroll in HMO type plans. The City does not carry stop-loss insurance.

The City has established a liability based on historical trends of previous years and attorney's estimates of pending matters and lawsuits in which the City is involved.

Changes in the self insurance liability for the years ended June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Judgments and accrued claims, beginning of year	\$ 25,493,000	20,329,000
Incurred claims	45,690,180	47,786,000
Less payments of claims attributable to events of both current and prior fiscal years	<u>(58,562,180)</u>	<u>(42,622,000)</u>
Judgments and accrued claims, end of year	<u>\$ 12,621,000</u>	<u>25,493,000</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Required Supplementary Information

June 30, 2012

(Unaudited)

**Schedules of Funding Progress**

(Dollars in thousands)

**Pension**

<b>Actuarial valuation date</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial accrued liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded ratio (a/b)</b>	<b>Covered payroll (c)</b>	<b>UAAL as a percentage of covered payroll ((b-a)/c)</b>
January 1, 2012	\$ 832,297	1,070,070	237,773	77.8%	\$ 217,086	109.5%
January 1, 2010	796,016	949,908	153,892	83.8	232,842	66.1
January 1, 2008	766,031	833,034	67,003	92.0	231,770	28.9
January 1, 2006	632,059	740,320	108,261	85.4	201,088	53.8
January 1, 2004	569,500	655,107	85,607	86.9	184,254	46.5
January 1, 2002	516,947	578,050	61,103	89.4	167,303	36.5
January 1, 2000	424,606	510,973	86,367	83.1	140,489	61.5

**OPEB**

<b>Actuarial valuation date</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial accrued liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded ratio (a/b)</b>	<b>Covered payroll (c)</b>	<b>UAAL as a percentage of covered payroll ((b-a)/c)</b>
July 1, 2011	\$ 2,177	613,189	611,012	0.4%	\$ 166,594	366.8%
July 1, 2010	2,099	588,268	586,169	0.4%	162,473	360.8%
January 1, 2009 (1)	1,986	624,815	622,829	0.3	156,520	397.9
January 1, 2009	—	598,995	598,995	—	152,151	393.7
December 31, 2006	—	602,697	602,697	—	155,456	387.7

(1) The January 1, 2009 actuarial valuation included a projection as of June 30, 2010. The actuarial value of assets represents the fair value of OPEB assets as of June 30, 2010.

Future cost of living increase assumed by the City.

**Schedule of Employers' Contributions – Pension**

(Dollars in thousands)

<b>Year ended December 31:</b>	<b>Annual required contribution</b>	<b>Percentage contributed</b>
2011	\$ 32,213	100%
2010	28,554	100
2009	27,728	100
2008	26,891	100
2007	28,067	100
2006	25,220	100
2005	24,577	100
2004	23,978	100

See accompanying independent auditors' report.

**CITY OF CAMBRIDGE, MASSACHUSETTS**  
Schedule of Revenues and Expenditures – Budgetary Basis  
Required Supplementary Information  
General Fund – Budget and Actual  
Year ended June 30, 2012  
Unaudited  
(with comparative actual amounts for 2011)

	<b>2012 Original budget</b>	<b>2012 Final budget</b>	<b>2012 Actual</b>	<b>Variance favorable (unfavorable)</b>	<b>2011 Actual</b>
<b>Revenues:</b>					
Property taxes	\$ 299,090,638	299,090,638	299,090,638	—	283,961,699
Provisions for tax abatements and adj.	(4,390,639)	(4,390,639)	(4,390,639)	—	(4,295,422)
Payments in lieu of tax receipts	6,320,000	6,320,000	7,586,219	1,266,219	7,344,911
Hotel/motel/meals excise tax	13,300,000	13,300,000	14,954,425	1,654,425	13,573,132
Intergovernmental	30,762,697	30,762,697	31,954,472	1,191,775	31,795,812
Sewer use	38,973,100	38,973,100	40,579,119	1,606,019	40,346,895
Motor vehicle excise	6,253,255	6,253,255	6,238,835	(14,420)	6,452,602
Investment income	500,000	500,000	503,227	3,227	536,337
Other	19,696,452	19,796,153	37,651,056	17,854,903	28,431,356
Total revenues	<u>410,505,503</u>	<u>410,605,204</u>	<u>434,167,352</u>	<u>23,562,148</u>	<u>408,147,322</u>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	47,655,159	45,773,627	38,147,800	7,625,827	37,601,872
Public safety	103,863,215	104,297,515	102,966,886	1,330,629	101,117,208
Community maintenance and development	37,846,816	38,509,777	38,064,537	445,240	38,478,329
Human resource development	31,148,658	32,107,917	31,850,273	257,644	30,152,199
Education	140,719,260	140,794,260	140,081,174	713,086	135,368,303
Judgments and claims	200,000	12,212,552	12,212,551	1	929,151
State and district assessments	48,177,032	48,183,655	46,146,725	2,036,930	44,892,107
<b>Debt service:</b>					
Principal	33,939,460	33,939,460	33,939,454	6	34,865,929
Interest	10,655,370	10,655,370	10,617,398	37,972	10,381,632
Total expenditures	<u>454,204,970</u>	<u>466,474,133</u>	<u>454,026,798</u>	<u>12,447,335</u>	<u>433,786,730</u>
Excess (deficiency) of revenues over expenditures	<u>(43,699,467)</u>	<u>(55,868,929)</u>	<u>(19,859,446)</u>	<u>36,009,483</u>	<u>(25,639,408)</u>
<b>Other financing sources (uses):</b>					
<b>Operating transfers in (out):</b>					
Special revenue funds	20,376,255	20,376,255	18,694,535	(1,681,720)	18,214,945
Capital projects funds	(3,798,000)	(3,798,000)	(3,876,506)	(78,506)	(4,195,000)
Trust funds	14,122,470	14,122,470	14,122,470	—	16,538,615
Enterprise fund	693,955	693,955	693,955	—	687,510
Total other financing sources (uses)	<u>31,394,680</u>	<u>31,394,680</u>	<u>29,634,454</u>	<u>(1,760,226)</u>	<u>31,246,070</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(12,304,787)</u>	<u>(24,474,249)</u>	<u>9,775,008</u>	<u>34,249,257</u>	<u>5,606,662</u>
<b>Other budget items:</b>					
Free cash appropriations	11,300,000	23,469,462			
Prior year deficits raised	(995,213)	(995,213)			
Overlay surplus	2,000,000	2,000,000			
Total other budget items	<u>12,304,787</u>	<u>24,474,249</u>			
Net budget and actual	<u>\$ —</u>	<u>—</u>			

See accompanying independent auditors' report.

See accompanying notes to required supplementary information.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Required Supplementary Information

Year ended June 30, 2012

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:

Revenues are recorded when cash is received except for real estate and personal property taxes are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).

Encumbrances and continuing appropriations, which are recorded as the equivalent of expenditures (budget), as opposed to a reservation of fund balance (GAAP).

