

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.

\$40,485,000

CITY OF CAMBRIDGE
MASSACHUSETTS
GENERAL OBLIGATION BONDS
MUNICIPAL PURPOSE LOAN OF 2012

Dated: February 15, 2012

Due: February 15, 2013–2032

MATURITIES, AMOUNTS, INTEREST RATES, AND PRICES OR YIELDS

Year	Principal Amount	Interest Rate	Initial Yield	Year	Principal Amount	Interest Rate	Initial Yield
2013	\$3,825,000	2.000%	0.190%	2023	\$525,000	2.000%	1.950%
2014	3,825,000	2.000	0.240	2024	525,000	2.000	2.095
2015	3,825,000	2.000	0.400	2025	525,000	2.250	2.300
2016	3,825,000	2.000	0.510	2026	525,000	2.375	2.503
2017	3,825,000	2.000	0.630	2027	525,000	2.500	2.600
2018	3,225,000	2.000	0.910	2028	525,000	2.500	2.700
2019	3,225,000	2.000	1.160	2029	525,000	2.750	2.800
2020	3,220,000	2.000	1.410	2030	525,000	2.750	2.900
2021	3,220,000	2.000	1.630	2031	525,000	3.000	3.000
2022	3,220,000	2.000	1.800	2032	525,000	3.000	3.067

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 will be dated February 15, 2012. 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, 2012. 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 shall be subject to redemption prior to maturity as described herein.

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.

Wells Fargo Bank, National Association

The date of this official statement is February 15, 2012.

CITY OF CAMBRIDGE, MASSACHUSETTS

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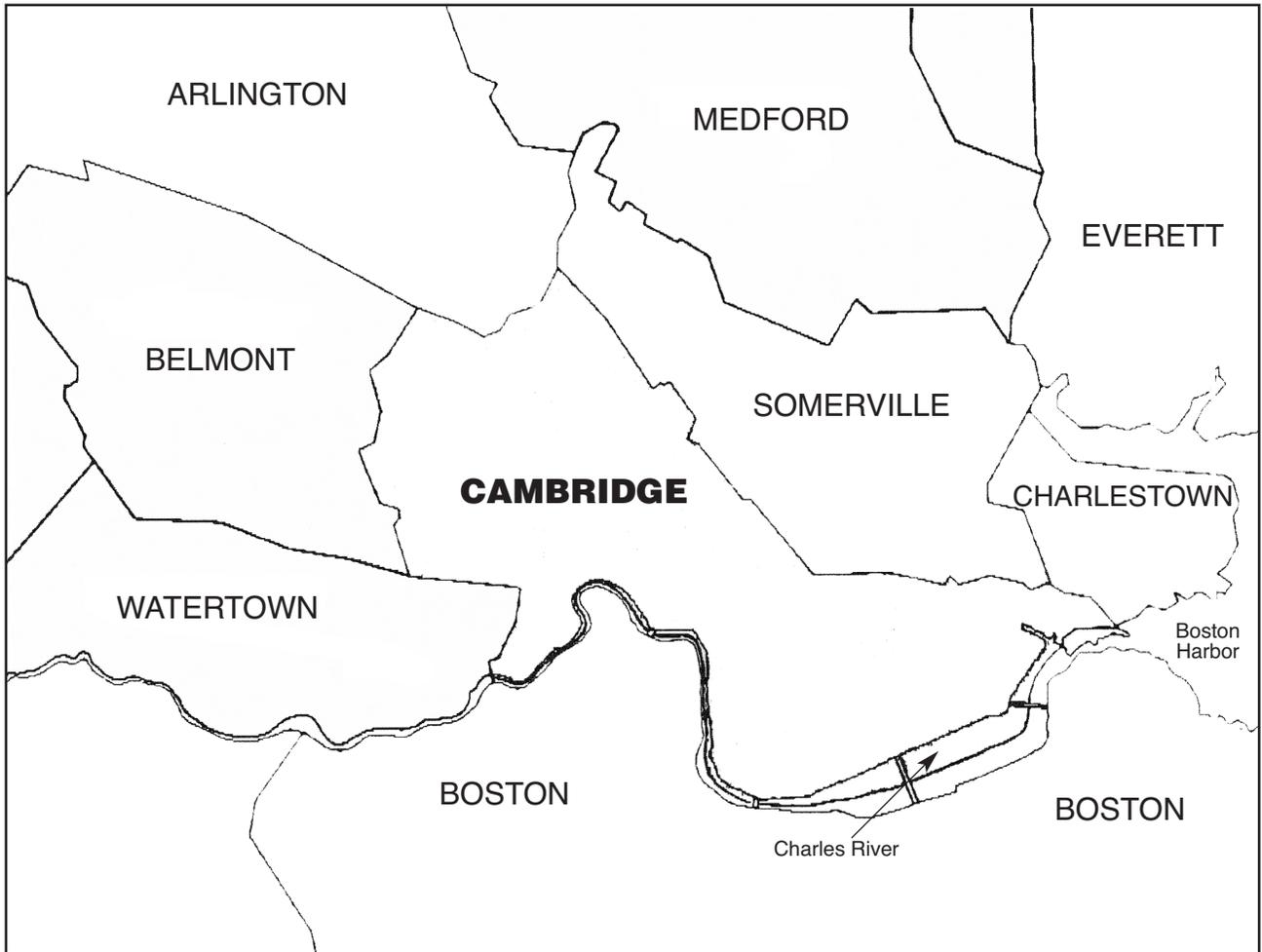
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CAMBRIDGE AND SURROUNDING COMMUNITIES

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 2012, in book-entry-only-form, dated February 15, 2012, are due February 15 in each year of the years 2013 through 2032 in the aggregate principal amount of \$40,485,000.

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, school building renovations, recreational improvements, municipal building renovations and street, sidewalk, and tunnel improvements.

Optional Redemption

Bonds maturing on or after February 15, 2023, will be subject to redemption beginning February 15, 2022 in whole or in part at any time, at the option of the City. See “Optional Redemption” in “Part II: The Bonds” for a more complete description of the redemption provisions 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 22, 2012.

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 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.

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 2011 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 15, 2012, and will bear interest from that date which will be payable beginning August 15, 2012 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</u> <u>February 15</u>	<u>Principal</u> <u>Amount</u>	<u>Due</u> <u>February 15</u>	<u>Principal</u> <u>Amount</u>
2013	\$3,825,000	2023	\$525,000
2014	3,825,000	2024	525,000
2015	3,825,000	2025	525,000
2016	3,825,000	2026	525,000
2017	3,825,000	2027	525,000
2018	3,225,000	2028	525,000
2019	3,225,000	2029	525,000
2020	3,220,000	2030	525,000
2021	3,220,000	2031	525,000
2022	3,220,000	2032	525,000

Optional Redemption

The Bonds that mature on or before February 15, 2022, are not subject to redemption prior to their stated maturities. The Bonds that mature on and after February 15, 2023, will be subject to redemption beginning February 15, 2022, 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.

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. 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 represen-

tative 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 and 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 holdings 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 \$40,485,000 General Obligation Bonds will be used for the following projects:

Sewer Reconstruction

\$20,350,000 Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(1) by loan orders of the City Council on May 23, 2005, May 21, 2007, May 12, 2008, May 18, 2009, May 24, 2010 and May 23, 2011 to provide funds for various sewer reconstruction projects.

Building Renovations

\$2,000,000 Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(3A) by a loan order of the City Council on May 23, 2011 to provide funds for renovations to several City buildings.

Harvard Square Tunnel Improvements

\$2,000,000 Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(4) by a loan order of the City Council on May 24, 2010 to provide funds for improvements to the Harvard Square Tunnel which is also known as the Cambridge Street Underpass.

Kendall Square Improvements

\$300,000 Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(22) and s.7(6) by a loan order of the City Council on May 23, 2011 to provide funds for street and sidewalk improvements to Kendall Square.

Open Space Improvements

\$1,300,000 Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(25) by a loan order of the City Council on May 23, 2011 to provide funds for improvements to four parks in the City.

School Renovations

\$3,000,000 Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(3A) by a loan order of the City Council on May 23, 2011 to provide funds for costs related to design and construction of an elementary school project.

Old Police Station Renovations

\$10,535,000 Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(3A) by a loan order of the City Council on December 6, 2010 to provide funds for renovations to the old police station.

Street and Sidewalk Reconstruction

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

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 15, 2012, the Bonds were awarded to Wells Fargo Bank, National Association, (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. The Underwriter has informed the City that if all the Bonds are resold to the public at those yields or prices, they anticipate the gross underwriter's compensation, after the deduction of the \$1,293,247.53 premium to the City, to be \$201,708.42. The Underwriters may change the public offering yields or prices from time to time.

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 expires September 30, 2012.

There is a School Committee which is comprised of six elected members, plus the Mayor, who are elected for two-year terms. 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, 2012:

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

The following are the six members of the School Committee elected for two-year terms ending December 31, 2012 (the Mayor serves as Chairman of the School Committee):

	Pending, 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, Acting City Solicitor effective January 20, 2012.

Previously served the City as 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.

D. Margaret Drury, City Clerk since June, 1992.

Previously served the City as General Counsel for Affordable Housing for the Community Development Department, 1989-1992; Executive Director of the Cambridge Rent Control Board, 1986-1989; Assistant Director and Assistant Counsel for the Cambridge Rent Control Board, 1982-1986. Bachelor of Arts degree from Syracuse University and Juris Doctor degree from Suffolk University Law School.

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 are 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, and 12 elementary 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.

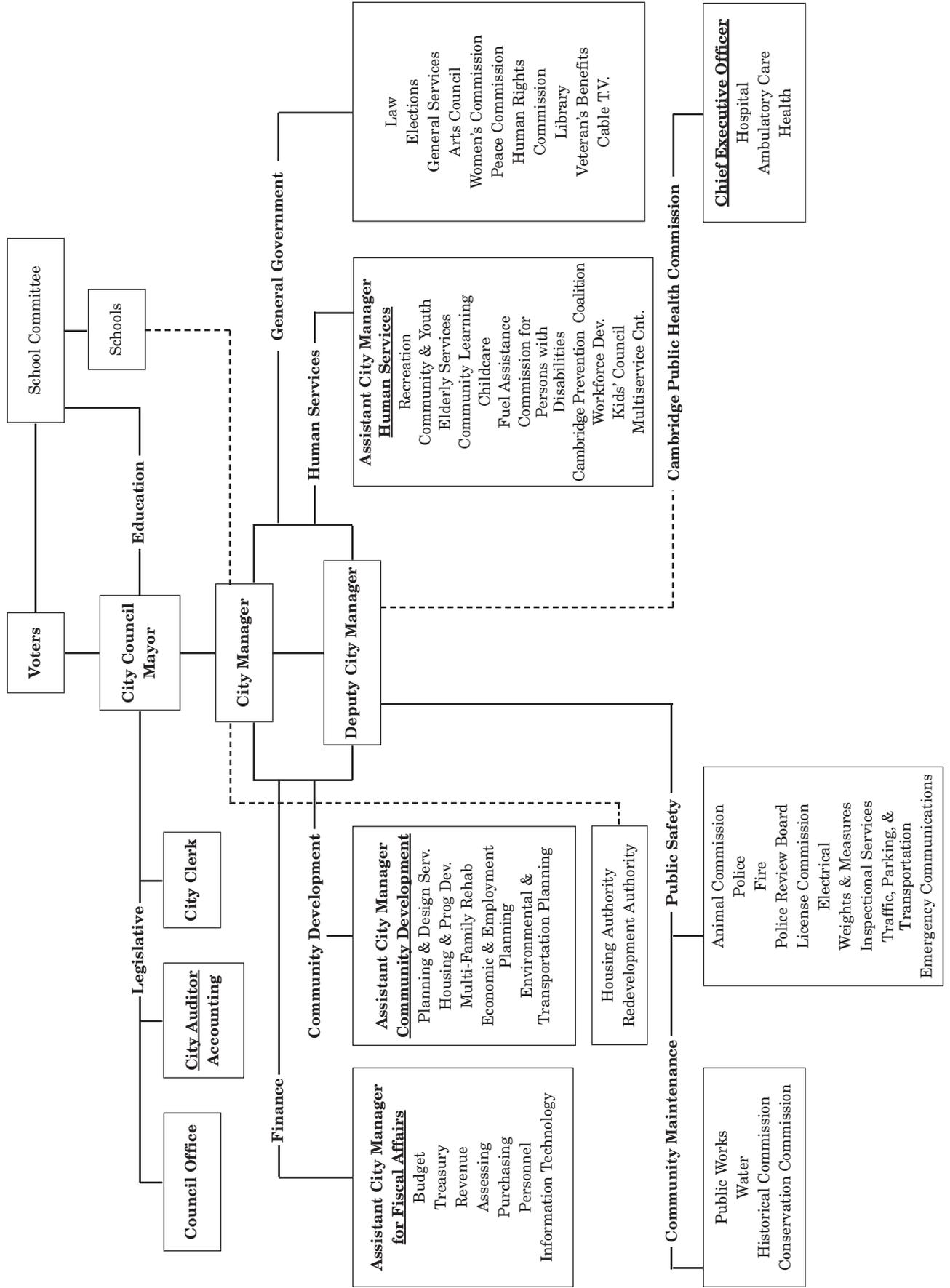
Federal buildings which are located in the City include offices for the Department of Transportation. Also, in connection with Harvard University, the Smithsonian Astrophysical Observatory is located in the City.

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, has increased over the year and will continue to do so through 2012. Proximity to world-class educational and medical institutions, cultural amenities, a highly educated workforce, an innovation driven business culture, and ongoing development of state-of-the-art Office/R&D facilities give the City a unique combination of strengths as both a business and a residential community.

Over the past year, a number of commercial real estate transactions have driven vacancy rates to amounts approaching pre-recession levels. In particular, there is now growing need for medium sized blocks of R&D lab space. Recent leasing activity includes a 491,000 s.f. new construction for Biogen Idec, 183,000 s.f. of new construction for Pfizer, a 162,000 s.f. relocation by Pegasystems, and a 63,000 s.f. renewal and expansion for Google. Also of note is a 36,000 s.f. expansion of the Cambridge Innovation Center, following on substantial growth during 2010. The Center serves new and growing technology and life science companies.

Cambridge continues to grow its appeal as a magnet for international pharmaceutical companies seeking access to cutting edge drug research at MIT and Harvard University. Novartis AG, already Cambridge's largest corporate employer, is rapidly moving ahead with plans to double the size of its global research complex. The company has obtained permits to develop a 573,000 s.f. facility on a 4-acre site across Massachusetts Ave. from its world research headquarters. 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. During 2011 Alexandria moved ahead with site preparation and design, beginning construction of a 303,000 s. f. headquarters building for Biogen Idec and planning additional construction totaling 339,000 s.f. at 75-125 Binney Street. Biogen Idec has also leased a second 188,000 s.f. building planned nearby at 17 Cambridge Center to be developed by Boston Properties. Pfizer planning a 183,000 s.f. expansion in Cambridge, has pre-leased space in a 230,000 s.f. MIT-developed building at 610 Main Street, and hopes to expand into a second phase at the same location. At the end of 2011 Boston Properties began construction on a 250,000 s.f. expansion of the Broad Institute.

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 the 2011. Following a rezoning in December 2010, Education First (EF) received Planning Board approval for 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. This past September Microsoft announced plans to further expand the company's presence in Cambridge by consolidating 450 employees previously based in the Waltham office to the company's 1 Memorial Drive location.

The build out of over 450 new units of housing continues, in addition to the over 3,400 units built between 2001 and 2010. Recent major residential developments include 227 units now under construction by Criterion Partners along Concord Turnpike at a long neglected site. This location is a key gateway to Cambridge from communities west of the city. Nearby, at 70 Fawcett Street Cabot, Cabot and Forbes soon plans to develop 429 units. Archstone plans to expand its East Cambridge presence by converting older office space at the Mapleleaf building to 104 luxury rental units. The owner of the successful Watermark building at Cambridge Research Park has received the permit to develop another 144 residential units at an adjacent site, which will also include 9,000 s.f. of retail space.

Assessed Valuation. The fiscal year 2012 total assessed valuation, including both real and personal property, is \$24.4 billion. Of the total, approximately \$9.4 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 \$0.3 billion, or 1.18%, from fiscal year 2011.

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 November 2011 the Executive Office of Labor and Workforce Development reported a seasonally unadjusted unemployment rate of 4.1% for Cambridge, 6.4% for the state and 8.2% for the United States. The State reported average employment of 104,020 persons in Cambridge during 2010.