Certain activities and transactions are presented in separate funds (GAAP), rather than as components of the general fund (budget).

Amounts raised for the prior years’ deficits and available funds from prior years’ surpluses are recorded as revenue items (budget), but have no effect on GAAP revenues.

In addition, there are certain differences in classifications between revenues, expenditures, and transfers.

The following reconciliation summarizes the differences between budgetary and GAAP basis accounting principles for the year ended June 30, 2012:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other financing sources (uses), net</u>
As reported on a budgetary basis:	\$ 434,167,352	454,026,798	29,634,454
Adjustments:			
Revenues to modified accrual basis	9,289,351	—	—
Expenditures, encumbrances and accruals, net	—	(13,085,573)	—
Reclassification:			
Premium on debt issuance	—	—	5,851,746
Transfers not reported on a Budgetary/GAAP basis	—	—	(14,082,470)
Deferred loss on refunding	—	—	(4,179,117)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
As reported on a GAAP basis	\$ <u>443,456,703</u>	<u>440,941,225</u>	<u>17,224,613</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Supplemental Statements and Schedules

June 30, 2012

The following section provides detailed information on the general fund, other governmental funds and agency funds included in the basic financial statements. Information on real, personal, and excise tax collections, and a schedule of the bonds and notes payable of the City is also provided in this section.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
General government:			
Mayor:			
Salaries and wages	\$ 446,605	383,452	63,153
Other ordinary maintenance	120,130	119,066	1,064
Travel and training	16,500	15,301	1,199
Total Mayor	<u>583,235</u>	<u>517,819</u>	<u>65,416</u>
City Manager:			
Salaries and wages	1,496,370	1,496,340	30
Other ordinary maintenance	508,400	470,734	37,666
Travel and training	38,700	27,453	11,247
Total City Manager	<u>2,043,470</u>	<u>1,994,527</u>	<u>48,943</u>
City Council:			
Salaries and wages	1,501,205	1,499,046	2,159
Other ordinary maintenance	41,900	27,798	14,102
Travel and training	59,855	36,219	23,636
Total City Council	<u>1,602,960</u>	<u>1,563,063</u>	<u>39,897</u>
City Clerk:			
Salaries and wages	927,156	927,149	7
Other ordinary maintenance	56,110	53,348	2,762
Travel and training	4,420	25	4,395
Total City Clerk	<u>987,686</u>	<u>980,522</u>	<u>7,164</u>
Law:			
Salaries and wages	1,393,890	1,363,825	30,065
Other ordinary maintenance	411,565	262,994	148,571
Travel and training	12,245	10,068	2,177
Total law	<u>1,817,700</u>	<u>1,636,887</u>	<u>180,813</u>
Finance:			
Salaries and wages	9,033,550	9,033,418	132
Other ordinary maintenance	2,846,935	2,624,593	222,342
Travel and training	215,120	185,356	29,764
Extraordinary expenditures	62,800	61,088	1,712
Total finance	<u>12,158,405</u>	<u>11,904,455</u>	<u>253,950</u>
Employment benefits:			
Salaries and wages	22,709,026	16,157,894	6,551,132
Other ordinary maintenance	839,100	708,573	130,527
Travel and training	30,000	5,035	24,965
Total employment benefits	<u>23,578,126</u>	<u>16,871,502</u>	<u>6,706,624</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
General services:			
Salaries and wages	\$ 217,945	213,282	4,663
Other ordinary maintenance	521,270	346,895	174,375
Total general services	<u>739,215</u>	<u>560,177</u>	<u>179,038</u>
Election commission:			
Salaries and wages	704,620	704,590	30
Other ordinary maintenance	423,055	324,540	98,515
Travel and training	2,270	268	2,002
Total election commission	<u>1,129,945</u>	<u>1,029,398</u>	<u>100,547</u>
Public celebrations:			
Salaries and wages	408,300	408,299	1
Other ordinary maintenance	387,400	387,059	341
Travel and training	1,125	537	588
Total public celebrations	<u>796,825</u>	<u>795,895</u>	<u>930</u>
Reserve:			
Other ordinary maintenance	12,500	—	12,500
Total reserve	<u>12,500</u>	<u>—</u>	<u>12,500</u>
Animal commission:			
Salaries and wages	310,105	280,277	29,828
Other ordinary maintenance	13,305	13,278	27
Travel and training	150	—	150
Total animal commission	<u>323,560</u>	<u>293,555</u>	<u>30,005</u>
Total general government	<u>45,773,627</u>	<u>38,147,800</u>	<u>7,625,827</u>
Public safety:			
Fire:			
Salaries and wages	37,304,320	36,906,118	398,202
Other ordinary maintenance	1,117,245	1,097,615	19,630
Travel and training	583,500	583,034	466
Extraordinary expenditures	110,000	109,274	726
Total fire	<u>39,115,065</u>	<u>38,696,041</u>	<u>419,024</u>
Police:			
Salaries and wages	40,800,285	40,800,275	10
Other ordinary maintenance	2,168,950	2,131,822	37,128
Travel and training	391,500	321,579	69,921
Extraordinary expenditures	417,100	392,441	24,659
Total police	<u>43,777,835</u>	<u>43,646,117</u>	<u>131,718</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Traffic and parking:			
Salaries and wages	\$ 6,911,030	6,681,786	229,244
Other ordinary maintenance	3,271,040	3,197,501	73,539
Travel and training	48,400	47,993	407
Extraordinary expenditures	64,000	41,744	22,256
Total traffic and parking	<u>10,294,470</u>	<u>9,969,024</u>	<u>325,446</u>
Police review and advisory board:			
Salaries and wages	100,045	63,699	36,346
Other ordinary maintenance	700	105	595
Travel and training	3,000	2,202	798
Total police review and advisory board	<u>103,745</u>	<u>66,006</u>	<u>37,739</u>
Inspectional services:			
Salaries and wages	2,891,515	2,891,502	13
Other ordinary maintenance	123,400	93,363	30,037
Travel and training	46,425	10,213	36,212
Extraordinary expenditures	—	—	—
Total inspectional services	<u>3,061,340</u>	<u>2,995,078</u>	<u>66,262</u>
License:			
Salaries and wages	869,750	787,590	82,160
Other ordinary maintenance	57,435	45,745	11,690
Travel and training	4,725	3,209	1,516
Total license	<u>931,910</u>	<u>836,544</u>	<u>95,366</u>
Weights and measures:			
Salaries and wages	122,590	122,590	—
Other ordinary maintenance	7,280	5,332	1,948
Travel and training	2,745	1,689	1,056
Total weights and measures	<u>132,615</u>	<u>129,611</u>	<u>3,004</u>
Electrical:			
Salaries and wages	1,481,985	1,481,976	9
Other ordinary maintenance	1,286,460	1,120,868	165,592
Travel and training	1,670	210	1,460
Extraordinary expenditures	25,000	25,000	—
Total electrical	<u>2,795,115</u>	<u>2,628,054</u>	<u>167,061</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Emergency communications:			
Salaries and wages	\$ 3,917,360	3,870,749	46,611
Other ordinary maintenance	148,210	110,471	37,739
Travel and training	15,850	15,626	224
Extraordinary expenditures	4,000	3,565	435
Total emergency communications	<u>4,085,420</u>	<u>4,000,411</u>	<u>85,009</u>
Total public safety	<u>104,297,515</u>	<u>102,966,886</u>	<u>1,330,629</u>
Community maintenance and development:			
Public works:			
Salaries and wages	19,624,988	19,624,880	108
Other ordinary maintenance	10,696,520	10,319,974	376,546
Travel and training	224,030	213,469	10,561
Extraordinary expenditures	458,000	458,000	—
Total public works	<u>31,003,538</u>	<u>30,616,323</u>	<u>387,215</u>
Community development:			
Salaries and wages	4,837,763	4,837,751	12
Other ordinary maintenance	465,077	421,318	43,759
Travel and training	37,791	37,663	128
Extraordinary expenditures	1,710	1,710	—
Total community development	<u>5,342,341</u>	<u>5,298,442</u>	<u>43,899</u>
Historical commission:			
Salaries and wages	543,810	543,809	1
Other ordinary maintenance	40,130	39,452	678
Travel and training	800	691	109
Total historical commission	<u>584,740</u>	<u>583,952</u>	<u>788</u>
Conservation commission:			
Salaries and wages	99,325	99,321	4
Other ordinary maintenance	2,200	165	2,035
Travel and training	1,400	583	817
Total conservation commission	<u>102,925</u>	<u>100,069</u>	<u>2,856</u>
Peace commission:			
Salaries and wages	112,065	112,065	—
Other ordinary maintenance	10,325	7,462	2,863
Travel and training	1,850	—	1,850
Total peace commission	<u>124,240</u>	<u>119,527</u>	<u>4,713</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Cable television:			
Salaries and wages	\$ 481,035	481,033	2
Other ordinary maintenance	867,508	862,791	4,717
Travel and training	3,450	2,400	1,050
Total cable television	<u>1,351,993</u>	<u>1,346,224</u>	<u>5,769</u>
Total community maintenance and development	<u>38,509,777</u>	<u>38,064,537</u>	<u>445,240</u>
Human resource development:			
Library:			
Salaries and wages	6,422,900	6,422,897	3
Other ordinary maintenance	1,976,980	1,943,418	33,562
Travel and training	43,650	41,748	1,902
Total library	<u>8,443,530</u>	<u>8,408,063</u>	<u>35,467</u>
Human services:			
Salaries and wages	18,945,559	18,945,559	—
Other ordinary maintenance	3,131,582	3,007,231	124,351
Travel and training	80,046	56,416	23,630
Extraordinary expenditures	25,000	24,811	189
Total human services	<u>22,182,187</u>	<u>22,034,017</u>	<u>148,170</u>
Women's commission:			
Salaries and wages	211,070	211,070	—
Other ordinary maintenance	9,535	9,188	347
Travel and training	1,025	85	940
Total women's commission	<u>221,630</u>	<u>220,343</u>	<u>1,287</u>
Human rights commission:			
Salaries and wages	222,155	222,154	1
Other ordinary maintenance	4,055	1,984	2,071
Travel and training	700	584	116
Total human rights commission	<u>226,910</u>	<u>224,722</u>	<u>2,188</u>
Veterans benefits:			
Salaries and wages	300,260	288,409	11,851
Other ordinary maintenance	54,900	45,336	9,564
Travel and training	678,500	629,383	49,117
Total veterans benefits	<u>1,033,660</u>	<u>963,128</u>	<u>70,532</u>
Total human resource development	<u>32,107,917</u>	<u>31,850,273</u>	<u>257,644</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Education:			
Salaries and wages	\$ 113,336,947	112,635,450	701,497
Other ordinary maintenance	25,020,852	25,017,415	3,437
Travel and training	1,193,153	1,185,008	8,145
Extraordinary expenditures	610,840	610,833	7
Debt:			
Principal payments	472,167	472,167	—
Interest payments	160,301	160,301	—
Total education	<u>140,794,260</u>	<u>140,081,174</u>	<u>713,086</u>
Judgments and claims	12,212,552	12,212,551	1
Debt retirement:			
Principal payments	33,939,460	33,939,454	6
Interest payments	10,655,370	10,617,398	37,972
Total debt retirement	<u>44,594,830</u>	<u>44,556,852</u>	<u>37,978</u>
State and district assessments:			
MBTA assessment	8,743,630	8,743,628	2
MWRA assessment	21,699,800	21,495,855	203,945
Other State assessments	11,740,225	9,907,242	1,832,983
Cambridge Health Alliance	6,000,000	6,000,000	—
Total state and district assessments	<u>48,183,655</u>	<u>46,146,725</u>	<u>2,036,930</u>
Total general fund expenditures	<u>\$ 466,474,133</u>	<u>454,026,798</u>	<u>12,447,335</u>