Cambridge continues to consolidate its position as an employment leader in the biotechnology industry. Leading biotech companies, including Novartis, Biogen Idec, Vertex, Pfizer Millennium, and Genzyme employ over 8,000 Cambridge workers. In recent years, several major software and internet companies established R&D operations in Cambridge, including Microsoft, Google, and VMware. These firms join established Cambridge firms such as Akamai Technologies, ITA Software, 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 last several years 18 clean energy companies have located in Cambridge. Most are in the Kendall Square area, but several have located in Concord Alewife, adding diversity to the City's economic base.

Commercial Real Estate Market. From 2006 through the 2011 Cambridge added 1.2 million s.f. to its inventory of commercial real estate with 900,000 s.f. under construction, and over 5.4 million s.f. permitted and ready to go.

The combined vacancy rate for the office and R&D markets declined over the last year, from 11.6% during the third quarter of 2010 to 9.0% during the third quarter of 2011. The office vacancy rate is down for the year, from 11.2% to 7.5% while lab vacancies dropped from 12.1% to 10.8%. The annual absorption rate stands at a 17.7% for the period between 3rd Q 2010 and 3rd Q 2011. The City has experienced substantial positive absorption during three of the past four quarters.

Economic Development Districts

The City guides development through an orderly process, utilizing control over infrastructure, planned unit development, and zoning strategies. Growth is expected to continue in the City's former industrial districts, which have been rezoned as mixed-use districts in response to the demands of the new economy. 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, the Department of Conservation and Recreation Alewife Reservation, 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 MBTA serves the area 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. Since 1980, Concord/Alewife has seen the construction of over 2.4 million s.f. of prime office/R&D space. The area is home to Pfizer Pharmaceuticals, Abt Associates and Raytheon BBN Technologies. The nearby Fresh Pond Shopping Center houses a 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. Other recent activity in the retail core includes renovation and expansion of the Whole Foods Market and the renovation and 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 Concord/Alewife industrial area. In 2005 the Cambridge City Council rezoned the entire area, which encompasses the office park along Cambridgepark Drive, the industrial area to the south 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. In 2007, 72 new condominium units were built on Wheeler Street, on the site of a former industrial building. At 70 Fawcett Street, the site of an unused warehouse, Cabot, Cabot and Forbes has received Planning Board approval to develop 429 new units of housing. In addition, Archon Group has permitted 338,000 s.f. of office/R&D space on Cambridgepark Drive, near the Alewife MBTA Red Line station.

Harvard Square. Harvard Square remains an active hub of 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. \$2.0 million has been budgeted to complete the reconstruction of JFK Street between Eliot and Brattle Streets. Construction began during the fall of 2010 and continued through 2011 with improvements to several side streets. The City Council recently appropriated \$5.1 million in design and construction funds for repair of a major vehicular underpass nearby.

Hotel Veritas, a 31 room boutique hotel, opened in 2010; it is the first hotel to open in Harvard Square in 22 years. Many other local retailers recently entered the Square, including cafes, restaurants, clothing stores and boutiques, and a 24-hour grocery store. In 2011 a new owner began 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.

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. A City Council committee recently completed a study of how to improve the pedestrian ambience and retail diversity of Central Square. This fall the City initiated a comprehensive land use planning process aiming to develop a new vision and improve the vibrancy of Central Square, while building the district's connections to the biotech and high tech business community in nearby Kendall Square.

In 2004 Novartis converted the old NECCO Candy factory to 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 it the 4th largest employer overall and the largest biotech employer in the City. Novartis is rapidly advancing plans to develop a 573,000 s.f. addition to its research 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 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 undertaken by Forest City Development in conjunction with MIT. The entire project includes 21 buildings comprising over 1.3 million s.f. 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 Alkermes, Partners Healthcare, BIND Biosciences, and Aveo 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 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.

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. 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. The area is also well served by MBTA surface bus routes.

Starting in the early 1980s, \$50 million in public improvements stimulated the 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 over the last twenty five years includes 5.0 million s.f. of new and renovated office/R&D and retail space, as well as 600 hotel rooms and over 525 housing units. In 2003, the 236-room Hotel Marlowe, adjacent to the Galleria Mall, opened on the last development parcel remaining in the Riverfront area.

Development activity continues in the area, with a 108,000 s.f. office/R&D facility at 150 Second Street under development by Skanska USA Commercial Development. Skanska also holds a permit for the construction of 115 units of housing and retail at 159 First Street.

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 EZ-Ride shuttle brings commuters from as far away as North Station on the Green Line. Enhancements around Kendall Square include an active commercial center, the Cambridge Center Marriott which recently went through a major upgrade of its public plaza, adjacent to the MBTA station, and a year-round fountain/steam sculpture. Kendall Square is home to over 150 biotechnology and information technology firms and a growing number of clean energy and technology startup companies. The area houses the corporate headquarters of Akamai Technologies, Draper Labs, ITA Software, and CDM Smith. The Cambridge offices of both Microsoft and Google are located in this district, as well as both the Whitehead and Broad Institutes and the Cambridge Innovation Center.

The Kendall Square area includes over 7.2 million s.f. of first class office/R&D space. Buildings completed in the 1980s contributed over 4.8 million s.f. to this total. The 1990s saw the addition of another 1.3 million s.f. The previous decade saw completion of a 224,000 s.f. building for Biogen Idec at 15 Cambridge Center and a 285,000 s.f. building for Amgen at 1 Kendall Square. Construction at Tech Square added 600,000 s.f. of office/R&D space. The completion of Draper Labs' 157,000 s.f. addition for Schlumberger added another major presence to the area. Office leasing at all of these locations is heavily influenced by close proximity to the biotechnology industry cluster found around MIT, the Whitehead Institute and the Broad Institute.

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 leased by Vertex Pharmaceuticals; a 217,000 s.f. building at 650 Kendall St. also leased by Vertex as well as Momenta Pharmaceuticals; and the 321 unit Watermark Apartments. The overall development currently includes a 2,200 space underground parking garage and 30,000 s.f. of retail space and has plans to add a theatre and 53,000 s.f. of office space. A new 144 unit Watermark II residential building with 9,000 s. f. of retail space, recently has been permitted. During 2011 a new pedestrian walkway adjacent to the Broad Canal, providing a recreational area and canoe/kayak boat launch for area residents, employees and visitors. Early in 2010 two new restaurants opened in the ground floor retail space at the Watermark Apartments, adding to the vitality of the area during the evening.

In 2010 life sciences developer Alexandria Real Estate Equities obtained zoning permits needed 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 as well as 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. In late 2011 construction began at 225 Binney Street on a 303,000 s. f. headquarters building for Biogen Idec, as they move back to Cambridge. Construction is also expected in early 2012 on a 339,000 s. f. building at 75-125 Binney Street.

In 2006 Boston Properties completed construction of a 194,000 s.f. building in Cambridge Center to house the new Broad Institute, which creates new tools for genomic medicine and pioneers the application of new disease treatments. Harvard, MIT, and the Broad Foundation are funding this research and development venture. Following a successful rezoning, at the end of 2011 Broad began construction on a 250,000 s.f. expansion, also developed by Boston Properties.

MIT has undertaken a series of 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 that it intends to lease to private companies. The school recently broke ground on the first phase of that development, a 230,000 s.f. building whose 183,000 s.f. of office/R&D space is preleased to Pfizer. Other recent Kendall Square developments include 482 residential units at 303 Third Street and 321 units at The Watermark building.

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 these properties that hope to enliven the area. While there is no specific project planned at the moment, the proposal calls for 1,100,000 s.f. of new office and lab development, as well as both new housing and retail near the MBTA station. The MIT plans would create retail amenities, cultural opportunities and public spaces that would foster collaboration and a more dynamic social community among these companies.

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 during the summer of 2012.

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 to both the urban core and the North Shore. Recent years have seen North Point begin a transformation. In conjunction with Boston's Central Artery project, the state has created a new park along the Charles River.

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 complete, 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. When finished, North Point will be home to the largest mixed-use development project in the City's history. Following a dispute between the original project partners, Jones, Lang, LaSalle and Pan Am Transportation Systems, Pan Am overcame legal issues and, in summer 2010, 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 on the last remaining large parcel in Cambridge. In 2008 the original partnership completed two buildings which added 330 condominium units to the city, as well as construction of a 5-acre park. The partnership hopes to obtain a permit for a new building in North Point in 2012. On the east side of the North Point area, Education First, an international education services company, received a rezoning in 2010 that will allow the company to construct a 295,000 s.f. expansion of its U.S. headquarters. Permitting by the City is complete and construction will begin in 2012.

Housing Preservation and Development

Citywide, there is a clear, continued interest in the construction of new market-rate housing. Recent rezoning initiatives have helped create the framework for this activity. Approximately 5,800 housing starts have occurred since 1996. Over 4,350 additional units are in various stages of permitting.

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 the end of rent control, the City has allocated \$111.3 million to the City-sponsored Affordable Housing Trust from local tax and Community Preservation Act funds, developing or preserving over 3,200 affordable units of housing. City affordable housing programs include the following:

- **Non-Profit Acquisition and Development of Multifamily Properties** Through this program, nonprofit corporations in Cambridge 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 downpayment 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 1,415 units have been preserved as affordable through the efforts of the City and its partners.

- **Home Improvement Programs Offered** in collaboration with 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 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 525 affordable Inclusionary units have been created.

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 \$1 million from HUD for the provision of new and rehabilitated affordable housing units. The City receives approximately \$2.8 million annually through the CDBG program, 50% 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 underway at 292 units while many other properties in 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 in phases during the next decade in a program known as the Cambridge Public Housing Preservations Program. The Phase 1 program, which consisted of substantial modernization of 332 units is underway and will be completed in 2013. Design work is underway for Phase 2. Additionally, the Housing Authority continues to prioritize upgrading building systems and implementing energy savings measures throughout its entire portfolio.

The Housing Authority's Planning and Development staff currently manages active funded projects totaling \$84.6 million in construction and \$144.5 million in planning, improving 1,745 units at 14 developments. Substantial modernization and redevelopment is underway at three developments: Lincoln Way, Jackson Gardens, and Johnson Apartments. Also underway is new construction of 42 units at Temple Place through a CHA affiliate. The Housing Authority is able to proceed with these extensive plans using resources from the American Recovery and Reinvestment Act 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 will also be used in the completion of these projects.

Employment by Sector

The following table presents the number of employees for the calendar year 2010, as compiled by the Executive Office of Labor and Workforce Development. The annual payroll almost 4,300 businesses and government agencies conducting business in Cambridge during 2010 totaled approximately \$9.0 billion.

**CITY OF CAMBRIDGE
EMPLOYMENT BY SECTOR – CALENDAR YEAR 2010**

	2010 Average Employees	Percent of Total Employment(1)
Private Sector:		
Other Goods Producing	69	0.1%
Construction	822	0.8
Manufacturing	3,006	2.9
Trade, Transportation and Utilities	8,465	8.1
Information	3,248	3.1
Financial Activities	2,788	2.7
Professional and Business Services.....	31,072	29.9
Education and Health Services	33,853	32.5
Leisure and Hospitality	9,357	9.0
Other Services.....	2,385	2.3
Total Private Sector	95,065	91.4
Total Public Sector.....	8,955	8.6
TOTAL	104,020	100.0%

(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 2011**

2011 Rank	Name of Employer	Nature of Business	2011 Employees(1)	2010 Rank(5)
1	Harvard University.....	Higher Education	10,906	1
2	MIT	Higher Education	7,640	2
3	City of Cambridge(2)	Government	2,947	3
4	Novartis Institute for Biomedical Research ...	Biotechnology	2,271	4
5	Veritex Pharmaceuticals(3).....	Biotechnology	1,600	6
6	Mt. Auburn Hospital.....	Health Care	1,558	5
7	Draper Laboratory	Research & Development	1,281	12
8	Biogen Idec.....	Biotechnology	1,272	8
9	Genzyme Corporation.....	Biotechnology	1,259	7
10	Cambridge Health Alliance.	Health Care	1,172	11
11	Federal Government.....	Government	1,144	9
12	Millenium Pharmaceuticals.....	Biotechnology	1,142	13
13	Broad Institute	Research & Development	861	14
14	Akamai Technologies	Internet Technology	780	15
15	Pfizer (Wyeth)	Biotechnology	758	10
16	Spaulding Hospital Cambridge.....	Health Care	700	18
17	Microsoft(4)	Software Development	700	–
18	EF International	Travel & Exchange Programs	650	17
19	Whole Foods(4)	Supermarket	643	–
20	Forrester Research.....	Business Services	624	19
21	Camp, Dresser & McKee	Engineering Consultants	601	16
22	Commonwealth of Massachusetts.....	Government	592	21
23	Quest Diagnostics.....	Clinical Testing Services	523	20
24	Pegasystems	Software Development	520	24
25	Raytheon BBN Technologies.....	Research & Development	510	23
	TOTAL		42,654	

(1) All figures collected between 7/11 and 12/11, 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) Vertex figure is from 2009 as 2010 data is unavailable.

(4) Not on 2010 Top 25 List: Microsoft, Whole Foods.

(5) Employers deleted since 2010: Lesley University, ITA Software.

Source: Cambridge Community Development Department and cited employers, 2011.

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 2000 TO 2011(1)**

	<u>Cambridge</u>	<u>Boston PMSA(2)</u>	<u>Massachusetts</u>	<u>United States</u>
2011 (November).....	4.1%	5.4%	6.4%	8.2%
2010	5.6	7.4	8.5	9.6
2009	5.4	7.2	8.4	9.3
2008	3.5	4.6	5.3	5.8
2007	2.9	3.9	4.5	4.6
2006	3.2	4.2	4.8	4.6
2005	3.4	4.3	4.8	5.1
2004	3.6	4.8	5.2	5.5
2003	4.2	5.4	5.8	6.0
2002	4.0	5.0	5.3	5.8
2001	2.8	3.4	3.7	4.7
2000	1.9	2.4	2.4	4.0

(1) Unadjusted Monthly Rate

(2) Note that Boston PMSA includes Cambridge-Newton-Framingham-Metropolitan Division of Boston-Cambridge-Quincy MSA

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, 2011.

**CITY OF CAMBRIDGE
PARCEL COUNT BY TYPE
As of January, 2011**

<u>Type of Housing</u>	<u>Number of Parcels</u>
One-Family	3,803
Two-Family	2,594
Three-Family	1,291
Four or More Units	849
Vacant Land	169
Condominiums	13,560 (1)
Multiple-Use	327
Mobile/Multiple on One Parcel	152
Total	22,745

(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 2005 TO 2011**

<u>Fiscal Year</u>	<u>Est. Value of Construction</u>	<u>% Distribution</u>	
		<u>Residential</u>	<u>Commercial</u>
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
2005	559,360,429	21	79

(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 6,224 for the 2011-12 school year. It is projected that the figures will show increases. In addition to the public school system, there are 1,252 Cambridge residents attending private and parochial schools throughout the Greater Boston area as of January 1, 2011. In addition there are 395 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
2011-2012 SCHOOL YEAR**

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

Source: Cambridge School Department.

**SCHOOL ENROLLMENT ACTUAL AND PROJECTIONS
SCHOOL YEARS 2012-2016 (1)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Elementary	4,436	4,542	4,652	4,718	4,816
Secondary	1,611	1,609	1,558	1,559	1,552
Tuitioned-out	177	179	179	179	179
Total	6,224	6,330	6,389	6,456	6,547

(1) Enrollments are as of October 1 for the school years shown and include tuitioned-out students. The figures shown for 2012 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)**

Fiscal Year	K-8	9-12	Tuitioned- out	Total	Percentage Change
2012	4,436	1,611	177	6,224	0.35%
2011	4,439	1,580	183	6,202	1.06
2010	4,367	1,583	187	6,137	3.14
2009	4,234	1,540	176	5,950	1.52
2008	4,151	1,546	164	5,861	1.10
2007	4,005	1,612	180	5,797	-3.40
2006	4,076	1,738	187	6,001	-6.96
2005	4,361	1,827	262	6,450	-4.53
2004	4,557	1,887	312	6,756	-4.99
2003	4,888	1,889	334	7,111	-2.54

(1) Enrollments are as of October 1, for the fiscal years shown.
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 17,466 degree candidates in 2010-11, 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 10,325 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. 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 Alliance has worked to reconfigure services, combining and consolidating services to continue to provide care for all their patients. The reconfiguration plan is expected to save the Alliance over \$30 million dollars on annual basis. The management of the Alliance implemented other initiatives in addition to the reconfiguration of services to improve operating results. A major focus of the reconfiguration was discontinuing the inpatient services at the Somerville Campus and redesigning the campus to be a robust and active outpatient site for Cambridge Health Alliance's patients and to the community of Somerville. The new Highland building at the Somerville Campus opened Spring 2011 and the campus now features a new merged Somerville Primary Care and Internal Medicine Associates primary care site w/co-located mental health services, following a patient-centered medical home model, and a new combined Cambridge and Somerville Eye Center. Corporate functions including the departments of Human Resources, Marketing, Philanthropy, Quality Management, Risk Management, Legal Services, and Information Technology have also populated the Somerville campus. The move of these corporate functions to the Somerville Campus allowed Cambridge Health Alliance to reduce expenses related to leasing space which previously housed these corporate functions.