See accompanying independent auditors' report.

## **CITY OF CAMBRIDGE, MASSACHUSETTS**

### **Other Governmental Funds**

June 30, 2012

### **Other Governmental Funds**

#### **Community Development Block Grant**

Revenues from the community development block grant program are recorded in this fund. A transfer of revenues is made at the end of the fiscal year to the capital projects funds to cover block grant related expenditures in these funds during the fiscal year. All operating expenditures are recorded within this fund.

#### **School Grants**

This fund accounts for both the receipt and expenditure of funds received from numerous federal and state agencies to support a wide range of elementary and secondary school programs.

#### **Fuel Assistance**

This fund is used to account for revenues and expenditures for a federal program designed to provide low income families with assistance in purchasing fuel supplies.

#### **Parking Fund**

Receipts from the parking fund, which consist primarily of meter collections, parking fines, and miscellaneous revenues, are recorded in this fund and support a wide range of City programs in accordance with Chapter 844 of the Massachusetts General Laws. In a similar manner to the block grant funds, an amount equal to that which is appropriated to the general and capital projects funds, is transferred to those funds at the end of the fiscal year.

#### **Community Preservation Act**

Receipts from added 3% tax and the matching funds from the State for the preservation of open space, historic locations and affordable housing are recorded in this fund. In a similar manner to the parking fund, an amount equal to the amount appropriated to the capital projects and other grants funds, is transferred to those funds at the end of the fiscal year.

#### **Other Grants**

Funds from a wide range of federal and state grants provide additional support to several City programs, including the Arts Council, Historical Commission, and Library. Both the receipt and expenditure of these funds are accounted for in this fund.

#### **Permanent Funds**

This fund accumulates all the City's trust funds that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting governments programs.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Combining Balance Sheet

Other Governmental Funds

June 30, 2012

	<b>Special revenue</b>						<b>Total</b>
	<b>Community development block grant</b>	<b>School grants</b>	<b>Parking fund</b>	<b>Community preservation act</b>	<b>Other grants</b>	<b>Permanent funds</b>	
<b>Assets</b>							
Cash and short-term investments	\$ 389,600	3,379,395	15,156,308	10,428,000	2,682,393	3,533,183	35,568,879
Accounts receivable	235,000	—	635,903	64,340	97	—	935,340
Due from other governments	251,976	1,633,327	—	—	400,355	—	2,285,658
<b>Total assets</b>	<b>\$ 876,576</b>	<b>5,012,722</b>	<b>15,792,211</b>	<b>10,492,340</b>	<b>3,082,845</b>	<b>3,533,183</b>	<b>38,789,877</b>
<b>Liabilities and Fund Balances</b>							
Warrants payable	\$ 48,362	757,091	—	134,174	538,598	—	1,478,225
Accrued liabilities	23,245	34,168	—	34,196	34,707	—	126,316
Deferred revenue	—	—	—	64,340	—	—	64,340
Due to other funds	804,969	—	—	—	—	—	804,969
<b>Total liabilities</b>	<b>876,576</b>	<b>791,259</b>	<b>—</b>	<b>232,710</b>	<b>573,305</b>	<b>—</b>	<b>2,473,850</b>
<b>Fund balances:</b>							
Nonspendable	—	—	—	—	—	2,106,473	2,106,473
Restricted	—	4,221,463	—	10,259,630	2,509,540	1,426,710	18,417,343
Committed	—	—	15,792,211	—	—	—	15,792,211
<b>Total fund balances</b>	<b>—</b>	<b>4,221,463</b>	<b>15,792,211</b>	<b>10,259,630</b>	<b>2,509,540</b>	<b>3,533,183</b>	<b>36,316,027</b>
<b>Total liabilities and fund balances</b>	<b>\$ 876,576</b>	<b>5,012,722</b>	<b>15,792,211</b>	<b>10,492,340</b>	<b>3,082,845</b>	<b>3,533,183</b>	<b>38,789,877</b>

See accompanying independent auditors' report.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Combining Statement of Revenues, Expenditures, and Changes in Fund Equity

Other Governmental Funds

Year ended June 30, 2012

	Special revenue					Permanent funds	Total
	Community development block grant	School grants	Parking fund	Community preservation act	Other grants		
Revenues:							
Intergovernmental	\$ 1,129,183	11,257,561	—	1,984,866	8,766,088	—	23,137,698
Investment income	—	—	67,989	36,064	1,787	11,562	117,402
Other:							
Permits	—	—	568,966	—	—	—	568,966
Fines	—	—	10,731,571	—	—	—	10,731,571
Charges for services	—	—	9,913,001	—	—	—	9,913,001
Miscellaneous	—	1,633,670	332,654	7,728,592	1,327,848	224,390	11,247,154
Total revenues	<u>1,129,183</u>	<u>12,891,231</u>	<u>21,614,181</u>	<u>9,749,522</u>	<u>10,095,723</u>	<u>235,952</u>	<u>55,715,792</u>
Expenditures:							
General government	—	—	—	37,931	23,698	109,745	171,374
Public safety	—	—	—	—	1,327,220	—	1,327,220
Community maintenance and development	1,010,127	—	—	1,243,611	304,320	—	2,558,058
Human services	487,028	—	—	59,991	7,681,717	—	8,228,736
Education	—	13,906,443	—	—	—	—	13,906,443
Total expenditures	<u>1,497,155</u>	<u>13,906,443</u>	<u>—</u>	<u>1,341,533</u>	<u>9,336,955</u>	<u>109,745</u>	<u>26,191,831</u>
Excess (deficiency) of revenues over expenditures	(367,972)	(1,015,212)	21,614,181	8,407,989	758,768	126,207	29,523,961
Other financing sources (uses):							
Transfers from other funds	367,972	—	—	—	50,000	—	417,972
Transfers to other funds	—	—	(20,324,535)	(7,680,000)	(5,896)	(40,000)	(28,050,431)
Excess of revenues over expenditures and transfers	—	(1,015,212)	1,289,646	727,989	802,872	86,207	1,891,502
Fund balances at beginning of year	—	5,236,675	14,502,565	9,531,641	1,706,668	3,446,976	34,424,525
Fund balances at end of year	<u>\$ —</u>	<u>4,221,463</u>	<u>15,792,211</u>	<u>10,259,630</u>	<u>2,509,540</u>	<u>3,533,183</u>	<u>36,316,027</u>

See accompanying independent auditors' report.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Supplemental Statements and Schedules

June 30, 2012

**Agency Funds**

The City's Agency Funds are used to account for assets received and disbursed by the City acting in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Combining Statement of Changes in Assets and Liabilities – Agency Funds

Year ended June 30, 2012

Assets	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
Contract Bids	\$ 113,214	—	—	113,214
Plans	2,065	—	—	2,065
Tree Removals	485	—	—	485
Driveways	205,076	467,851	175,641	497,286
Sidewalk Openings	150	—	—	150
In Lieu of Bond	70,945	—	—	70,945
License Commission	10,149	—	—	10,149
Cambridge Police Detail	85,413	5,142,989	5,047,248	181,154
Cambridge Fire Detail	82,809	744,680	756,688	70,801
Dog Licenses	14,212	—	3,555	10,657
Sporting Licenses	2,862	556	1,028	2,390
Dog Officer	(3,555)	3,555	—	—
Constable Fees	219,980	112,678	120,993	211,665
Meal Tax Agency	36,619	—	—	36,619
Senior Cab	4,279	—	—	4,279
Water Service Renewal	17,422	—	—	17,422
Undistributed Interest	3,808	—	—	3,808
Purchase of Trees	921	2,344	—	3,265
Accident and life Insurance	689,208	209,808	89,435	809,581
Medicare	2,804	—	—	2,804
Car Seat Program	1,539	—	—	1,539
Deferred Compensation	1,410	—	—	1,410
Legal Fees	23,528	—	—	23,528
Retirement Office Payroll	681,725	575,192	481,581	775,336
Continental Casualty	12,407	—	—	12,407
Teacher Insurance Reimbursement	4,940	—	—	4,940
Teachers Retirement	1,574,398	756,018	1,576,961	753,455
Excise Registry Fees	13,857	—	—	13,857
3 Bigelow Contingency Fund	73,786	12,405	1,677	84,514
Retroactive Wages	6	—	—	6
Land Court Fees	55,608	—	—	55,608
Choke Program	1,182	—	—	1,182
Payroll Checks	64,992	—	—	64,992
Retirement Checks	14,693	—	—	14,693
Unclaimed Checks	265,329	—	—	265,329
Stop Payments	22,667	—	—	22,667
Sewer Abatement Appraisal Fee	10,495	—	—	10,495
Water Department Deposits	295,885	137,350	73,475	359,760
Salem State Reading Spec. Prog	—	36,951	36,450	501
Citizens Bank Cks June 2012	—	299,267	—	299,267
Twelve Mt. Auburn	7,684	—	—	7,684
Blue Cross	6,112	—	—	6,112
Hackney Applications	5,386	—	—	5,386
Purchase of Bike Racks	5,138	—	—	5,138
Recycling Bins	92	371	220	243
Levangie/J.P. Construction Co.	1,681	—	—	1,681
Forty-Three Mt. Auburn Rents	2,028	—	—	2,028
Police – Recovered Cash	442	—	—	442
Police – Found Cash	3,098	—	—	3,098
Firearms Recordkeeping Fund	8,336	21,335	17,900	11,771
Cambport Roadways Plan Fund	38	—	—	38
Tenant – 199 Prospect St.	25,751	—	—	25,751
Estate of George W. Boyce	54,591	—	—	54,591
Kendall Sq. Fire Station	150,000	—	—	150,000
Computers for Kids	1,000	—	—	1,000
Payroll Payable	(152,266)	304	—	(151,962)
Robert Chambers Settlement	7,799	—	—	7,799
<b>Total</b>	\$ <u>4,804,223</u>	<u>8,523,654</u>	<u>8,382,852</u>	<u>4,945,025</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Combining Statement of Changes in Assets and Liabilities – Agency Funds