The Commission completed FY11 with an audited net income of \$55.4 million. This is a significant improvement over FY10's performance of a profit of \$2.0M.

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, 2011**

Bonds:

	<u>Outstanding Bonds Prior To This Issue</u>	<u>Authorized Unissued Prior To This Issue</u>	<u>Outstanding After This Issue</u>	<u>Authorized Unissued After This Issue</u>
Within General				
Debt (2)	<u>\$300,935,017</u>	<u>\$103,169,143</u>	<u>\$341,420,017</u>	<u>\$62,684,143</u>
Outside General				
Debt Limit:				
School.....	—	—	—	—
Water	<u>21,895,000</u>	—	<u>21,895,000</u>	—
Sub Total	<u>21,895,000</u>	—	<u>21,895,000</u>	—
Total Bonds	<u><u>\$322,830,017</u></u>	<u><u>\$103,169,143</u></u>	<u><u>\$363,315,017</u></u>	<u><u>\$62,684,143</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 2010 final equalized valuation of the City, the Normal General Debt Limit is \$1,408,101,465 and the Double General Debt Limit (see “Debt Limit” above) is \$2,816,202,930.
- (3) The City has not borrowed in anticipation of revenues since fiscal year 1987.

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, 2011 (1)**

General Obligation Bonds (before current issue).....	\$320,190,000
MWPAT and MWRA Loans	2,640,017
	<hr/>
Gross Direct Debt.....	322,830,017
MSBA Loan	5,946,543
Current Issue	40,485,000
	<hr/>
TOTAL GROSS DIRECT DEBT	369,261,560
Less:	
Self-Supporting GO Water Bonds.....	21,895,000
Self-Supporting GO Sewer Bonds	49,376,153
Self-Supporting GO Golf Course Bonds.....	170,000
Self-Supporting GO Parking Fund	125,000
Self-Supporting MWPAT and MWRA Loans	2,377,324
Self-Supporting GO Hospital Bonds.....	10,495,000
Self-Supporting HUD Section 108 Loan	265,000
Self-Supporting Current Issue for Sewer.....	20,350,000
	<hr/>
SUBTOTAL SELF-SUPPORTING	105,053,477
Less:	
Commonwealth Subsidy of MWPAT Loans (2).....	262,693
	<hr/>
TOTAL NET DIRECT DEBT	<u>\$263,945,390</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:

CITY OF CAMBRIDGE OVERLAPPING DEBT(1)				
	<u>Outstanding</u>	<u>Authorized Unissued</u>	<u>Estimated City Share</u>	<u>Overlapping Debt</u>
Massachusetts Water Resources Authority (2)				
Sewer.....	\$4,004,845,000	(see above)	5.008%	<u>\$200,559,646</u>
Total.....				<u><u>\$200,559,646</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, 2011.

Source: City Department of Finance.

**CITY OF CAMBRIDGE
KEY DEBT RATIOS
as of June 30, 2011**

	<u>Amount (1)</u>	<u>Per Capita (2)</u>	<u>Ratio to Assessed Valuation (3)</u>
Gross Direct Debt	\$322,830,017	\$3,070	1.3%
Net Direct Debt (4).....	263,945,390	2,510	1.1
Gross Direct and Gross Overlapping Debt	569,821,206	5,419	2.4
Net Direct and Net Overlapping Debt	464,505,036	4,417	1.9

(1) Includes current bond issue.

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

(3) Based on January 1, 2011 value of \$24,446,954,999.

(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 any 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 2007 TO 2011 (1)(2)
(\$ in 000s)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Inside	\$226,046	\$272,266	\$291,076	\$290,053	\$300,935
Outside:					
School	7,850	4,610	2,570	530	0
Water.....	45,689	39,486	33,201	26,853	21,895
Sub Total	53,539	44,096	35,771	27,383	21,895
Total.....	\$279,585	\$316,362	\$326,847	\$317,436	\$322,830

(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, 2011 (1)(2)**

Fiscal Year	Principal	Interest	Principal This Issue	Interest This Issue(2)	Total
2012	\$37,946,621	\$11,593,447	\$ —	\$ —	\$ 49,540,068
2013	35,288,058	10,510,647	3,825,000	836,606	50,460,311
2014	32,092,428	9,282,564	3,825,000	760,106	45,960,098
2015	29,581,872	8,181,607	3,825,000	683,606	42,272,085
2016	25,694,654	7,171,749	3,825,000	607,106	37,298,509
2017	24,034,654	6,306,956	3,825,000	530,606	34,697,216
2018	22,514,654	5,489,212	3,225,000	454,106	31,682,972
2019	18,059,654	4,722,155	3,225,000	389,606	26,396,415
2020	15,419,654	4,070,412	3,220,000	325,106	23,035,172
2021	14,024,654	3,506,368	3,220,000	260,706	21,011,728
2022	11,419,654	2,971,061	3,220,000	196,306	17,807,021
2023	10,825,000	2,534,251	525,000	131,906	14,016,157
2024	10,825,000	2,108,806	525,000	121,406	13,580,212
2025	10,390,000	1,675,881	525,000	110,906	12,701,787
2026	9,690,000	1,257,625	525,000	99,094	11,571,719
2027	7,140,000	863,832	525,000	86,625	8,615,457
2028	6,290,000	575,345	525,000	73,500	7,463,845
2029	4,280,000	316,763	525,000	60,375	5,182,138
2030	2,255,000	137,325	525,000	45,938	2,963,263
2031	1,005,000	45,225	525,000	31,500	1,606,725
2032	—	—	525,000	15,750	540,750
	<u>\$328,776,557</u>	<u>\$83,321,231</u>	<u>\$40,485,000</u>	<u>\$ 5,820,863</u>	<u>\$458,403,651</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, 2011 including these Bonds.

Maturing Within	Amount to be Retired	Cumulative % Principal Retired
5 years	\$203,763,287	55.18%
10 years	301,311,557	81.60
20 years	369,261,560	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 2007 TO 2011**

Fiscal Year	Population (1)	Assessed Value (2)	Gross Direct Debt (3)	Ratio of Gross Direct Debt to Assessed Value	Gross Direct Debt Per Capita
2007	101,355	\$22,167,135,334	\$349,470,759	1.6%	\$3,448
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 (4)	1.5	3,511

(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 2007 TO 2011**

Fiscal Year	Principal	Interest	Total Debt Service	Total Expenditures (1)	Ratio of Debt Service to Total Expenditures
2007	\$34,030,127	\$10,791,083	\$44,821,210	\$399,957,074	11.2%
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

(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 \$1,850,000 in fiscal year 2011 to the \$1,500,000 in fiscal year 2012 due primarily to one-time (\$700,000) funding for the acquisition of "toters" needed to implement "single stream" recycling, in 2011. The five year plan calls for a total of \$15,140,000 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 23, 2011, is a program of capital spending for the five-year period beginning July 1, 2011 and ending June 30, 2016. 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 \$278,869,045. 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 2012 TO 2016**

<u>Expenditure Category</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
General						
Government ...	\$ 605,000	\$ 610,000	\$ 610,000	\$ 610,000	\$ 610,000	\$3,045,000
Public Safety	680,000	50,000	260,000	50,000	85,000	1,125,000
Community						
Maintenance & Development...	50,249,525	27,268,845	41,030,225	39,080,225	54,765,225	212,394,045
Human Resource						
Development	1,433,000	1,933,000	1,533,000	1,673,000	133,000	6,705,000
Education.....	3,000,000	30,600,000	2,000,000	—	20,000,000	55,600,000
Total	\$55,967,525	\$60,461,845	\$45,433,225	\$41,413,225	\$75,593,225	\$278,869,045

Source: "Public Investment Plan, Fiscal Year 2012 to Fiscal Year 2016,"
Annual Budget Fiscal Year 2012, as adopted.

**PUBLIC INVESTMENT PROGRAM
USES AND SOURCES OF FUNDS
FISCAL YEARS 2012 TO 2016**

<u>Uses</u>	<u>Total Amount</u>	<u>Percent of Total</u>
General Government	\$ 3,045,000	1.09%
Public Safety.....	1,125,000	0.40
Community Maintenance and Development		
Housing Development	4,250,450	1.52
Economic Development.....	3,025,000	1.08
Streets, Highways & Transportation	25,525,675	9.15
Water & Sewer.....	171,032,920	61.33
Other.....	8,560,000	3.07
Human Resource Development.....	6,705,000	2.40
Education	55,600,000	19.94
Total	\$278,869,045	100.00%

<u>Sources</u>	<u>Total Amount</u>	<u>Percent of Total</u>
Property Taxes	\$ 7,500,000	2.69%
Block Grant.....	6,775,450	2.43
Parking Fund.....	4,000,000	1.43
Sewer Service Charge	7,400,000	2.65
Water Service Charge	16,000,000	5.74
Water Fund Balance.....	—	—
Bond Proceeds	218,320,920	78.29
Chapter 90 Grant	9,975,675	3.58
MWRA Grant (inc. Interest)	5,202,000	1.87
Resident Sticker Revenues.....	2,780,000	1.00
Street Preservation Offset Fund	675,000	0.24
War Memorial Receipts.....	140,000	0.05
Golf Course Fees	100,000	0.04
Total	\$278,869,045	100.0%

Source: "Public Investment Plan, Fiscal Year 2012 to Fiscal Year 2016,"
Annual Budget Fiscal Year 2012, as adopted.

**PUBLIC INVESTMENT PROGRAM
SOURCES OF FINANCING
FISCAL YEARS 2012 TO 2016**

Financing Category	2012	2013	2014	2015	2016	Total
General Government:						
Property Taxes	\$ 605,000	\$ 610,000	\$ 610,000	\$ 610,000	\$ 610,000	\$ 3,045,000
Subtotal	\$ 605,000	\$ 610,000	\$ 610,000	\$ 610,000	\$ 610,000	\$ 3,045,000
Public Safety:						
Property Taxes	\$ 165,000	\$ 50,000	\$ 260,000	\$ 50,000	\$ 85,000	\$ 610,000
Bond Proceeds	515,000	—	—	—	—	515,000
Subtotal	\$ 680,000	\$ 50,000	\$ 260,000	\$ 50,000	\$ 85,000	\$ 1,125,000
Community Maintenance & Development:						
Property Taxes	\$ 645,000	\$ 755,000	\$ 545,000	\$ 755,000	\$ 720,000	\$ 3,420,000
Parking Fund	800,000	800,000	800,000	800,000	800,000	4,000,000
Sewer Service Charge	2,250,000	650,000	1,000,000	1,500,000	2,000,000	7,400,000
Water Service Charge	2,750,000	3,500,000	3,250,000	3,250,000	3,250,000	16,000,000
Block Grant	1,355,090	1,355,090	1,355,090	1,355,090	1,355,090	6,775,450
Chapter 90	1,995,135	1,995,135	1,995,135	1,995,135	1,995,135	9,975,675
Street Preservation Offset Fund (SPOF)	135,000	135,000	135,000	135,000	135,000	675,000
MWRA Grant	—	4,202,000	1,000,000	—	—	5,202,000
Interest on MWRA Grant	780,000	500,000	500,000	500,000	500,000	2,780,000
Bond Proceeds	39,539,300	13,376,620	30,450,000	28,790,000	44,010,000	156,165,920
Subtotal	\$50,249,525	\$27,268,845	\$41,030,225	\$39,080,225	\$54,765,225	\$212,394,045
Human Resource Development:						
Property Taxes	\$ 85,000	\$ 85,000	\$ 85,000	\$ 85,000	\$ 85,000	\$ 425,000
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	1,300,000	1,800,000	1,400,000	1,540,000	—	6,040,000
Subtotal	\$ 1,433,000	\$ 1,933,000	\$ 1,533,000	\$ 1,673,000	\$ 133,000	\$ 6,705,000
Education:						
Property Taxes	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Bond Proceeds	3,000,000	30,600,000	2,000,000	—	20,000,000	55,600,000
Subtotal	\$ 3,000,000	\$30,600,000	\$ 2,000,000	\$ —	\$20,000,000	\$ 55,600,000
Grand Total	\$55,967,525	\$60,461,845	\$45,433,225	\$41,413,225	\$75,593,225	\$278,869,045

Source: "Public Investment Plan, Fiscal Year 2012 to Fiscal Year 2016."
Annual Budget Fiscal Year 2012, 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, 2011, 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, 2011. 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 2008 through 2012. 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 2012 budget of \$479,898,606 includes all appropriations made to operating budgets prior to the calculation of the fiscal year 2012 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 2012 operating budget represents an increase of \$11,406,516, or 2.4%, over the fiscal year 2011 budget. Increases in the fiscal year 2012 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 \$3,226,985.

The largest source of funding for the operating budget is property taxes. This revenue increased from a fiscal year 2011 level of \$283,961,699 (including an allocation of \$1,850,000 to the Public Investment Fund) to a fiscal year 2012 level of \$299,090,638 (including \$1,500,000 allocated to the Public Investment Fund). An additional \$10,113,225 from other current revenue sources has been combined with bond authorizations of \$44,354,300 for a total capital budget of \$55,967,525.

CITY OF CAMBRIDGE
BUDGETED REVENUES AND EXPENDITURES
FISCAL YEARS 2008 THROUGH 2012
(\$ in 000s)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues:					
Real & Personal Property Taxes(1)	\$241,134.4	\$253,745.6	\$268,163.0	\$282,111.7	\$299,090.6
Local Estimated Receipts:					
Motor Vehicle Excise	5,823.8	6,053.7	5,965.6	5,925.0	6,030.4
Water	17,278.6	17,223.6	17,041.2	16,412.5	15,346.6
Sewer	32,882.1	35,172.5	36,683.9	37,569.7	36,723.1
Interest Income	4,225.0	4,325.0	3,100.0	970.0	575.0
Other Local Receipts	48,823.7	50,718.3	54,475.1	59,543.4	61,006.7
Subtotal	<u>109,033.2</u>	<u>113,493.1</u>	<u>117,265.8</u>	<u>120,420.6</u>	<u>119,681.8</u>
State Aid	43,539.0	39,931.6	30,221.7	31,631.9	29,752.0
Other Available Funds	23,252.2	31,214.5	33,973.6	34,327.9	31,374.2
Total Revenues	<u>\$416,958.8</u>	<u>\$438,384.8</u>	<u>\$449,624.1</u>	<u>\$468,492.1</u>	<u>\$479,898.6</u>
Expenditures:					
Deficits to be Raised:					
Overlay	\$ 4.5	\$ 0.0	\$ 0.0	\$ 1,535.3	\$ 935.2
Other	143.9	153.3	119.3	112.6	124.7
Subtotal Deficits	<u>148.4</u>	<u>153.3</u>	<u>119.3</u>	<u>1,647.9</u>	<u>1,059.9</u>
Overlay Reserve	4,535.8	4,445.6	4,363.0	4,295.4	4,390.6
Fixed Expenses:					
State & County					
Assessments	8,443.8	8,020.1	7,890.4	10,885.4	11,733.6
Mass. Water Resources					
Authority	18,856.8	20,110.4	21,333.1	21,617.3	21,699.8
Debt Service(2)	34,254.0	40,211.5	43,293.7	45,305.7	44,594.8
Retirement System(3)	19,921.6	19,882.16	20,049.6	20,566.8	24,650.5
MBTA	8,067.2	8,174.5	8,305.7	8,618.1	8,743.6
Cambridge Public Health					
Commission	6,000.0	6,000.0	6,000.0	6,000.0	6,000.0
Other Fixed Costs(4)	2,686.1	2,754.3	2,518.1	3,041.2	3,098.8
Subtotal Fixed	<u>\$ 98,229.5</u>	<u>\$105,153.0</u>	<u>\$109,390.5</u>	<u>\$116,034.5</u>	<u>\$120,521.2</u>
Variable Expense (Budget):					
Schools	127,691.1	130,779.2	133,638.9	137,567.3	140,794.3
Police	35,175.7	37,526.7	40,336.1	42,148.0	43,496.3
Fire	32,666.2	35,577.7	36,110.9	38,018.4	39,055.1
Public Works:					
Water	17,898.7	17,998.6	17,985.1	16,416.1	14,902.6
Sewer(5)	0.0	0.0	0.0	0.0	0.0
Highway(5)	0.0	0.0	0.0	0.0	0.0
Other	26,879.7	28,016.8	28,553.2	29,680.7	30,397.9
General Government	19,224.6	20,204.0	20,417.4	21,075.5	21,944.1
Other Variable	54,509.1	58,529.9	58,709.6	61,608.3	68,787.2
Subtotal Variable	<u>\$314,045.1</u>	<u>\$328,632.9</u>	<u>\$335,751.2</u>	<u>\$346,514.3</u>	<u>\$359,377.3</u>
Total Expenditures	<u>\$416,958.8</u>	<u>\$438,384.8</u>	<u>\$449,624.0</u>	<u>\$468,492.1</u>	<u>\$479,898.6</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 have been reorganized beginning in 2008 and are now included in the "Other" category for 2009, 2010, 2011, and 2012.