Year ended June 30, 2012

Liabilities	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
Guarantee deposits and amounts due other:				
Contract Bids	\$ 113,214	—	—	113,214
Plans	2,065	—	—	2,065
Tree Removals	485	—	—	485
Driveways	205,076	467,851	175,641	497,286
Sidewalk Openings	150	—	—	150
In Lieu of Bond	70,945	—	—	70,945
License Commission	10,149	—	—	10,149
Cambridge Police Detail	85,413	5,142,989	5,047,248	181,154
Cambridge Fire Detail	82,809	744,680	756,688	70,801
Dog Licenses	14,212	—	3,555	10,657
Sporting Licenses	2,862	556	1,028	2,390
Dog Officer	(3,555)	3,555	—	—
Constable Fees	219,980	112,678	120,993	211,665
Meal Tax Agency	36,619	—	—	36,619
Senior Cab	4,279	—	—	4,279
Water Service Renewal	17,422	—	—	17,422
Undistributed Interest	3,808	—	—	3,808
Purchase of Trees	921	2,344	—	3,265
Accident and life Insurance	689,208	209,808	89,435	809,581
Medicare	2,804	—	—	2,804
Car Seat Program	1,539	—	—	1,539
Deferred Compensation	1,410	—	—	1,410
Legal Fees	23,528	—	—	23,528
Retirement Office Payroll	681,725	575,192	481,581	775,336
Continental Casualty	12,407	—	—	12,407
Teacher Insurance Reimbursement	4,940	—	—	4,940
Teachers Retirement	1,574,398	756,018	1,576,961	753,455
Excise Registry Fees	13,857	—	—	13,857
3 Bigelow Contingency Fund	73,786	12,405	1,677	84,514
Retroactive Wages	6	—	—	6
Land Court Fees	55,608	—	—	55,608
Choke Program	1,182	—	—	1,182
Payroll Checks	64,992	—	—	64,992
Retirement Checks	14,693	—	—	14,693
Unclaimed Checks	265,329	—	—	265,329
Stop Payments	22,667	—	—	22,667
Sewer Abatement Appraisal Fee	10,495	—	—	10,495
Water Department Deposits	295,885	137,350	73,475	359,760
Salem State Reading Spec. Prog	—	36,951	36,450	501
Citizens Bank Cks June 2012	—	299,267	—	299,267
Twelve Mt. Auburn	7,684	—	—	7,684
Blue Cross	6,112	—	—	6,112
Hackney Applications	5,386	—	—	5,386
Purchase of Bike Racks	5,138	—	—	5,138
Recycling Bins	92	371	220	243
Levangie/J.P. Construction Co.	1,681	—	—	1,681
Forty-three Mt. Auburn Rents	2,028	—	—	2,028
Police – Recovered Cash	442	—	—	442
Police – Found Cash	3,098	—	—	3,098
Firearms Recordkeeping Cash	8,336	21,335	17,900	11,771
Cambport Roadways Plan Fund	38	—	—	38
Tenant – 199 Prospect St.	25,751	—	—	25,751
Estate of George W. Boyce	54,591	—	—	54,591
Kendall Sq. Fire Station	150,000	—	—	150,000
Computers for Kids	1,000	—	—	1,000
Payroll Payable	(152,266)	304	—	(151,962)
Robert Chambers Settlement	7,799	—	—	7,799
<b>Total</b>	\$ <u>4,804,223</u>	<u>8,523,654</u>	<u>8,382,852</u>	<u>4,945,025</u>

See accompanying independent auditors' report.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Supplemental Statements and Schedules

June 30, 2012

**Other Schedules**

The following schedules present detailed information on the City's real estate, personal property and motor vehicle excise taxes, and bonds and notes payable, as of June 30, 2012.

**CITY OF CAMBRIDGE, MASSACHUSETTS**  
Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes  
June 30, 2012

	<b>Uncollected June 30, 2011</b>	<b>Commitments</b>	<b>Abatements</b>	<b>Transfers to tax title</b>	<b>Refunds</b>	<b>Collections</b>	<b>Adjustments increase (decrease)</b>	<b>Uncollected June 30, 2012</b>
Real estate taxes:								
2003	\$ 521	—	(521)	—	—	—	—	—
2004	648	—	(648)	—	—	—	—	—
2005	724	—	(724)	—	—	—	—	—
2006	406	—	(4,228)	—	3,822	—	—	—
2007	598	—	(598)	—	—	(205)	205	—
2008	7,007	—	(414,717)	—	413,760	—	—	6,050
2009	16,616	—	(204,448)	—	602,066	(403,329)	(149)	10,756
2010	62,708	—	(389,523)	—	500,604	(159,593)	(721)	13,475
2011	2,484,171	—	(474,836)	(729,043)	788,754	(2,026,734)	5,306	47,618
2012	—	279,545,698	(1,279,494)	—	835,812	(276,303,985)	(35,338)	2,762,693
Total real estate	<u>2,573,399</u>	<u>279,545,698</u>	<u>(2,769,737)</u>	<u>(729,043)</u>	<u>3,144,818</u>	<u>(278,893,846)</u>	<u>(30,697)</u>	<u>2,840,592</u>

Years with no beginning uncollected balances or activity are not presented.

**CITY OF CAMBRIDGE, MASSACHUSETTS**  
Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes  
June 30, 2012

	<b>Uncollected June 30, 2011</b>	<b>Commitments</b>	<b>Abatements</b>	<b>Transfers to tax title</b>	<b>Refunds</b>	<b>Collections</b>	<b>Adjustments increase (decrease)</b>	<b>Uncollected June 30, 2012</b>
Personal property taxes:								
1998	\$ 20	—	—	—	5	—	—	25
2002	33	—	—	—	—	(81)	86	38
2003	172,553	—	(148,257)	—	—	—	(30)	24,266
2004	99,615	—	(83,545)	—	—	(15,794)	15,504	15,780
2005	66,316	—	(21,662)	—	—	(233)	—	44,421
2006	122,277	—	(6,856)	—	124	(2,064)	(14)	113,467
2007	87,927	—	(2,199)	—	143	(944)	(1)	84,926
2008	101,509	—	(153,906)	—	153,222	(2,806)	(11)	98,008
2009	211,927	—	(137,532)	—	158,783	(25,031)	(22)	208,125
2010	149,367	—	(708)	—	1,828	(13,812)	(7)	136,668
2011	293,014	—	(1,376)	—	1,797	(138,294)	(56)	155,085
2012	—	19,723,937	(82,973)	—	697	(19,101,945)	(1,606)	538,110
Total personal property	1,304,558	19,723,937	(639,014)	—	316,599	(19,301,004)	13,843	1,418,919
Other	91,517	—	—	—	—	—	175	91,692
Property taxes	\$ 3,969,474	299,269,635	(3,408,751)	(729,043)	3,461,417	(298,194,850)	(16,679)	4,351,203

Years with no beginning uncollected balances or activity are not presented.

**CITY OF CAMBRIDGE, MASSACHUSETTS**  
Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes  
June 30, 2012

	<b>Uncollected June 30, 2011</b>	<b>Commitments</b>	<b>Abatements</b>	<b>Transfers to tax title</b>	<b>Refunds</b>	<b>Collections</b>	<b>Adjustments increase (decrease)</b>	<b>Uncollected June 30, 2012</b>
Motor vehicle excise taxes:								
1986	\$ 2,650	—	—	—	—	—	—	2,650
1987	57,487	—	—	—	—	(14)	—	57,473
1988	71,799	—	—	—	—	(11)	102	71,890
1989	76,625	—	—	—	—	(196)	—	76,429
1990	68,518	—	—	—	—	(436)	(1)	68,081
1991	51,603	—	—	—	—	(313)	—	51,290
1992	51,753	—	(29)	—	—	(10)	—	51,714
1993	49,003	—	—	—	—	(93)	1	48,911
1994	51,807	—	—	—	—	(110)	—	51,697
1995	56,227	—	—	—	—	(101)	—	56,126
1996	55,674	—	—	—	—	(155)	(1)	55,518
1997	47,786	—	—	—	—	(46)	—	47,740
1998	62,921	—	—	—	—	(59)	1	62,863
1999	110,841	—	(224)	—	—	(786)	—	109,831
2000	171,782	—	(25)	—	793	(1,580)	—	170,970
2001	214,573	—	—	—	—	(1,174)	—	213,399
2002	197,346	—	(641)	—	323	(1,758)	—	195,270
2003	176,789	—	—	—	—	(2,629)	1	174,161
2004	148,875	—	(544)	—	101	(2,073)	(1)	146,358
2005	124,310	—	65	—	287	(3,835)	2	120,829
2006	117,187	—	(548)	—	285	(6,015)	(402)	110,507
2007	163,034	—	(1,333)	—	520	(10,653)	43	151,611
2008	145,813	—	(990)	—	721	(9,234)	11	136,321
2009	143,839	—	(1,998)	—	1,810	(22,150)	(5)	121,496
2010	244,935	—	(10,754)	—	18,878	(89,576)	343	163,826
2011	517,606	653,234	(78,773)	—	76,072	(854,529)	(8,376)	305,234
2012	—	5,785,279	(108,433)	—	48,612	(5,156,861)	(196)	568,401
<b>Total motor vehicle</b>	<b>\$ 3,180,783</b>	<b>6,438,513</b>	<b>(204,227)</b>	<b>—</b>	<b>148,402</b>	<b>(6,164,397)</b>	<b>(8,478)</b>	<b>3,390,596</b>

Years with no beginning uncollected balances or activity are not presented.

See accompanying independent auditors' report.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Schedule of Bonds and Notes Payable