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 four fiscal years and total assessed valuation by property classification for the fiscal years 2010, 2011, and 2012.

**CITY OF CAMBRIDGE
ASSESSED AND EQUALIZED VALUATIONS
FISCAL YEARS 2008 TO 2012**

Fiscal Year	Assessed Value(1)			Equalized Valuation(2)	% of Total Assessed Valuation to Equalized
	Real Property	Personal Property	Total		
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
2008	22,804,699,776	736,495,790	23,541,195,566	24,529,458,900	96.0

(1) As of January 1, 2011, 2010, 2009, 2008, and 2007, respectively.

(2) As of January 1, 2010, 2008, and 2006, 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 2010, 2011, AND 2012**

Class	2010 Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential	\$14,894,312,603	61.36%	34.56%
Commercial	5,560,488,691	22.91	38.80
Industrial.....	2,905,823,212	11.97	20.28
Personal Property	911,076,100	3.76	6.36
	<u>\$24,271,700,606</u>	<u>100.0%</u>	<u>100.0%</u>

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>

Source: City Department of Finance.

The following table shows the actual tax rates per \$1,000 of assessed valuation for fiscal years 2008-2012 and the estimated full value rate based on the equalized valuations for the latest fiscal years:

**CITY OF CAMBRIDGE
PROPERTY TAX RATE
FISCAL YEARS 2008 to 2012**

<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>
2012	\$ 8.48	Residential	\$10.62	\$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		
2008	\$ 7.36	Residential	\$ 9.88	\$10.29
	17.24	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 times 1000.

(3) The 2011 Estimated Full Value Tax Rate has been restated to reflect the final FY2011 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 19.6 percent of the City's total assessable base for fiscal year 2012.

**CITY OF CAMBRIDGE
10 LARGEST TAXPAYERS
Fiscal Year 2012 (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)	\$1,785,069,900	\$35,044,087	11.72%
BioMed Realty Trust	Commercial	853,862,400	16,383,756	5.48
Boston Properties	Commercial	543,093,700	11,280,056	3.77
Equity Partners	Commercial	283,730,200	5,234,116	1.75
Presidents & Fellows of Harvard College.....	Educational(2)	363,550,400	5,130,190	1.72
New England Development.....	Commercial	219,500,000	4,559,015	1.52
Novartis Pharmaceuticals.	Commercial	203,265,600	4,221,827	1.41
PREEF American Reit II Corp.	Commercial	190,166,600	3,949,760	1.32
RB Kendall Fee LLC	Commercial	178,748,900	3,721,320	1.24
Alexandria Real Estate	Commercial	159,876,500	3,316,394	1.11
Totals.....		<u>\$4,780,864,200</u>	<u>\$92,840,521</u>	<u>31.04%</u>

(1) As of January 1, 2011.

(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^{1/2},” 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 \$102.6 million in FY12.

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 \$1000 to \$25 per \$1000 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, and actual revenues received in fiscal year 2011 were \$29,276,565.

Tax Limitations: Five-Year Projections

Fiscal year 2012 valuations of \$24,446,954,999 in real and personal property valuations were certified by the Massachusetts Department of Revenue. This figure represents a \$284,877,401, or 1.18%, increase over fiscal year 2011 valuations. The chart on the following page illustrates that total assessed values are anticipated to increase by an average of just under 1.5% annually over the fiscal year 2012 to fiscal year 2016 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 2016.

**CITY OF CAMBRIDGE
PROJECTED GROWTH IN PROPERTY VALUATION
FISCAL YEARS 2012 TO 2016**

Fiscal Year	Projected Assessments(1)	Projected Levy	Primary Levy Limit(2)	Secondary Levy Limit(3)
2012	\$24,446,954,999	\$299,090,638	\$611,173,875	\$401,732,952
2013	24,629,620,225	319,947,221	615,740,506	417,284,672
2014	25,036,316,990	339,334,035	625,907,925	434,719,701
2015	25,820,616,726	357,912,076	645,515,418	454,781,033
2016	26,727,146,784	373,765,088	668,178,670	476,122,111

- (1) The figures for fiscal year 2012 are those which have been certified by the Massachusetts Department of Revenue and the figures for 2013-2016 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 2012 and yielded \$24.4 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 2008 to 2012.

**CITY OF CAMBRIDGE
CALCULATION OF PROPERTY TAX LEVIES
FISCAL YEARS 2008 TO 2012
(\$ in 000s)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Gross Amount to be Raised:					
Total Appropriations.....	\$455,334	\$492,208	\$489,404	\$481,028	\$488,733
Overlay Deficits from Prior Years.....	4	0	0	1,535	995
Other Local Expenditures.....	995	1,107	1,365	989	1,048
State and County Assessments.....	16,511	16,536	16,196	19,504	20,477
Overlay for Current Year.....	4,536	4,445	4,363	4,295	4,391
Total to be Raised	<u>\$477,380</u>	<u>\$514,296</u>	<u>\$511,328</u>	<u>\$507,351</u>	<u>\$515,645</u>
Offsets:					
Estimated Receipts from State	\$43,539	\$ 39,932	\$ 30,221	\$ 31,632	\$ 29,752
Prior Year's Overestimates of					
State & County Assessments	0	0	0	0	0
Local Estimated Receipts	125,918	128,894	129,964	134,199	134,341
Other Available Funds	65,588	90,524	82,480	57,558	173,502
Total Offsets	<u>\$235,045</u>	<u>\$259,350</u>	<u>\$242,665</u>	<u>\$223,389</u>	<u>\$337,594</u>
Tax Levy.....	<u>\$242,334</u>	<u>\$254,946</u>	<u>\$268,663</u>	<u>\$283,962</u>	<u>\$299,091</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 2007 TO 2011**

Fiscal Year	Tax Commitment	Collections During Fiscal Year Payable (2)		Collections as of 6/30/11(3)	
		Amount	% of Tax Commitment	Amount	% of Tax Commitment
2011	\$285,237,707	\$280,979,212	98.5%	\$280,979,212	98.5%
2010	269,094,125	263,057,040	97.8	265,699,255	98.7
2009	258,512,759	250,159,641	96.8	253,016,407	97.9
2008	243,009,337	237,913,702	97.9	238,494,682	98.1
2007	233,314,287	227,098,138	97.3	227,332,210	97.4

- (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 2007 TO 2011**

Fiscal Year	Overlay Reserve		Abatements	
	Amount	% of Total Levy	During Fiscal Year of Each Tax Levy	Since Fiscal Year Ended (through 6/30/11)(1)
2011	\$4,295,422	1.5%	\$1,471,642	\$1,471,642
2010	\$4,362,984	1.6	2,018,228	2,503,136
2009	4,445,578	1.7	3,011,039	3,317,911
2008	4,535,813	1.9	1,170,749	3,230,030
2007	4,427,094	1.9	1,489,161	4,601,165

(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 2007 TO 2011**

Fiscal Year	Aggregate(1)(2)	For Current Year(1)(2)	Tax Title and Tax Possessions(2)
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
2007	5,231,894	4,445,481	2,835,696

(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 2007 TO 2011**

<u>Fiscal Year</u>	<u>Community Development Block Grant</u>	<u>Other</u>	<u>Total From Federal Government</u>
2011	\$3,273,271	\$15,836,416	\$19,109,687
2010	2,914,396	13,899,280	16,813,676
2009	2,993,476	14,426,119	17,419,595
2008	3,064,051	12,747,888	15,811,939
2007	3,831,153	9,742,823	13,573,976

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 2012, 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 2007 TO 2011**

<u>Fiscal Year</u>	<u>School Construction</u>	<u>School Operations</u>	<u>Other</u>	<u>Total From State</u>
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
2007	3,875,353	9,586,858	28,456,299	41,918,510

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 2011, motor vehicle excise tax revenue increased from \$2.0 million to approximately \$6.5 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 2007 TO 2011**

<u>Fiscal Year</u>	<u>Receipts(1)(2)</u>
2011	\$6,452,602
2010	6,182,561
2009	6,139,574
2008	6,649,769
2007	5,942,196

(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 2007 to 2011

<u>Fiscal Year</u>	<u>Receipts(1)</u>
2011	\$10,201,206
2010	7,601,971
2009	6,802,768
2008	6,862,581
2007	6,751,419

(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, and \$3,551,926 in Fiscal Year 2011.

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 2007 through 2011, while the second table compares City revenues, expenditures, and changes in fund balance for fiscal years 2007 through 2011.

**CITY OF CAMBRIDGE
GENERAL FUND BALANCE SHEETS
FISCAL YEARS 2007 TO 2011(1)
(as of June 30)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
ASSETS					
Cash	\$175,514,111	\$193,401,156	\$184,961,474	\$178,909,465	\$183,045,990
Receivables(2)					
Taxes	4,925,377	4,198,322	5,371,460	4,950,755	3,336,193
Tax Title and Possessions.....	2,835,696	2,496,898	2,800,018	2,503,794	3,056,350
Motor Vehicle Excise	989,864	1,153,628	1,012,999	995,487	946,975
Departmental	9,074,020	9,536,320	10,627,764	10,319,844	10,448,658
Intergovernmental.....	8,575,000	1,148,862	—	—	—
Due From Component.....					
Unit.....	16,500,000	15,000,000	13,500,000	11,995,000	10,495,000
Other Assets.....	2,374,174	2,103,996	1,549,978	1,084,131	1,748,986
Total Assets	<u>\$220,788,242</u>	<u>\$229,139,182</u>	<u>\$219,823,693</u>	<u>\$210,758,476</u>	<u>\$213,078,152</u>
LIABILITIES AND FUND EQUITY					
Warrants Payable.....	\$ 4,468,590	\$3,983,530	\$ 4,809,911	\$ 7,781,381	\$ 6,656,223
Tax Abatement Refunds	3,500,000	3,500,000	3,500,000	3,000,000	3,300,000
Other	19,319,005	21,886,059	22,772,466	24,560,322	32,160,712
Deferred Revenue.....	40,839,988	32,250,869	32,245,978	29,118,877	27,531,381
Total Liabilities	<u>\$ 68,127,583</u>	<u>\$ 61,620,458</u>	<u>\$63,328,355</u>	<u>\$ 64,460,580</u>	<u>\$ 69,648,316</u>
FUND BALANCES:					
Nonspendable	1,229,436	2,037,345	1,469,978	1,004,131	1,668,986
Restricted	—	—	—	—	—
Committed	51,606,048	59,858,799	59,650,472	50,207,982	42,061,955
Unassigned	99,825,175	105,622,580	95,374,888	95,085,783	99,698,895
Total Fund Balance	<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>
Total Liabilities & Fund Balances.	<u>\$220,788,242</u>	<u>\$229,139,182</u>	<u>\$219,823,693</u>	<u>\$210,758,476</u>	<u>\$213,078,152</u>

- (1) See Appendix A for complete financial report for 2011. Copies of the financial reports for 2007, 2008, 2009 and 2010 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, 2007, 2008, 2009, 2010, and 2011.

CITY OF CAMBRIDGE
GENERAL FUND—COMPARATIVE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL FOR FISCAL YEARS 2007 TO 2011 (1)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Revenues:					
Property Taxes	\$231,875,724	\$238,747,275	\$251,255,629	\$266,861,794	\$281,812,153
In Lieu of Tax Receipts	6,939,046	7,318,567	7,011,953	7,105,643	7,344,911
Hotel/Motel Tax	6,751,419	6,862,581	6,802,768	9,361,688	13,573,132
Intergovernmental Revenue	44,658,328	47,575,390	37,234,500	32,138,738	31,795,812
Sewer Use	38,761,289	36,874,045	36,058,033	36,825,469	40,346,895
Motor Vehicle Excise	5,942,196	6,649,769	6,139,573	6,182,561	6,452,602
Interest	11,119,045	9,295,172	4,256,527	1,273,261	1,064,224
Other	29,074,694	30,721,070	26,889,246	30,070,728	34,561,571
Total Revenues	<u>\$375,121,741</u>	<u>\$384,043,869</u>	<u>\$375,648,229</u>	<u>\$389,819,882</u>	<u>\$416,951,300</u>
Expenditures:					
General Government	34,283,722	32,571,741	31,765,295	40,100,913	35,891,674
Public Safety	85,159,683	89,514,125	95,816,587	95,716,808	100,413,995
Community Maintenance and Development	30,527,153	33,331,070	35,040,010	34,126,970	36,459,244
Human Resource Development	22,425,908	23,943,570	25,464,435	28,133,379	29,586,338
Education	121,868,743	124,531,085	129,030,651	132,652,341	134,077,602
Judgements and Claims	212,729	114,641	170,865	924,862	9,029,151
State Assessments	37,294,026	39,567,157	41,020,229	42,447,468	44,892,107
Debt Service:					
Principal	24,756,123	25,381,700	30,202,892	32,775,576	34,865,929
Interest	8,185,487	8,742,505	9,966,282	10,439,315	10,381,632
Total Expenditures	<u>\$364,713,574</u>	<u>\$377,697,594</u>	<u>\$398,477,246</u>	<u>\$417,317,632</u>	<u>\$435,597,672</u>
Transfers from (to) Other Funds: (Net).	<u>\$ 5,578,709</u>	<u>\$ 8,511,790</u>	<u>\$ 11,805,631</u>	<u>\$ 17,300,308</u>	<u>\$ 15,778,312</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	15,986,876	14,858,065	(11,023,386)	(10,197,442)	(2,868,060)
Fund Equity at beginning of year	<u>136,673,783</u>	<u>152,660,659</u>	<u>167,518,724</u>	<u>156,495,338</u>	<u>146,297,896</u>
Fund Equity at end 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>

(1) Does not include water revenues and expenditures.

Source: Audit Reports of KPMG LLP for the fiscal years ended June 30, 2007, 2008, 2009, 2010 and 2011.

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 2007 TO 2011**

July 1	Surplus Revenue or (Deficit)(1)(2)	Free Cash
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
2007	112,626,733	73,785,122

- (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 Undesignated 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^{1/2} (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 2008 to 2012 fiscal years are set forth below:

**CITY OF CAMBRIDGE
CONTRIBUTIONS TO CITY PENSION FUNDS
FISCAL YEARS 2008 TO 2012**

Fiscal Year	Contributory (1)	Non-contributory	Total
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
2008	25,198,405	1,350,000	26,548,405

(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 \$153,891,969 as of January 1, 2010. In January, 1991, the City established a state-approved funding schedule, which is updated biennially. The latest study dated January 1, 2010, 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 2007 TO 2011**

Fiscal Year	Amount
2011	\$22,255,165
2010	23,884,547
2009	18,557,960
2008	17,122,400
2007	14,017,188

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 was \$586,169,000.

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 \$46,624,000.

During fiscal year 2012 the City estimates it will pay claims and expenses (net of retiree contributions) on behalf of all retired employees of approximately \$23,364,268. Based on the methodology selected by the City using the latest actuarial report (July 2010), the resulting ARC would require an additional payment by the City for fiscal year 2012 of approximately \$23,259,732.

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 plans to fund a \$1 million contribution to the Fund in Fiscal Year 2013.