Year ended June 30, 2012

	<b>Interest rates</b>	<b>Issue dates</b>	<b>Final maturity date</b>	<b>Balance June 30, 2011</b>	<b>Additions</b>	<b>Retired</b>	<b>Balance June 30, 2012</b>
Inside debt limit:							
Hospital Series B 2007 Bonds	4.0%	3/15/2007	2/1/2018	\$ 10,495,000	—	1,500,000	8,995,000
City Hall Renovations	3.5% – 5.0%	12/15/2001	12/15/2011	1,320,000	—	1,320,000	—
Sewer Loan	3.5% – 5.0%	12/15/2001	12/15/2011	1,120,000	—	1,120,000	—
Traffic Improvement	3.5% – 5.0%	12/15/2001	12/15/2011	125,000	—	125,000	—
Sewer Renovations	2.25% – 4.00%	1/15/2003	1/1/2013	2,660,000	—	1,330,000	1,330,000
Fire Station Renovations	2.25% – 4.00%	1/15/2003	1/1/2013	970,000	—	485,000	485,000
Building Renovations	2.25% – 4.00%	1/15/2003	1/1/2013	190,000	—	95,000	95,000
City Hall Annex Renovations	2.25% – 4.00%	1/15/2003	1/1/2013	390,000	—	195,000	195,000
Street Reconstruction	2.25% – 4.00%	1/15/2003	1/1/2013	1,200,000	—	600,000	600,000
Golf Course Improvements	2.25% – 4.00%	1/15/2003	1/1/2013	170,000	—	85,000	85,000
Open Space Improvements	2.25% – 4.00%	1/15/2003	1/1/2013	50,000	—	25,000	25,000
Harvard Square Enhancements	2.25% – 4.00%	1/15/2003	1/1/2013	100,000	—	50,000	50,000
Fiber Optic Network Infrastructure	2.5% – 3.3%	1/15/2004	1/1/2014	105,000	—	35,000	70,000
Fire Station Renovations	2.5% – 3.3%	1/15/2004	1/1/2014	50,000	—	15,000	35,000
War Memorial Renovations	2.5% – 3.3%	1/15/2004	1/1/2014	360,000	—	120,000	240,000
Building Renovations	2.5% – 3.3%	1/15/2004	1/1/2014	155,000	—	55,000	100,000
Library Construction	2.5% – 4.25%	1/15/2004	1/1/2024	5,605,000	—	4,735,000	870,000
Russell Donnelly Field Improvements	2.5% – 3.3%	1/15/2004	1/1/2014	2,730,000	—	910,000	1,820,000
Yerxa Road Underpass	2.5% – 3.3%	1/15/2004	1/1/2014	375,000	—	125,000	250,000
Cambridge Street Improvements	2.5% – 3.3%	1/15/2004	1/1/2014	450,000	—	150,000	300,000
Sewer Reconstruction	2.5% – 3.3%	1/15/2004	1/1/2014	2,820,000	—	940,000	1,880,000
Harvard Square Enhancements	3% – 4%	2/1/2005	1/1/2015	800,000	—	200,000	600,000
Gold Star Pool Improvements	3% – 4%	2/1/2005	1/1/2015	440,000	—	110,000	330,000
Library Construction	3% – 4%	2/1/2005	1/1/2025	9,800,000	—	7,000,000	2,800,000
Area 4 Park Improvements	3% – 4%	2/1/2005	1/1/2015	800,000	—	200,000	600,000
Russell Field Improvements	3% – 4%	2/1/2005	1/1/2015	1,360,500	—	345,000	1,015,500
Cambridge Street Improvements	3% – 4%	2/1/2005	1/1/2015	940,000	—	235,000	705,000
Porter Square Enhancements	3% – 4%	2/1/2005	1/1/2015	920,000	—	230,000	690,000
Yerxa Road Underpass	3% – 4%	2/1/2005	1/1/2015	880,000	—	220,000	660,000
MWPAT Loan	N/A	11/23/2004	8/1/2014	1,073,280	—	256,534	816,746
MWPAT Loan	N/A	11/23/2004	8/1/2014	823,712	—	198,245	625,467
MWPAT Loan	N/A	11/23/2004	8/1/2014	56,537	—	13,598	42,939
Sewer Reconstruction	3% – 4%	2/1/2005	1/1/2015	6,204,500	—	1,550,000	4,654,500
Police Station Acquisition/Renovations	3.50% – 4.25%	2/1/2006	1/1/2026	26,250,000	—	12,250,000	14,000,000
Library Construction	3.50% – 4.25%	2/1/2006	1/1/2026	12,000,000	—	5,600,000	6,400,000
West Cambridge Youth Center	3.50% – 4.25%	2/1/2006	1/1/2016	1,500,000	—	300,000	1,200,000
Building Renovations	3.50% – 4.25%	2/1/2006	1/1/2016	500,000	—	100,000	400,000
Yerxa Road Underpass	3.50% – 4.25%	2/1/2006	1/1/2016	500,000	—	100,000	400,000
Open Space Improvements	3.50% – 4.25%	2/1/2006	1/1/2016	250,000	—	50,000	200,000
Porter Square Enhancements	3.50% – 4.25%	2/1/2006	1/1/2016	400,000	—	80,000	320,000
Sewer Reconstruction	3.50% – 4.25%	2/1/2006	1/1/2016	5,100,000	—	1,020,000	4,080,000
Building Renovations	4.0%	2/15/2007	2/1/2017	390,000	—	65,000	325,000
Police Station Acquisition/Renovations	4.0%	2/15/2007	2/1/2027	13,600,000	—	850,000	12,750,000
West Cambridge Youth Center	4.0%	2/15/2007	2/1/2017	4,800,000	—	800,000	4,000,000
Area 4 Park Improvements	4.0%	2/15/2007	2/1/2017	300,000	—	50,000	250,000
Yerxa Road Underpass	4.0%	2/15/2007	2/1/2017	660,000	—	110,000	550,000
Harvard Square Enhancements	4.0%	2/15/2007	2/1/2017	900,000	—	150,000	750,000
Sewer Reconstruction	4.0%	2/15/2007	2/1/2017	2,045,000	—	345,000	1,700,000
CRLS Renovations	3.0% – 4.0%	2/1/2008	2/1/2028	4,250,000	—	250,000	4,000,000
War Memorial Renovations	3.0% – 3.25%	2/1/2008	2/1/2018	8,558,178	—	1,222,598	7,335,580
Police Station Acquisition/Renovations	3.0% – 4.0%	2/1/2008	2/1/2028	6,870,000	—	400,000	6,470,000
West Cambridge Youth Center	3.0% – 3.25%	2/1/2008	2/1/2018	4,120,000	—	590,000	3,530,000
Library Construction	3.0% – 4.0%	2/1/2008	2/1/2028	23,055,000	—	1,360,000	21,695,000
War Memorial Renovations	3.0% – 3.25%	2/1/2008	2/1/2018	3,305,169	—	472,167	2,833,002
Harvard Square Enhancements	3.0% – 3.25%	2/1/2008	2/1/2018	420,000	—	60,000	360,000
Sewer Reconstruction	3.0% – 3.25%	2/1/2008	2/1/2018	4,356,653	—	625,235	3,731,418
MWRA Loan	—	8/23/2007	8/15/2012	686,488	—	343,244	343,244
Fire Station Renovations	2.0% – 4.0%	3/15/2009	3/15/2019	800,000	—	100,000	700,000
Library Construction	2.0% – 4.375%	3/15/2009	3/15/2029	9,515,000	—	530,000	8,985,000
Building Renovations	2.0% – 4.0%	3/15/2009	3/15/2019	400,000	—	50,000	350,000
CRLS Renovations	2.0% – 4.375%	3/15/2009	3/15/2029	27,000,000	—	1,500,000	25,500,000
Replacement of Radio System	2.0% – 4.0%	3/15/2009	3/15/2019	400,000	—	50,000	350,000
Sewer Reconstruction	2.0% – 4.0%	3/15/2009	3/15/2019	3,840,000	—	480,000	3,360,000
War Memorial Renovations (MSBA)	2.0%	6/25/2009	11/1/2019	1,890,000	—	210,000	1,680,000
CRLS Renovations	2.0% – 3.0%	2/15/2010	2/15/2030	23,750,000	—	1,250,000	22,500,000
Sewer Reconstruction	2.0% – 3.5%	2/15/2010	2/15/2020	6,230,000	—	695,000	5,535,000
Yerxa Road Underpass Construction	2.0% – 3.75%	2/15/2010	2/15/2020	270,000	—	30,000	240,000
War Memorial Renovations	2.0% – 4.0%	2/15/2011	2/15/2021	175,000	—	20,000	155,000
Building Renovations	2.0% – 4.0%	2/15/2011	2/15/2021	1,500,000	—	150,000	1,350,000
Replacement of Radio System	2.0% – 4.0%	2/15/2011	2/15/2021	6,200,000	—	620,000	5,580,000
Old Police Station Renovation	2.0% – 4.5%	2/15/2011	2/15/2031	4,000,000	—	200,000	3,800,000
CRLS Renovations	2.0% – 4.5%	2/15/2011	2/15/2031	16,145,000	—	810,000	15,335,000
Harvard Square Enhancements	2.0% – 4.0%	2/15/2011	2/15/2021	2,000,000	—	150,000	1,850,000
Danehy Park Improvements	2.0% – 4.0%	2/15/2011	2/15/2021	700,000	—	70,000	630,000
Kendall Square Improvements	2.0%	2/15/2011	2/15/2016	500,000	—	100,000	400,000

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Schedule of Bonds and Notes Payable

Year ended June 30, 2012

	<u>Interest rates</u>	<u>Issue dates</u>	<u>Final maturity date</u>	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Retired</u>	<u>Balance June 30, 2012</u>
Sewer Reconstruction	2.0% – 4.0%	2/15/2011	2/15/2021	\$ 15,000,000	—	1,500,000	13,500,000
CRLS Renovations (MSBA)	2.0%	7/12/2011	11/1/2021	—	5,946,543	—	5,946,543
Building Renovations	2.0%	2/15/2012	2/15/2022	—	2,000,000	—	2,000,000
Old Police Station Renovation	2.0% – 3.0%	2/15/2012	2/15/2032	—	10,535,000	—	10,535,000
Elementary School Renovations (Design)	2.0%	2/15/2012	2/15/2022	—	3,000,000	—	3,000,000
Refinancing Bonds (2004,2005,2006)	1.9%	3/22/2012	1/1/2024	—	24,850,000	—	24,850,000
Street / Sidewalk Reconstruction	2.0%	2/15/2012	2/15/2022	—	1,000,000	—	1,000,000
Open Space Improvements	2.0%	2/15/2012	2/15/2022	—	1,300,000	—	1,300,000
Kendall Square Improvements	2.0%	2/15/2012	2/15/2022	—	300,000	—	300,000
Harvard Square Tunnel Improvements	2.0%	2/15/2012	2/15/2022	—	2,000,000	—	2,000,000
Sewer Reconstruction	2.0%	2/15/2012	2/15/2022	—	20,350,000	—	20,350,000
MWPAT Loan (Gross Pay) CW-10-04)	—	6/13/2012	7/15/2022	—	10,083,572	—	10,083,572
Total inside debt limit				<u>300,670,017</u>	<u>81,365,115</u>	<u>60,281,621</u>	<u>321,753,511</u>
Outside debt limit:							
Water:							
Construction/Stoney Brook Automated Meter Reading System	3.5% – 5.0%	12/15/2001	12/15/2011	695,000	—	695,000	—
Automated Meter Reading System	2.5% – 3.3%	1/15/2004	1/1/2014	900,000	—	300,000	600,000
Automated Meter Reading System	3% – 4%	2/1/2005	1/1/2015	480,000	—	120,000	360,000
Water Series C 2007 Bonds	4% – 5.0%	3/15/2007	8/1/2019	19,820,000	—	2,420,000	17,400,000
Total water				<u>21,895,000</u>	<u>—</u>	<u>3,535,000</u>	<u>18,360,000</u>
HUD Sec 108 Notes	5.07%	9/14/2006	8/1/2014	265,000	—	30,000	235,000
Housing Trust Fund: Note payable	2.00%	6/30/2007	7/1/2021	5,786,728	—	521,106	5,265,622
Total outside debt limit				<u>27,946,728</u>	<u>—</u>	<u>4,086,106</u>	<u>23,860,622</u>
Total debt outstanding				<u>\$ 328,616,745</u>	<u>81,365,115</u>	<u>64,367,727</u>	<u>345,614,133</u>

See accompanying independent auditors' report.

## **APPENDIX B**

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## PROPOSED FORM OF LEGAL OPINION

EDWARDS WILDMAN PALMER LLP  
111 HUNTINGTON AVENUE, BOSTON, MA 02199-7613

(Date of Delivery)

Louis A. DePasquale, Treasurer  
City of Cambridge  
Cambridge, Massachusetts

\$65,260,000  
City of Cambridge, Massachusetts  
General Obligation Municipal Purpose Loan of 2013 Bonds  
Dated: February 26, 2013

We have acted as bond counsel to the City of Cambridge, Massachusetts (the “City”) in connection with the issuance by the City of the above-referenced bonds (the “Bonds”). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the City contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, under existing law, as follows:

(1) The Bonds are valid and binding general obligations of the City and, except to the extent they are paid from other sources, the principal of and interest on the Bonds are payable from taxes which may be levied upon all taxable property in the City, subject to the limit imposed by Chapter 59, Section 21C of the General Laws.

(2) Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the City with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with all such requirements. Failure by the City to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

(3) Interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Edwards Wildman Palmer LLP

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## **APPENDIX C**

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**PROPOSED FORM OF  
CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Cambridge, Massachusetts (the “City”) in connection with the issuance of its \$65,260,000 General Obligation Municipal Purpose Loan of 2013 Bonds dated February 26, 2013 (the “Bonds”). The City covenants and agrees as follows:

**SECTION 1. *Purpose of the Disclosure Certificate.*** This Disclosure Certificate is being executed and delivered by the City for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

**SECTION 2. *Definitions.*** For purposes of this Disclosure Certificate the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board as established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Certificate. Filing information relating to the MSRB is set forth in Exhibit A attached hereto.

“Owners of the Bonds” shall mean the registered owners, including beneficial owners, of the Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**SECTION 3. *Provision of Annual Reports.***

(a) The City shall, not later than 270 days after the end of each fiscal year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted when available separately from the balance of the Annual Report.

(b) If the City is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the City shall send a notice to the MSRB, in substantially the form attached as Exhibit B.

**SECTION 4. *Content of Annual Reports.*** The City’s Annual Report shall contain or incorporate by reference the following:

(a) quantitative information for the preceding fiscal year of the type presented in the City’s Official Statement dated \_\_\_\_\_, 2013 relating to the Bonds regarding (i) the revenues and expenditures of the City relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the City, (vi) pension obligations of the City, and (vii) other post-employment benefits liability of the City, and

(b) the most recently available audited financial statements of the City, prepared in accordance with generally accepted accounting principles. If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year and audited financial statements for such fiscal year shall be submitted when available.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the City or related public entities, which (i) are available to the public on the MSRB internet website or (ii) have been filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so incorporated by reference.

SECTION 5. *Reporting of Significant Events.*

(a) The City shall give notice, in accordance with provisions of this Section 5, of the occurrence of any of the following events with respect to the Bonds:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.
7. Modifications to rights of the Owners of the Bonds, if material.
8. Bond calls, if material, and tender offers.
9. Defeasances.
10. Release, substitution or sale of property securing repayment of the Bonds, if material.
11. Rating changes.
12. Bankruptcy, insolvency, receivership or similar event of the City.\*
13. The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Upon the occurrence of a Listed Event, the City shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

SECTION 6. *Transmission of Information and Notices.* Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. *Termination of Reporting Obligation.* The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance in accordance with the terms of the Bonds, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

SECTION 8. *Amendment; Waiver.* Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is permitted by the Rule, as evidenced by an opinion of counsel expert in federal securities law (which may include bond counsel to the City), to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

If the amendment provides for a change in the accounting principles to be followed in preparing

\*As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB.

SECTION 9. *Default.* In the event of a failure of the City to comply with any provision of this Disclosure Certificate any Owner of the Bonds may seek a court order for specific performance by the City of its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not constitute a default with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action for specific performance of the City's obligations hereunder and not for money damages in any amount.

SECTION 10. *Beneficiaries.* This Disclosure Certificate shall inure solely to the benefit of the Owners of the Bonds from time to time, and shall create no rights in any other person or entity.

Date: \_\_\_\_\_, 2013

CITY OF CAMBRIDGE, MASSACHUSETTS

By \_\_\_\_\_  
Treasurer

\_\_\_\_\_  
City Manager

\_\_\_\_\_  
City Auditor

[EXHIBIT A: Filing Information for the MSRB]

[EXHIBIT B: Form of Notice of Failure to File Annual Report]