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	322	6/30/14
Teachers and Administrators (Mass. Teachers Assoc.)	School	843	8/31/12
Clerical	School	54	6/30/12
Custodians (Local 1611 AFL-CIO)	School	76	6/30/12
Food Service	School	48	6/30/12
Safety Specialist	School	14	6/30/12
Paraprofessionals (affiliated with Mass. Teachers Assoc.)	School	199	8/31/12
Substitute Teachers	School	23	8/31/12
Family Resource Liaison (AFSNE)	School	16	6/30/12
International Assoc. of Firefighters	Fire	270	6/30/12
Patrol Officers	Police	207	6/30/14
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
Inspectional Services (Building, Trades)	Inspectional	19	6/30/14
Childcare Workers	Human Services	35	6/30/14
Supervisors	Public Works	12	6/30/12
		<u>2,336</u>	

Source: City Personnel Department.

/s/ Louis A. DePasquale
City Treasurer

February 15, 2012

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APPENDIX A

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CITY OF CAMBRIDGE, MASSACHUSETTS

Basic Financial Statements, Required Supplementary Information,
and Supplemental Schedules

June 30, 2011

(With Independent Auditors' Report Thereon)

CITY OF CAMBRIDGE, MASSACHUSETTS

Comprehensive
Annual Financial Report

June 30, 2011

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

Independent Auditors' 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 activity, the discretely presented component unit, 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, 2011, 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 it relates 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

As described in note 2(n), the City, in 2011, implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2010.

In our opinion, based upon 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 activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cambridge, Massachusetts, as of June 30, 2011, 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 16, 2011 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.

The management's discussion and analysis, the schedules of funding progress and employers' contributions, and the schedule of revenues and expenditures – budgetary basis as listed in the accompanying table of contents are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cambridge's basic financial statements. The supplemental statements and schedules are presented for the purposes of additional analysis and are not a required part of 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, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

December 16, 2011

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2011

(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, 2011. 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, 2011

(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

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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.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information
Management's Discussion and Analysis

June 30, 2011

(Unaudited)

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, 2011 by \$742.0 million (presented as net assets). Of this amount, \$121.5 million was reported as "unrestricted net assets". Unrestricted net assets represent the amount available to be used to meet the City's ongoing obligations to citizens and creditors.

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 \$606.8 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 \$315.6 million, down 1.8% from prior year; net receivables of \$29.5 million; and \$10.5 million due from the Cambridge Health Alliance.

Governmental activities long-term liabilities include \$310.7 million in general obligation bonds and notes payable; \$18.1 million in compensated absence liabilities for unused sick and vacation; and \$24.6 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 \$24.4 million.

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(Unaudited)

Business-type activity long-term liabilities include \$22.3 million in general obligation bonds, \$496 thousand in compensated absences and \$887 thousand in future year workers' compensation and health benefits. The net reduction of \$5.1 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, 2011 and 2010

(In millions)

	Governmental activities		Business-type activity		Total primary government	
	June 30		June 30		June 30	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 359.1	368.8	8.8	7.7	367.9	376.5
Capital assets	756.9	708.7	131.4	132.8	888.3	841.5
Total assets	\$ 1,116.0	1,077.5	140.2	140.5	1,256.2	1,218.0
Long-term liabilities	\$ 441.6	399.9	23.6	29.2	465.2	429.1
Other liabilities	47.9	47.3	1.1	0.9	49.0	48.2
Total liabilities	\$ 489.5	447.2	24.7	30.1	514.2	477.3
Net assets:						
Invested in capital assets, net of debt	\$ 497.7	454.8	109.2	105.5	606.9	560.3
Restricted	13.6	10.2	—	—	13.6	10.2
Unrestricted	115.2	165.3	6.3	4.9	121.5	170.2
Total net assets	\$ 626.5	630.3	115.5	110.4	742.0	740.7

Statement of Changes in Net Assets

The City's total net assets increased by \$1.3 million in fiscal year 2011 of which the governmental activities net assets decreased \$3.8 million and the business-type activity increased \$5.1 million.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information
Management's Discussion and Analysis

June 30, 2011

(Unaudited)

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

Condensed Schedule of Changes in Net Assets

June 30, 2011 and 2010

(In millions)

	Governmental activities		Business-type activity		Total primary government	
	June 30		June 30		June 30	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 85.7	78.2	19.2	19.4	104.9	97.6
Operating grants and contributions	25.6	35.9	—	—	25.6	35.9
Capital grants and contributions	9.1	38.4	—	—	9.1	38.4
General revenues:						
Taxes:						
Property taxes levied	282.2	265.6	—	—	282.2	265.6
Excises	20.0	15.5	—	—	20.0	15.5
Payment in lieu of taxes	7.3	7.1	—	—	7.3	7.1
Grants and contributions not restricted	31.8	21.9	—	—	31.8	21.9
Investment income	1.3	1.9	0.1	0.1	1.4	2.0
Miscellaneous	18.9	17.6	—	—	18.9	17.6
Total revenues	<u>481.9</u>	<u>482.1</u>	<u>19.3</u>	<u>19.5</u>	<u>501.2</u>	<u>501.6</u>
Expenses:						
General government	46.6	44.0	—	—	46.6	44.0
Public safety	122.0	119.6	—	—	122.0	119.6
Community maintenance and development	90.9	74.0	—	—	90.9	74.0
Human resource development	45.8	43.7	—	—	45.8	43.7
Education	171.3	165.2	—	—	171.3	165.2
Water department	—	—	13.5	13.7	13.5	13.7
Interest	9.8	10.0	—	—	9.8	10.0
Total expenses	<u>486.4</u>	<u>456.5</u>	<u>13.5</u>	<u>13.7</u>	<u>499.9</u>	<u>470.2</u>
Excess before transfers	(4.5)	25.6	5.8	5.8	1.3	31.4
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	(3.8)	26.3	5.1	5.1	1.3	31.4
Net assets – beginning	<u>630.3</u>	<u>604.0</u>	<u>110.4</u>	<u>105.3</u>	<u>740.7</u>	<u>709.3</u>
Net assets – ending	<u>\$ 626.5</u>	<u>630.3</u>	<u>115.5</u>	<u>110.4</u>	<u>742.0</u>	<u>740.7</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

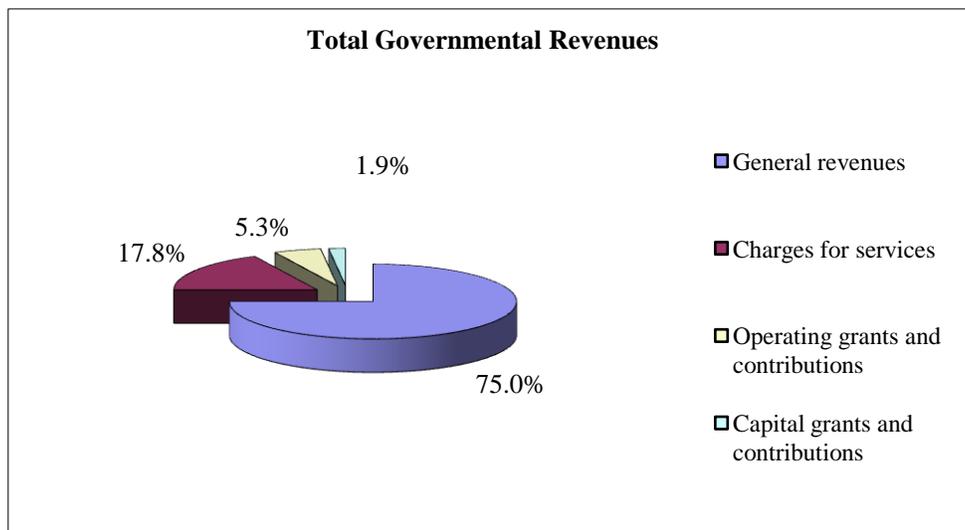
Required Supplementary Information
Management's Discussion and Analysis

June 30, 2011

(Unaudited)

Total Revenues

Total governmental activities revenues for the City are comprised of general revenues of \$361.6 million, charges for services \$85.7 million, operating grants and contributions \$25.6 million and capital grants and contributions of \$9.1 million.



General

Real estate tax revenues are the City's largest revenue source at \$282.2 million representing 78.1% of general revenues. The assessed tax valuation base is \$24.2 billion down from \$24.3 billion assessed in the prior year showing a 0.5% decrease mainly due to a slight drop in new construction.

Grants and contributions not restricted to specific programs is \$31.8 million representing 8.8% of general revenues and include state cherry sheet revenues and other unrestricted contributions.

Program

Charges for services are \$85.7 million and represent a variety of department revenues. Charges for services increased \$7.5 million from the prior year. The public safety portion of \$37.9 million includes several types of permit revenues, traffic and moving violation revenues, and City garage revenues. The community maintenance and development portion of \$42.2 million includes sewer service revenues, community cable revenues, as well as, other public works type fees. This category increased by \$2.5 million from the prior year mainly due to an increase of 9.5% in sewer charges attributable to a slight decrease in sewer abatements and a rate increase.

Operating grants and contributions of \$25.6 million represents several federal and state grants restricted to specific grant conditions. This amount accounts for approximately 5.3% of the total City revenues.

CITY OF CAMBRIDGE, MASSACHUSETTS

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Capital grants and contributions of \$9.1 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, 2011, expenses for government activities totaled \$486.4 million, which cover a range of services. On the whole, the City's expenditures increased slightly by \$29.9 million or 6.5% 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 \$171.3 million or 35.2% 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 2011, the City spent \$8.8 million from the Affordable Housing Trust to subsidize housing projects.

Business-Type Activity

Business-type activity increased net assets by \$5.1 million, which is the same as prior years rise in net assets. The main reason for the \$5.1 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 \$272.3 million. Of this amount, \$3.7 million has been categorized nonspendable which includes permanent funds and health care deposits. Another \$70.5 million was restricted because the funds include grants or bonded projects that are controlled by external sources. Finally, \$98.4 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 \$99.7 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 \$99.7 million, while the total fund balance was \$143.4 million. A portion of the change is due to an increase in expenditures of \$18.3 million or 4.4% over prior year, which is partly attributable to the increase of \$8.0 million in legal judgments. The remaining balance is primarily due to increases in employee healthcare and pension costs of \$10 million. Also, the City had a decrease in investment income of \$0.2 million due to the economic downturn over the last year.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

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(Unaudited)

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 22.9% of total General Fund expenditures, while the total balance represents 33% of that same amount.

The capital fund is the fund that captures all the capital projects expenditures for the City. At the end of fiscal year 2011, the total fund balance was \$52.1 million. This reflects a decrease over the prior fiscal year of \$15.1 million. The major decrease in fund balance is due to spending of bond proceeds on CRLS renovations.

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 2011, the total fund balance was \$42.4 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 \$6.3 million and an investment in capital assets, net of related debt of \$109.2 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 2011 actual revenues on a budgetary basis totaled \$408.1 million. This represents an increase of \$26.4 million or 6.9% from fiscal year 2010. Property taxes are the single largest revenue source, representing approximately 68.5% of general fund revenues, net of abatements. Sewer use receipts comprise the City's next largest revenue source, representing 9.9%.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information
Management's Discussion and Analysis

June 30, 2011

(Unaudited)

Expenditures

During fiscal year 2011, total expenditures increased on a budgetary basis by 4.2% from \$416.3 million to \$433.8 million.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2011, the City's capital assets of its governmental activities and business-type activity amounted to \$888.3 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 \$328.6 million in outstanding bonds and notes compared to \$323.5 million last year.

	<u>Governmental activities</u>		<u>Business-type activity</u>		<u>Totals</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(In millions)					
General obligation bonds and notes payable \$	306.7	296.6	21.9	26.9	328.6	323.5

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 \$15.1 million, or 5.33%, to \$299.1 million in fiscal year 2012. Despite this increase, the City's excess tax capacity, an extremely important indication of the City's financial health, increased from \$99.4 million in FY 11 to \$102.6 million in FY 12, a 3.3% increase.

The FY 12 operating budget increased by 1.75% over the FY 11 adjusted budget. The increase is attributable to an 11.8% increase in employee health insurance, a 5.5% increase in employee pension costs. The capital budget of \$55.9 million is an increase of approximately \$33.6 million from the prior year.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information
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June 30, 2011

(Unaudited)

New Accounting Standards

In 2011, The City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this pronouncement is to enhance the usefulness of fund balance information and provide clearer fund balance classifications. Currently, fund balance is reported as reserved and unreserved. Effective for fiscal year 2011 reporting, fund balance is reported as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. Additional information on GASB Statement No. 54 can be found in the notes to the financial statements.

Future Pronouncements

GASB has issued Statement Nos. 55-64, which have various effective dates throughout the year ended June 30, 2012. 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, 2011

Assets	Primary government			Component unit
	Governmental activities	Business-type activity	Total	
Cash and investments	\$ 315,018,086	4,029,125	319,047,211	302,189,836
Cash and investments held by trustees	600,000	—	600,000	15,702,691
Receivables, net:				
Property taxes	3,336,193	—	3,336,193	—
Motor vehicle excise	946,975	—	946,975	—
Tax title and possessions	3,056,350	—	3,056,350	—
Intergovernmental	6,704,335	—	6,704,335	—
Other	15,411,398	4,651,490	20,062,888	17,822,266
Other assets	3,564,847	68,831	3,633,678	50,721,646
Internal balances	(32,723)	32,723	—	—
Due from component unit	10,495,000	—	10,495,000	—
Capital assets:				
Nondepreciable	340,416,181	46,854,851	387,271,032	21,381,994
Depreciable, net	416,514,225	84,561,200	501,075,425	172,815,367
Total assets	1,116,030,867	140,198,220	1,256,229,087	580,633,800
Liabilities				
Warrants and accounts payable	21,753,848	636,184	22,390,032	103,601,394
Accrued liabilities:				
Tax abatements	3,700,000	—	3,700,000	—
Accrued payroll	13,094,062	60,729	13,154,791	10,603,534
Accrued interest	4,476,423	411,982	4,888,405	—
Other	4,885,794	—	4,885,794	9,317,252
Unearned revenue	—	—	—	44,079,905
Due to primary government	—	—	—	10,495,000
Long-term liabilities:				
Due within one year:				
Bonds and notes payable	34,932,727	3,535,000	38,467,727	533,333
Capital leases	—	—	—	4,269,965
Due to third parties	—	—	—	30,941,630
Compensated absences	6,770,000	190,000	6,960,000	16,075,935
Landfill	25,000	—	25,000	—
Judgments and claims	14,335,000	204,000	14,539,000	—
Pollution remediation	175,654	—	175,654	—
Due in more than one year:				
Bonds and notes payable	275,721,986	18,718,040	294,440,026	5,333,334
Capital leases	—	—	—	13,393,374
Due to third parties	—	—	—	36,646,262
Compensated absences	11,290,000	306,000	11,596,000	—
Landfill	225,000	—	225,000	—
Judgments and claims	10,271,000	683,000	10,954,000	—
Other postemployment benefit obligation	86,709,262	—	86,709,262	30,817,071
Pollution remediation	1,161,122	—	1,161,122	—
Total liabilities	489,526,878	24,744,935	514,271,813	316,107,989
Net Assets				
Investment in capital assets, net of related debt	497,650,641	109,176,777	606,827,418	160,172,355
Restricted for:				
Community preservation	9,584,969	—	9,584,969	—
Expendable permanent funds	1,371,803	—	1,371,803	—
Nonexpendable permanent funds	2,075,173	—	2,075,173	—
Other purposes	600,000	—	600,000	5,163,315
Unrestricted	115,221,403	6,276,508	121,497,911	99,190,141
Total net assets	\$ 626,503,989	115,453,285	741,957,274	264,525,811

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Activities

Year ended June 30, 2011

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	Primary government			
					Governmental activities	Business-type activity	Total	
Primary government:								
Governmental activities:								
General government	\$ 46,676,807	434,069	—	—	(46,242,738)	—	(46,242,738)	—
Public safety	122,033,751	37,946,079	—	—	(84,087,672)	—	(84,087,672)	—
Community maintenance and development	90,907,773	42,168,021	3,741,672	8,684,933	(36,313,147)	—	(36,313,147)	—
Human resource development	45,752,191	3,606,526	8,782,446	—	(33,363,219)	—	(33,363,219)	—
Education	171,283,824	1,544,095	13,038,648	406,342	(156,294,739)	—	(156,294,739)	—
Interest on long-term debt	9,756,666	—	—	—	(9,756,666)	—	(9,756,666)	—
Total governmental activities	486,411,012	85,698,790	25,562,766	9,091,275	(366,058,181)	—	(366,058,181)	—
Business-type activity:								
Water	13,544,425	19,130,204	—	—	—	5,585,779	5,585,779	—
Total business-type activity	13,544,425	19,130,204	—	—	—	5,585,779	5,585,779	—
Total primary government	\$ 499,955,437	104,828,994	25,562,766	9,091,275	(366,058,181)	5,585,779	(360,472,402)	—
Component unit:								
Cambridge Public Health Commission	\$ 1,284,600,860	230,455,007	1,108,812,286	—	—	—	—	54,666,433
Total component units	\$ 1,284,600,860	230,455,007	1,108,812,286	—	—	—	—	54,666,433
General revenues:								
Taxes:								
Property taxes, levied for general purposes					\$ 282,244,351	—	282,244,351	—
Excises					19,977,226	—	19,977,226	—
Payments in lieu of taxes					7,344,911	—	7,344,911	—
Grants and contributions not restricted					31,795,812	—	31,795,812	—
Investment income					1,255,842	131,185	1,387,027	920,059
Miscellaneous					18,978,421	—	18,978,421	—
Transfers					687,510	(687,510)	—	—
Total general revenues and transfers					362,284,073	(556,325)	361,727,748	920,059
Change in net assets					(3,774,108)	5,029,454	1,255,346	55,586,492
Net assets – beginning					630,278,097	110,423,831	740,701,928	208,939,319
Net assets – ending					\$ 626,503,989	115,453,285	741,957,274	264,525,811

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Balance Sheet – Governmental Funds

June 30, 2011

Assets	General	Capital fund	Affordable Housing Trust fund	Other governmental funds	Total governmental funds
Cash and investments	\$ 183,045,990	59,572,863	37,547,000	34,852,233	315,018,086
Cash and investments held by trustees	—	—	600,000	—	600,000
Receivables, net:					
Property taxes	3,336,193	—	—	—	3,336,193
Motor vehicle excise	946,975	—	—	—	946,975
Tax title and possessions	3,056,350	—	—	—	3,056,350
Intergovernmental	—	4,967,048	—	1,737,287	6,704,335
Departmental and other	10,448,658	—	4,253,242	709,498	15,411,398
Total receivables	17,788,176	4,967,048	4,253,242	2,446,785	29,455,251
Other assets	1,748,986	—	—	—	1,748,986
Due from other funds	—	834,969	—	—	834,969
Due from component unit	10,495,000	—	—	—	10,495,000
Total assets	\$ 213,078,152	65,374,880	42,400,242	37,299,018	358,152,292
Liabilities and Fund Balances					
Liabilities:					
Warrants and accounts payable	\$ 6,656,223	13,283,421	—	1,814,204	21,753,848
Accrued liabilities:					
Tax abatements	3,300,000	—	—	—	3,300,000
Judgments and claims	14,335,000	—	—	—	14,335,000
Accrued payroll	12,952,767	14,875	—	126,420	13,094,062
Other	4,840,222	—	—	45,572	4,885,794
Deferred revenue	27,531,381	—	—	53,328	27,584,709
Due to other funds	32,723	—	—	834,969	867,692
Total liabilities	69,648,316	13,298,296	—	2,874,493	85,821,105
Fund balances:					
Nonspendable	1,668,986	—	—	2,075,173	3,744,159
Restricted	—	52,076,584	600,000	17,846,787	70,523,371
Committed	42,061,955	—	41,800,242	14,502,565	98,364,762
Unassigned	99,698,895	—	—	—	99,698,895
Total fund balances	143,429,836	52,076,584	42,400,242	34,424,525	272,331,187
Total liabilities and fund balances	\$ 213,078,152	65,374,880	42,400,242	37,299,018	358,152,292

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, 2011

Total fund balance – governmental funds	\$ 272,331,187
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	756,930,406
Adjust deferred revenues to record revenues on an accrual basis	27,584,709
Bond issuance costs are capitalized in the government-wide statements	1,815,861
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	310,654,713
Accrued interest on bonds	4,476,423
Compensated absences	18,060,000
Landfill	250,000
Judgments and claims	10,271,000
Tax abatements	400,000
Other postemployment benefits	86,709,262
Pollution remediation	1,336,776
	<u>432,158,174</u>
Net assets of governmental activities	<u><u>\$ 626,503,989</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, 2011

	<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	\$ 281,812,153	—	—	—	281,812,153
Excises:					
Hotel/motel/meals	13,573,132	—	—	—	13,573,132
Motor vehicles	6,452,602	—	—	—	6,452,602
Payments in lieu of taxes	7,344,911	—	—	—	7,344,911
Intergovernmental	31,795,812	9,091,275	—	25,562,766	66,449,853
Investment income	1,064,224	15,871	86,372	89,375	1,255,842
Sewer use charges	40,346,895	—	—	—	40,346,895
Departmental and other	34,561,571	681,698	707,423	29,769,732	65,720,424
Total revenues	<u>416,951,300</u>	<u>9,788,844</u>	<u>793,795</u>	<u>55,421,873</u>	<u>482,955,812</u>
Expenditures:					
Current:					
General government	35,891,674	—	—	358,969	36,250,643
Public safety	100,413,995	—	—	1,439,350	101,853,345
Community maintenance and development	36,459,244	—	8,838,127	3,657,578	48,954,949
Human resource development	29,586,338	—	—	8,782,088	38,368,426
Education	134,077,602	—	—	13,341,394	147,418,996
Judgments and claims	9,029,151	—	—	—	9,029,151
State and district assessments	44,892,107	—	—	—	44,892,107
Capital outlays	—	76,208,380	—	—	76,208,380
Debt service	45,247,561	—	—	—	45,247,561
Total expenditures	<u>435,597,672</u>	<u>76,208,380</u>	<u>8,838,127</u>	<u>27,579,379</u>	<u>548,223,558</u>
Excess (deficiency) of revenues over expenditures	<u>(18,646,372)</u>	<u>(66,419,536)</u>	<u>(8,044,332)</u>	<u>27,842,494</u>	<u>(65,267,746)</u>
Other financing sources (uses):					
Premium on debt issuance	1,030,857	—	—	—	1,030,857
Issuance of debt	—	46,220,000	—	—	46,220,000
Transfers in	18,972,455	5,051,104	7,640,000	30,000	31,693,559
Transfers out	<u>(4,225,000)</u>	<u>—</u>	<u>—</u>	<u>(26,781,049)</u>	<u>(31,006,049)</u>
Total other financing (uses) sources	<u>15,778,312</u>	<u>51,271,104</u>	<u>7,640,000</u>	<u>(26,751,049)</u>	<u>47,938,367</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(2,868,060)</u>	<u>(15,148,432)</u>	<u>(404,332)</u>	<u>1,091,445</u>	<u>(17,329,379)</u>
Fund balance – beginning	146,297,896	67,225,016	42,804,574	33,333,080	289,660,566
Fund balance – ending	<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>

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, 2011

Net change in fund balances – total governmental funds		\$ (17,329,379)
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, (\$73,656,249) exceeded depreciation expense (\$25,449,739)		48,206,510
Revenues are recorded on an accrual basis		(1,006,418)
Proceeds of long-term debt (\$46,220,000) 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 (\$36,081,367) is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds		(10,138,633)
Premiums received are revenues in the governmental funds, but are increases to long-term liabilities, net of amortization, in the statement of net assets		(538,522)
Deferred loss on refunding is amortized in the statement of activities and is not reported in the governmental funds		(32,451)
Bond issuance costs are expenditures in the governmental funds, but are deferred assets, net of amortization, in the statement of net assets		83,533
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		(24,368,835)
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) and noncurrent claims (\$2,435,000) offset by the increase in accrued interest (\$48,189), compensated balances (\$456,000) and pollution remediation (\$605,724)		1,350,087
Change in net assets of governmental activities		<u>\$ (3,774,108)</u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Net Assets – Proprietary Fund

June 30, 2011

	Enterprise fund
	<u>Water fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 4,029,125
Receivables, net	4,651,490
Due from other funds	<u>32,723</u>
Total current assets	<u>8,713,338</u>
Noncurrent assets:	
Other	68,831
Capital assets:	
Nondepreciable	46,854,851
Depreciable, net	<u>84,561,200</u>
Total noncurrent assets	<u>131,484,882</u>
Total assets	\$ <u><u>140,198,220</u></u>
Liabilities:	
Current liabilities:	
Warrants and accounts payable	\$ 636,184
Accrued liabilities:	
Claims	204,000
Compensated absences	190,000
Accrued payroll	60,729
Interest	411,982
Current portion of long-term debt	<u>3,535,000</u>
Total current liabilities	<u>5,037,895</u>
Noncurrent liabilities:	
Bonds payable	18,718,040
Accrued liabilities:	
Claims	683,000
Compensated absences	<u>306,000</u>
Total noncurrent liabilities	<u>19,707,040</u>
Total liabilities	<u><u>24,744,935</u></u>
Net assets:	
Investment in capital assets, net of related debt	109,176,777
Unrestricted	<u>6,276,508</u>
Total net assets	\$ <u><u>115,453,285</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, 2011

	<u>Enterprise fund</u> <u>Water fund</u>
Operating revenues:	
Charges for services	\$ 19,130,204
Total operating revenues	<u>19,130,204</u>
Operating expenses:	
Administration	2,700,083
Service and support programs	6,923,218
Depreciation	<u>2,880,169</u>
Total operating expenses	<u>12,503,470</u>
Operating income	<u>6,626,734</u>
Nonoperating revenue (expense):	
Investment earnings – other	131,185
Interest expense	<u>(1,040,955)</u>
Nonoperating expense	<u>(909,770)</u>
Income before transfers	<u>5,716,964</u>
Transfers to other funds	<u>(687,510)</u>
Change in net assets	5,029,454
Total net assets – beginning	<u>110,423,831</u>
Total net assets – ending	<u>\$ 115,453,285</u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Cash Flows – Proprietary Fund

Year ended June 30, 2011

	<u>Enterprise fund</u> <u>Water fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 19,106,351
Cash paid to vendors	(6,419,329)
Cash paid to employees	<u>(3,274,025)</u>
Net cash provided by operating activities	<u>9,412,997</u>
Cash flows from noncapital financing activities:	
Transfers	<u>(687,510)</u>
Net cash used in noncapital financing activities	<u>(687,510)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(1,489,558)
Interest paid on debt	(1,354,888)
Repayment of long-term debt	<u>(4,958,332)</u>
Net cash used in capital and related financing activities	<u>(7,802,778)</u>
Cash flows from investing activities:	
Investment income	<u>131,185</u>
Net cash provided by investing activities	<u>131,185</u>
Increase in cash and cash equivalents	1,053,894
Cash and cash equivalents, beginning of year	<u>2,975,231</u>
Cash and cash equivalents, end of year	<u>\$ 4,029,125</u>
Reconciliation of operating income to cash provided by operating activities:	
Operating income	\$ 6,626,734
Reconciliation of operating income to net cash provided by operating activities:	
Depreciation	2,880,169
Amortization of deferred loss on refunding	98,142
Changes in operating assets and liabilities:	
Accounts receivable	(23,853)
Other liabilities	<u>(168,195)</u>
Net cash provided by operating activities	<u>\$ 9,412,997</u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Fiduciary Net Assets

June 30, 2011

Assets	Employee retirement plan (as of December 31, 2010)	OPEB Trust fund	Agency funds
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 11,873,110	1,126,134	4,804,223
Dividend and interest receivable	1,089,244	—	—
Contributions receivable:			
City of Cambridge	3,972,995	—	—
Cambridge Health Alliance	2,985,628	—	—
Other	298,421	—	—
Other assets	1,449,356	—	—
Investments, at fair value:			
Fixed income securities	78,020,806	550,772	—
Equities	259,540,908	422,437	—
Pooled investments:			
Fixed income	49,187,335	—	—
Real estate	54,838,332	—	—
Domestic equities	73,834,460	—	—
International equities	132,721,953	—	—
International fixed income	34,598,270	—	—
Alternative	71,711,812	—	—
Total investments	<u>754,453,876</u>	<u>973,209</u>	<u>—</u>
Cash collateral on security lending	107,721,744	—	—
Total assets	<u>883,844,374</u>	<u>2,099,343</u>	<u>4,804,223</u>
Liabilities			
Accrued liabilities	775,995	—	—
Guarantee deposits	—	—	4,804,223
Due to brokers for securities purchased	584,260	—	—
Cash collateral on security lending	107,721,744	—	—
Total liabilities	<u>109,081,999</u>	<u>—</u>	<u>4,804,223</u>
Net Assets			
Held in trust for pension benefits and other purposes	<u>\$ 774,762,375</u>	<u>2,099,343</u>	<u>—</u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2011

(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, 2010. 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 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 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.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2011

Complete financial statements for the CHA for its fiscal year ended June 30, 2011 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 the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2011

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

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2011

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.

(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.”

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2011

(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).

(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,

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2011

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.

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. The City Finance Director has the authority to assign amounts to be used for specific purposes on behalf of the City.

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

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2011

(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, 2011, 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.

(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.

(n) *Fund Balance Classification Policies and Procedures*

For the fiscal year ended June 30, 2011, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). GASB 54 requires the use of new fund balance classifications that compose a hierarchy primarily based upon the extent to which the government is bound to follow constraints on the use of governmental fund resources. These classifications are described in note 2(j). GASB 54 also clarified the definitions of the governmental fund types. The effect of implementation of GASB 54 on the City's financial statements was limited to the use of the new fund balance classifications. Implementation did not result in a change in beginning fund balances nor did it affect the types of governmental funds reported by the City.

(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.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2011

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, 2011, the bank balances of uninsured and uncollateralized deposits are as follows:

Primary government	\$	9,310,380
Discretely presented component unit (CHA)		—
	\$	<u>9,310,380</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.

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, 2011

(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, 2011:

<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
City:					
Money market/MMDT	\$ 212,882,654	212,882,654	—	—	—
Certificates of deposit	56,280,134	36,838,937	18,069,955	881,505	489,737
U.S. agencies	10,969,901	270,534	6,014,465	2,662,269	2,022,633
Subtotal city	<u>280,132,689</u>	<u>249,992,125</u>	<u>24,084,420</u>	<u>3,543,774</u>	<u>2,512,370</u>
System (as of December 31, 2010):					
Cash collateral pool	107,721,744	107,721,744	—	—	—
U.S. treasury notes and bonds	4,024,396	2,418,597	530,029	502,244	573,526
U.S. agencies	2,412,731	—	576,837	1,072,888	763,006
Domestic corporate	62,909,050	2,802,672	20,247,829	25,056,031	14,802,518
Asset-backed:					
CMOs	2,774,521	—	—	60,475	2,714,046
Other	5,900,108	—	2,303,108	293,079	3,303,921
Pooled fixed-income investments	83,785,605	—	—	83,785,605	—
Subtotal system	<u>269,528,155</u>	<u>112,943,013</u>	<u>23,657,803</u>	<u>110,770,322</u>	<u>22,157,017</u>
OPEB Trust:					
Money market	1,544	1,544	—	—	—
Certificates of deposit	1,124,417	—	873,480	250,937	—
U.S. agencies	501,068	—	—	501,068	—
Corporate fixed income	49,704	—	—	—	49,704
Subtotal OPEB Trust	<u>1,676,733</u>	<u>1,544</u>	<u>873,480</u>	<u>752,005</u>	<u>49,704</u>
Total	<u>\$ 551,337,577</u>	<u>362,936,682</u>	<u>48,615,703</u>	<u>115,066,101</u>	<u>24,719,091</u>
Discretely presented component unit (CHA):					
Money market	\$ 82,086,883	82,086,883	—	—	—
MMDT	215,090,255	215,090,255	—	—	—
Total discretely presented component unit (CHA)	<u>\$ 297,177,138</u>	<u>297,177,138</u>	<u>—</u>	<u>—</u>	<u>—</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

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

The collateralized mortgage obligations (CMOs) held by the System 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.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2011

The primary government's fixed income investments as of June 30, 2011 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	\$ 212,882,654	—	—	—	—	—	—	212,882,654
Certificates of deposit	56,280,134	—	—	—	—	—	—	56,280,134
U.S. agencies	<u>10,969,901</u>	<u>10,969,901</u>	—	—	—	—	—	—
Subtotal city	<u>280,132,689</u>	<u>10,969,901</u>	—	—	—	—	—	<u>269,162,788</u>
System (as of December 31, 2010):								
Cash collateral pool	107,721,744	—	—	—	—	—	—	107,721,744
U.S. agencies	2,412,731	2,412,731	—	—	—	—	—	—
Domestic corporate	62,909,050	6,700,033	4,216,535	12,779,313	8,700,409	12,116,887	17,492,058	903,815
Asset-backed:								
CMOs	2,774,521	2,060,363	714,158	—	—	—	—	—
Other	5,900,108	2,646,720	270,029	415,656	232,480	—	59,454	2,275,769
Pooled fixed-income investments	<u>83,785,605</u>	—	—	—	—	—	—	<u>83,785,605</u>
Subtotal system	<u>265,503,759</u>	<u>13,819,847</u>	<u>5,200,722</u>	<u>13,194,969</u>	<u>8,932,889</u>	<u>12,116,887</u>	<u>17,551,512</u>	<u>194,686,933</u>
OPEB Trust:								
Money market	1,544	—	—	—	—	—	—	1,544
Certificates of deposit	1,124,417	—	—	—	—	—	—	1,124,417
U.S. agencies	501,068	501,068	—	—	—	—	—	—
Corporate fixed income	<u>49,704</u>	—	—	49,704	—	—	—	—
Subtotal OPEB Trust	<u>1,676,733</u>	<u>501,068</u>	—	<u>49,704</u>	—	—	—	<u>1,125,961</u>
Total	<u>\$ 547,313,181</u>	<u>25,290,816</u>	<u>5,200,722</u>	<u>13,244,673</u>	<u>8,932,889</u>	<u>12,116,887</u>	<u>17,551,512</u>	<u>464,975,682</u>
Discretely presented component unit (CHA):								
Money market	\$ 82,086,883	Not rated						
MMDT	<u>215,090,255</u>	Not rated						
Total discretely presented component unit (CHA)	<u>\$ 297,177,138</u>							

In addition to the above schedule, the System had \$4,024,396 invested in U.S. government securities, which are not rated as they are explicitly guaranteed by the U.S. government.

(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, 2010.

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

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2011

(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, 2010, 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)	\$ 132,721,953
International fixed income pooled funds (various currencies)	<u>34,598,270</u>
	<u>\$ 167,320,223</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 ½” limits the amount of increase in the property tax levy in any fiscal year. Generally, Proposition 2 ½ limits the total levy to an amount not greater than 2 ½% of the total assessed value of all taxable property within the City. Secondly, the tax levy 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.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2011

(5) Capital Assets

Capital asset activity for the year ended June 30, 2011 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>169,567,443</u>	<u>80,926,183</u>	<u>(75,285,220)</u>	<u>175,208,406</u>
Total capital assets not being depreciated	<u>334,775,218</u>	<u>80,926,183</u>	<u>(75,285,220)</u>	<u>340,416,181</u>
Capital assets being depreciated:				
Buildings and improvements	332,993,070	72,534	—	333,065,604
Improvements – nonbuilding	52,626,333	43,922,585	—	96,548,918
Furniture and equipment	50,948,947	3,231,032	—	54,179,979
Infrastructure	<u>241,475,996</u>	<u>20,789,135</u>	<u>—</u>	<u>262,265,131</u>
Total capital assets being depreciated	<u>678,044,346</u>	<u>68,015,286</u>	<u>—</u>	<u>746,059,632</u>
Less accumulated depreciation for:				
Buildings and improvements	(97,954,489)	(9,861,134)	—	(107,815,623)
Improvements – nonbuilding	(16,905,869)	(3,120,483)	—	(20,026,352)
Furniture and equipment	(38,697,879)	(2,336,899)	—	(41,034,778)
Infrastructure	<u>(150,537,431)</u>	<u>(10,131,223)</u>	<u>—</u>	<u>(160,668,654)</u>
Total accumulated depreciation	<u>(304,095,668)</u>	<u>(25,449,739)</u>	<u>—</u>	<u>(329,545,407)</u>
Total capital assets being depreciated, net	<u>373,948,678</u>	<u>42,565,547</u>	<u>—</u>	<u>416,514,225</u>
Governmental activities capital assets, net	<u><u>\$ 708,723,896</u></u>	<u><u>123,491,730</u></u>	<u><u>(75,285,220)</u></u>	<u><u>756,930,406</u></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	\$ 709,925
Public safety	3,027,875
Community maintenance and development	14,948,207
Human resource development	1,883,940
Education	4,879,792
	<u>25,449,739</u>
Total depreciation expense – governmental activities	\$ <u>25,449,739</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	8,570,936	1,309,015	(2,289,425)	7,590,526
	<u>47,835,261</u>	<u>1,309,015</u>	<u>(2,289,425)</u>	<u>46,854,851</u>
Total capital assets not being depreciated	47,835,261	1,309,015	(2,289,425)	46,854,851
Capital assets being depreciated:				
Buildings and improvements	80,593,321	524,317	—	81,117,638
Furniture and equipment	1,633,393	261,777	—	1,895,170
Infrastructure	34,896,842	1,683,874	—	36,580,716
	<u>117,123,556</u>	<u>2,469,968</u>	<u>—</u>	<u>119,593,524</u>
Total capital assets being depreciated	117,123,556	2,469,968	—	119,593,524
Less accumulated depreciation for:				
Buildings and improvements	(17,961,663)	(2,040,521)	—	(20,002,184)
Furniture and equipment	(1,248,899)	(106,309)	—	(1,355,208)
Infrastructure	(12,941,593)	(733,339)	—	(13,674,932)
	<u>(32,152,155)</u>	<u>(2,880,169)</u>	<u>—</u>	<u>(35,032,324)</u>
Total accumulated depreciation	(32,152,155)	(2,880,169)	—	(35,032,324)
Total capital assets being depreciated, net	84,971,401	(410,201)	—	84,561,200
Business-type activity capital assets, net	\$ <u>132,806,662</u>	<u>898,814</u>	<u>(2,289,425)</u>	<u>131,416,051</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2011

(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	\$ 3,969,474	—	—	—	3,969,474	—
Motor vehicle taxes	3,180,783	—	—	—	3,180,783	—
Other taxes	3,395,944	—	—	—	3,395,944	—
Intergovernmental	—	9,128,528	—	1,737,287	10,865,815	—
Other	10,625,601	—	7,635,242	709,498	18,970,341	4,698,475
Gross receivables	21,171,802	9,128,528	7,635,242	2,446,785	40,382,357	4,698,475
Less allowance for uncollectibles	3,383,626	4,161,480	3,382,000	—	10,927,106	46,985
Net total receivables	\$ 17,788,176	4,967,048	4,253,242	2,446,785	29,455,251	4,651,490

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

Individual fund receivable and payable balances at June 30, 2011, 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	834,969	—
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	—	834,969
Balance at June 30, 2011	\$ 867,692	867,692

Receivable and payable balances between the primary government and CHA at June 30, 2011 are as follows:

Discrete component unit balances	Receivable	Payable
Primary government:		
General	\$ 10,495,000	—
Discretely presented component unit:		
CHA	—	10,495,000
Balance at June 30, 2011	\$ 10,495,000	10,495,000

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, 2011, the amount outstanding on hospital related debt is \$10,495,000.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2011

(8) Long-Term Obligations

Following is a summary of the governmental activities long-term obligations of the City as of June 30, 2011:

	<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, 2031	12/1/00 to 2/15/11	2.0% – 5.0%	\$ 205,325,776	28,020,000	16,292,598	217,053,178	17,542,598
Urban redevelopment, serial maturities through February 15, 2021	12/1/00 to 2/15/11	2.0% – 5.0%	19,375,500	3,200,000	4,775,000	17,800,500	4,450,000
Schools, serial maturities through February 1, 2018	12/1/00 to 2/1/08	3.0% – 5.0%	4,307,336	—	1,002,167	3,305,169	472,167
Sewer, serial maturities through February 15, 2021	11/1/00 to 2/15/11	2.0% – 5.0%	49,289,500	15,000,000	12,273,330	52,016,170	10,416,856
Hospital, serial maturities through February 1, 2018	3/15/07	4.0%	11,995,000	—	1,500,000	10,495,000	1,500,000
Sub-total general obligation bonds			<u>290,293,112</u>	<u>46,220,000</u>	<u>35,843,095</u>	<u>300,670,017</u>	<u>34,381,621</u>
Notes payable:							
Section 108 HUD notes payable, serial maturities through August 1, 2014	9/14/06	5.07%	290,000	—	25,000	265,000	30,000
Note payable serial maturities through July 1, 2021	4/20/00 to 6/30/01	2.00	6,000,000	—	213,272	5,786,728	521,106
Sub-total notes payable			<u>6,290,000</u>	<u>—</u>	<u>238,272</u>	<u>6,051,728</u>	<u>551,106</u>
Total governmental obligation bonds and notes payable			<u>\$ 296,583,112</u>	<u>46,220,000</u>	<u>36,081,367</u>	<u>306,721,745</u>	<u>34,932,727</u>
Add (deduct):							
Unamortized bond premium						4,082,819	
Deferred loss on refunding						(149,851)	
Current portion of long-term debt						<u>(34,932,727)</u>	
						<u>\$ 275,721,986</u>	
Other long-term obligations:							
Judgments and claims			\$ 19,017,000	46,079,984	40,490,984	24,606,000	14,335,000
Compensated absences			17,604,000	17,963,100	17,507,100	18,060,000	6,770,000
Landfill postclosure care costs			275,000	—	25,000	250,000	25,000
Other postemployment benefits			62,340,427	46,624,000	22,255,165	86,709,262	—
Pollution remediation			731,052	1,803,787	1,198,063	1,336,776	175,654
Total other governmental long-term obligations			<u>\$ 99,967,479</u>	<u>112,470,871</u>	<u>81,476,312</u>	<u>130,962,038</u>	<u>21,305,654</u>

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Following is a summary of the business-type activity long-term obligations of the City as of June 30, 2011:

	<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	11/1/00 to 3/15/07	2.5% – 5.63%	\$ 26,853,332	—	4,958,332	21,895,000	3,535,000
Total business-type bonds payable			<u>\$ 26,853,332</u>	<u>—</u>	<u>4,958,332</u>	21,895,000	<u>3,535,000</u>
Add (deduct):							
Unamortized bond premium						946,664	
Deferred loss on refunding						(588,624)	
Current portion of long-term debt						<u>(3,535,000)</u>	
						\$ <u>18,718,040</u>	
Other long-term obligations:							
Judgments and claims			\$ 1,312,000	1,706,016	2,131,016	887,000	204,000
Compensated absences			<u>562,000</u>	<u>414,400</u>	<u>480,400</u>	<u>496,000</u>	<u>190,000</u>
Total other long-term obligations			<u>\$ 1,874,000</u>	<u>2,120,416</u>	<u>2,611,416</u>	<u>1,383,000</u>	<u>394,000</u>

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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, 2011, are as follows:

	Principal		Interest		Total	
	G/O bonds	Notes	G/O bonds	Notes	G/O bonds	Notes
Year ending June 30:						
2012	\$ 34,381,621	551,106	10,585,822	123,900	44,967,443	675,006
2013	31,823,404	592,320	9,501,168	111,317	41,324,572	703,637
2014	28,622,774	608,671	8,458,023	98,329	37,080,797	707,000
2015	26,277,218	755,250	7,509,851	82,557	33,787,069	837,807
2016	22,680,000	597,062	6,641,996	65,434	29,321,996	662,496
2017 – 2021	83,360,000	2,910,574	23,232,238	144,272	106,592,238	3,054,846
2022 – 2026	52,555,000	36,744	10,535,731	61	63,090,731	36,805
2027 – 2031	20,970,000	—	1,938,490	—	22,908,490	—
	<u>\$ 300,670,017</u>	<u>6,051,727</u>	<u>78,403,319</u>	<u>625,870</u>	<u>379,073,336</u>	<u>6,677,597</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, 2011, the principal amount outstanding is \$5,786,728.

Principal retirement of governmental funds has been reflected in the basic financial statements as debt service expenditures of \$34.8 million and education expenditures of \$1 million totaling \$35.8 million of principal costs.

In February 2011, the City issued \$46,220,000 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 2031.

The City enters into loan agreements with the Massachusetts Water Pollution Abatement Trust (MWPAT) to 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 \$1,472,500 in subsidies during 2011 and expects to receive subsidies totaling approximately \$328,400 through 2015. Loan payments commenced on February 1, 2005 and end on August 1, 2014, with interest rates ranging from 4.0% to 5.0%.

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.

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As of June 30, 2011, the City may issue approximately \$1.0 billion additional general obligation debt under the normal debt limit. The City has approximately \$27.9 million of debt exempt from the debt limit.

The annual debt service requirements of the City's water enterprise fund as of June 30, 2011 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2012	\$ 3,535,000	994,976	4,529,976
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 – 2020	<u>7,720,000</u>	<u>625,004</u>	<u>8,345,004</u>
	\$ <u>21,895,000</u>	<u>4,189,583</u>	<u>26,084,583</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 annual scheduled debt service requirements as of June 30, 2011 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2012	\$ 533,333	319,905	853,238
2013	533,333	289,558	822,891
2014	533,333	259,211	792,544
2015	533,333	228,864	762,197
2016	2,666,667	689,122	3,355,789
2017 – 2022	<u>1,066,668</u>	<u>63,222</u>	<u>1,129,890</u>
	\$ <u>5,866,667</u>	<u>1,849,882</u>	<u>7,716,549</u>

(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

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2011

(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.

(c) Membership

Membership in the System consisted of the following at January 1, 2010, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	1,809
Terminated plan members entitled to, but not receiving benefits	1,001
Terminated plan members with a vested right to a deferred or immediate benefit	173
Active plan members	<u>3,614</u>
Total membership	<u><u>6,597</u></u>
Total number of participating employers	4

CITY OF CAMBRIDGE, MASSACHUSETTS

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(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, 2011, 2010, and 2009 were \$22,096,592, \$21,565,919, and \$20,876,886, respectively, and \$5,017,900, \$4,871,695, and \$4,792,800 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, 2010 are as follows:

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity savings fund	\$ 212,738,880	Active members' contribution balance
Annuity reserve fund	54,594,850	Retired members' contribution account
Military service credit fund	5,882	Members' contribution account while on military leave
Pension reserve fund	502,102,661	Amounts appropriated to fund future retirement benefits
Pension fund	<u>5,320,102</u>	Remaining net assets
	<u>\$ 774,762,375</u>	

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

(f) Securities Lending

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

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

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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, 2010. 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, 2010, 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, 2010 were \$212,599.

At December 31, 2010, the fair value of securities loaned by the System amounted to \$104,586,136 against which was held collateral of \$107,721,744.

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.

(i) *Funded Status and Funding Progress*

The funded status of the System as of January 1, 2010, the most recent actuarial valuation, is as follows:

Actuarially accrued liability (AAL)	\$ 949,907,739
Actuarial value of plan assets	<u>796,015,770</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 153,891,969</u>
Funded ratio (actuarial value of plan assets/AAL)	83.8%
Covered payroll (active plan members)	\$ 232,842,117
UAAL as a percentage of covered payroll	66.1%

In the January 1, 2010 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions included an 8.25% investment rate of return, projected salary increases of 5.0%, and cost of living adjustments of 3% of first \$12,000 of retirement income. The

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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 19 years from July 1, 2010 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 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

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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, 2011, 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:

Annual Required Contribution (ARC)	\$ 46,346,000
Interest on net OPEB obligation	2,805,000
Adjustment to ARC	<u>(2,527,000)</u>
Annual OPEB cost	46,624,000
Contributions made	<u>(22,255,165)</u>
Change in net OPEB obligation	24,368,835
Net OPEB obligation – beginning of year	<u>62,340,427</u>
Net OPEB obligation – end of year	<u><u>\$ 86,709,262</u></u>

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

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of OPEB cost contributed</u>	<u>Net OPEB obligation</u>
2011	\$ 46,624,000	47.73%	\$ 86,709,262
2010	44,892,610	53.20	62,340,427
2009	39,526,820	46.95	41,332,364
2008	37,485,904	45.68	20,363,504

(c) Funded Status and Funding Progress

The funded status of the plan, based on an actuarial valuation as of July 1, 2010 that also included a projection of the plan's funded status as of June 30, 2011 was as follows:

Actuarially accrued liability (AAL)	\$ 588,268,000
Actuarial value of plan assets	<u>2,099,000</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 586,169,000</u></u>
Funded ratio (actuarial value of plan assets/AAL)	0.4%
Covered payroll (active plan members)	\$ 162,472,878
UAAL as a percentage of covered payroll	360.8%

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

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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 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, 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

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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.

(11) Transfers

Transfers and their purposes during the year ended June 30, 2011 were as follows:

	<u>Governmental funds</u>				<u>Enterprise fund water</u>
	<u>General</u>	<u>Capital</u>	<u>Affordable Housing Trust fund</u>	<u>Other</u>	
Capital – to fund capital expenditures	\$ (4,195,000)	4,195,000	—	—	—
Parking – reimbursement of administrative costs and other eligible City expenditures	18,244,945	800,000	—	(19,044,945)	—
Other Grants – License Commission matching grant	(30,000)	—	—	30,000	—
Cemetery – reimbursement of operational costs to fund renovations of administration, buildings and grounds	40,000	—	—	(40,000)	—
CDBG – reimbursement of eligible capital costs	—	56,104	—	(56,104)	—
Water – reimbursement of administrative costs	687,510	—	—	—	(687,510)
Affordable housing fund – from CPA Fund	—	—	—	(7,640,000)	—
CPA Fund – to affordable housing fund	—	—	7,640,000	—	—
Total	<u>\$ 14,747,455</u>	<u>5,051,104</u>	<u>7,640,000</u>	<u>(26,751,049)</u>	<u>(687,510)</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

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(12) Fund Balance Classification Details

The components of fund balance for the City's governmental funds as of June 30, 2011 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	\$ 1,668,986	—	—	—
Nonexpendable permanent funds	—	—	—	2,075,173
Restricted:				
Property and Development	—	9,824,867	—	—
Streets and Sidewalks	—	4,761,995	—	—
Parks and Recreation	—	682,719	—	—
Sewer Projects	—	16,015,105	—	—
Library	—	170,578	—	—
Schools	—	13,775,628	—	—
General Government	—	6,845,692	—	—
Affordable Housing	—	—	600,000	—
Community Preservation	—	—	—	9,531,641
CDBG Funds	—	—	—	—
Other City Grants Fund:				
Parks and Recreation	—	—	—	363,369
General Government	—	—	—	433,774
Human Services	—	—	—	909,525
School Grants Fund Federal/State	—	—	—	5,236,675
Expendable permanent funds	—	—	—	1,371,803
Committed:				
Parking Fund	—	—	—	14,502,565
Health Claims	17,418,825	—	—	—
Budget Stabilization	11,343,130	—	—	—
Affordable Housing	—	—	41,800,242	—
Subsequent year's expenditures	13,300,000	—	—	—
Unassigned	99,698,895	—	—	—
Total fund balances	\$ <u>143,429,836</u>	<u>52,076,584</u>	<u>42,400,242</u>	<u>34,424,525</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, 2011

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 \$2.7 million, \$1.7 million, and \$0 for fiscal years ended June 30, 2011, 2010, and 2009, 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, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Judgments and accrued claims, beginning of year	\$ 20,329,000	18,098,000
Incurred claims	47,786,000	43,093,790
Less payments of claims attributable to events of both current and prior fiscal years	<u>(42,622,000)</u>	<u>(40,862,790)</u>
Judgments and accrued claims, end of year	<u>\$ 25,493,000</u>	<u>20,329,000</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information

June 30, 2011

(Unaudited)

Schedules of Funding Progress

(Dollars in thousands)

Pension

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/c)</u>
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

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/c)</u>
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 increases assumed by the City.

Schedule of Employers' Contributions – Pension

(Dollars in thousands)

<u>Year ended December 31:</u>	<u>Annual required contribution</u>	<u>Percentage contributed</u>
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, 2011
Unaudited
(with comparative actual amounts for 2010)

	2011 Original budget	2011 Final budget	2011 Actual	Variance favorable (unfavorable)	2010 Actual
Revenues:					
Property taxes	\$ 283,961,699	283,961,699	283,961,699	—	268,662,984
Provisions for tax abatements and adj.	(4,295,422)	(4,295,422)	(4,295,422)	—	(4,362,984)
Payments in lieu of tax receipts	6,720,000	6,720,000	7,344,911	624,911	7,105,643
Hotel/motel/meals excise tax	11,665,000	11,665,000	13,573,132	1,908,132	9,361,688
Intergovernmental	32,695,949	32,695,949	31,795,812	(900,137)	32,138,738
Sewer use	38,369,720	38,375,235	40,346,895	1,971,660	36,825,469
Motor vehicle excise	6,181,635	6,181,635	6,452,602	270,967	6,182,561
Investment income	870,000	870,000	536,337	(333,663)	872,705
Other	18,404,985	18,570,142	28,431,356	9,861,214	24,943,680
Total revenues	<u>394,573,566</u>	<u>394,744,238</u>	<u>408,147,322</u>	<u>13,403,084</u>	<u>381,730,484</u>
Expenditures:					
Current:					
General government	42,804,500	40,534,424	37,601,872	2,932,552	36,361,395
Public safety	100,879,625	101,840,990	101,117,208	723,782	96,466,498
Community maintenance and development	37,169,385	38,871,986	38,478,329	393,657	34,907,542
Human resource development	30,102,300	30,504,110	30,152,199	351,911	28,683,418
Education	137,492,275	136,567,275	135,368,303	1,198,972	133,250,468
Judgments and claims	200,000	929,155	929,151	4	924,862
State and district assessments	47,120,828	47,135,645	44,892,107	2,243,538	42,447,468
Debt service:					
Principal	34,865,930	34,865,930	34,865,929	1	32,775,576
Interest	10,439,725	10,439,725	10,381,632	58,093	10,450,318
Total expenditures	<u>441,074,568</u>	<u>441,689,240</u>	<u>433,786,730</u>	<u>7,902,510</u>	<u>416,267,545</u>
Excess (deficiency) of revenues over expenditures	<u>(46,501,002)</u>	<u>(46,945,002)</u>	<u>(25,639,408)</u>	<u>21,305,594</u>	<u>(34,537,061)</u>
Other financing sources (uses):					
Operating transfers in (out):					
Special revenue funds	20,080,190	20,080,190	18,214,945	(1,865,245)	17,930,169
Capital projects funds	(2,670,000)	(3,670,000)	(4,195,000)	(525,000)	(2,270,000)
Trust funds	16,538,615	16,538,615	16,538,615	—	17,585,770
Enterprise fund	687,510	687,510	687,510	—	684,930
Total other financing sources (uses)	<u>34,636,315</u>	<u>33,636,315</u>	<u>31,246,070</u>	<u>(2,390,245)</u>	<u>33,930,869</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(11,864,687)</u>	<u>(13,308,687)</u>	<u>5,606,662</u>	<u>18,915,349</u>	<u>(606,192)</u>
Other budget items:					
Free cash appropriations	11,400,000	12,844,000			
Prior year deficits raised	(1,535,313)	(1,535,313)			
Overlay Surplus	2,000,000	2,000,000			
Total other budget items	<u>11,864,687</u>	<u>13,308,687</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, 2011

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, 2011:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other financing sources (uses), net</u>
As reported on a budgetary basis:	\$ 408,147,322	433,786,730	31,246,070
Adjustments:			
Revenues to modified accrual basis	8,803,978	—	—
Expenditures, encumbrances and accruals, net	—	1,810,942	—
Reclassification:			
Premium on debt issuance	—	—	1,030,857
Transfers not reported on a Budgetary/GAAP basis	—	—	(16,498,615)
As reported on a GAAP basis	<u>\$ 416,951,300</u>	<u>435,597,672</u>	<u>15,778,312</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Supplemental Statements and Schedules

June 30, 2011

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, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
General government:			
Mayor:			
Salaries and wages	\$ 411,165	411,164	1
Other ordinary maintenance	111,130	111,045	85
Travel and training	29,500	18,799	10,701
Total Mayor	<u>551,795</u>	<u>541,008</u>	<u>10,787</u>
City Manager:			
Salaries and wages	1,463,545	1,463,509	36
Other ordinary maintenance	506,150	490,870	15,280
Travel and training	38,700	27,277	11,423
Total City Manager	<u>2,008,395</u>	<u>1,981,656</u>	<u>26,739</u>
City Council:			
Salaries and wages	1,429,470	1,429,421	49
Other ordinary maintenance	41,900	37,669	4,231
Travel and training	59,855	34,331	25,524
Total City Council	<u>1,531,225</u>	<u>1,501,421</u>	<u>29,804</u>
City Clerk:			
Salaries and wages	882,130	879,831	2,299
Other ordinary maintenance	56,110	42,031	14,079
Travel and training	4,420	857	3,563
Total City Clerk	<u>942,660</u>	<u>922,719</u>	<u>19,941</u>
Law:			
Salaries and wages	1,326,715	1,300,082	26,633
Other ordinary maintenance	508,655	495,522	13,133
Travel and training	10,245	6,476	3,769
Total law	<u>1,845,615</u>	<u>1,802,080</u>	<u>43,535</u>
Finance:			
Salaries and wages	8,584,555	8,567,531	17,024
Other ordinary maintenance	2,834,625	2,522,261	312,364
Travel and training	213,870	192,670	21,200
Extraordinary expenditures	62,800	55,435	7,365
Total finance	<u>11,695,850</u>	<u>11,337,897</u>	<u>357,953</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	Variance positive (negative)
Employment benefits:			
Salaries and wages	\$ 18,284,084	16,263,575	2,020,509
Other ordinary maintenance	831,075	608,072	223,003
Travel and training	15,000	5,223	9,777
Total employment benefits	<u>19,130,159</u>	<u>16,876,870</u>	<u>2,253,289</u>
General services:			
Salaries and wages	313,915	313,267	648
Other ordinary maintenance	521,270	410,537	110,733
Total general services	<u>835,185</u>	<u>723,804</u>	<u>111,381</u>
Election commission:			
Salaries and wages	637,695	637,660	35
Other ordinary maintenance	273,635	241,636	31,999
Travel and training	2,270	—	2,270
Total election commission	<u>913,600</u>	<u>879,296</u>	<u>34,304</u>
Public celebrations:			
Salaries and wages	391,645	391,618	27
Other ordinary maintenance	370,900	359,857	11,043
Travel and training	1,125	629	496
Total public celebrations	<u>763,670</u>	<u>752,104</u>	<u>11,566</u>
Reserve:			
Other ordinary maintenance	32,500	—	32,500
Total reserve	<u>32,500</u>	<u>—</u>	<u>32,500</u>
Animal commission:			
Salaries and wages	270,315	270,289	26
Other ordinary maintenance	13,305	12,728	577
Travel and training	150	—	150
Total animal commission	<u>283,770</u>	<u>283,017</u>	<u>753</u>
Total general government	<u>40,534,424</u>	<u>37,601,872</u>	<u>2,932,552</u>
Public safety:			
Fire:			
Salaries and wages	36,303,025	36,302,954	71
Other ordinary maintenance	1,221,905	1,204,636	17,269
Travel and training	608,500	607,929	571
Extraordinary expenditures	84,000	83,640	360
Total fire	<u>38,217,430</u>	<u>38,199,159</u>	<u>18,271</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Police:			
Salaries and wages	\$ 40,019,060	40,019,036	24
Other ordinary maintenance	1,866,500	1,807,756	58,744
Travel and training	441,500	374,269	67,231
Extraordinary expenditures	435,550	434,706	844
Total police	<u>42,762,610</u>	<u>42,635,767</u>	<u>126,843</u>
Traffic and parking:			
Salaries and wages	6,646,150	6,450,997	195,153
Other ordinary maintenance	3,281,040	3,197,375	83,665
Travel and training	53,400	33,943	19,457
Extraordinary expenditures	54,000	51,451	2,549
Total traffic and parking	<u>10,034,590</u>	<u>9,733,766</u>	<u>300,824</u>
Police review and advisory board:			
Salaries and wages	86,485	81,831	4,654
Other ordinary maintenance	700	—	700
Travel and training	3,000	2,979	21
Total police review and advisory board	<u>90,185</u>	<u>84,810</u>	<u>5,375</u>
Inspectional services:			
Salaries and wages	2,692,210	2,692,158	52
Other ordinary maintenance	123,400	97,788	25,612
Travel and training	46,425	44,221	2,204
Extraordinary expenditures	23,915	23,840	75
Total inspectional services	<u>2,885,950</u>	<u>2,858,007</u>	<u>27,943</u>
License:			
Salaries and wages	839,095	805,569	33,526
Other ordinary maintenance	57,435	40,643	16,792
Travel and training	6,200	3,487	2,713
Total license	<u>902,730</u>	<u>849,699</u>	<u>53,031</u>
Weights and measures:			
Salaries and wages	120,865	120,863	2
Other ordinary maintenance	7,280	7,057	223
Travel and training	2,745	2,744	1
Total weights and measures	<u>130,890</u>	<u>130,664</u>	<u>226</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	Variance positive (negative)
Electrical:			
Salaries and wages	\$ 1,484,610	1,480,814	3,796
Other ordinary maintenance	1,286,460	1,195,999	90,461
Travel and training	1,670	1,653	17
Extraordinary expenditures	25,000	22,354	2,646
Total electrical	<u>2,797,740</u>	<u>2,700,820</u>	<u>96,920</u>
Emergency communications:			
Salaries and wages	3,850,805	3,797,616	53,189
Other ordinary maintenance	148,210	113,604	34,606
Travel and training	15,850	11,431	4,419
Extraordinary expenditures	4,000	1,865	2,135
Total emergency communications	<u>4,018,865</u>	<u>3,924,516</u>	<u>94,349</u>
Total public safety	<u>101,840,990</u>	<u>101,117,208</u>	<u>723,782</u>
Community maintenance and development:			
Public works:			
Salaries and wages	19,053,897	19,052,980	917
Other ordinary maintenance	11,565,524	11,310,278	255,246
Travel and training	188,180	147,388	40,792
Extraordinary expenditures	520,000	514,117	5,883
Total public works	<u>31,327,601</u>	<u>31,024,763</u>	<u>302,838</u>
Community development:			
Salaries and wages	4,942,788	4,942,744	44
Other ordinary maintenance	431,189	368,856	62,333
Travel and training	15,798	15,683	115
Extraordinary expenditures	43,245	43,245	—
Total community development	<u>5,433,020</u>	<u>5,370,528</u>	<u>62,492</u>
Historical commission:			
Salaries and wages	538,120	538,107	13
Other ordinary maintenance	37,380	29,610	7,770
Travel and training	800	536	264
Total historical commission	<u>576,300</u>	<u>568,253</u>	<u>8,047</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Conservation commission:			
Salaries and wages	\$ 96,410	96,395	15
Other ordinary maintenance	2,200	644	1,556
Travel and training	<u>1,400</u>	<u>568</u>	<u>832</u>
Total conservation commission	<u>100,010</u>	<u>97,607</u>	<u>2,403</u>
Peace commission:			
Salaries and wages	113,305	113,274	31
Other ordinary maintenance	10,325	7,642	2,683
Travel and training	<u>1,850</u>	<u>1,298</u>	<u>552</u>
Total peace commission	<u>125,480</u>	<u>122,214</u>	<u>3,266</u>
Cable television:			
Salaries and wages	460,300	460,266	34
Other ordinary maintenance	845,825	832,448	13,377
Travel and training	<u>3,450</u>	<u>2,250</u>	<u>1,200</u>
Total cable television	<u>1,309,575</u>	<u>1,294,964</u>	<u>14,611</u>
Total community maintenance and development	<u>38,871,986</u>	<u>38,478,329</u>	<u>393,657</u>
Human resource development:			
Library:			
Salaries and wages	6,201,895	6,120,089	81,806
Other ordinary maintenance	1,952,035	1,932,338	19,697
Travel and training	<u>56,650</u>	<u>43,260</u>	<u>13,390</u>
Total library	<u>8,210,580</u>	<u>8,095,687</u>	<u>114,893</u>
Human services:			
Salaries and wages	17,681,425	17,658,364	23,061
Other ordinary maintenance	2,973,323	2,803,384	169,939
Travel and training	180,442	155,265	25,177
Extraordinary expenditures	<u>25,000</u>	<u>25,000</u>	<u>—</u>
Total human services	<u>20,860,190</u>	<u>20,642,013</u>	<u>218,177</u>
Women’s commission:			
Salaries and wages	201,140	198,642	2,498
Other ordinary maintenance	9,535	9,529	6
Travel and training	<u>1,025</u>	<u>189</u>	<u>836</u>
Total women’s commission	<u>211,700</u>	<u>208,360</u>	<u>3,340</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	Variance positive (negative)
Human rights commission:			
Salaries and wages	\$ 185,250	184,131	1,119
Other ordinary maintenance	4,055	3,433	622
Travel and training	<u>700</u>	<u>678</u>	<u>22</u>
Total human rights commission	<u>190,005</u>	<u>188,242</u>	<u>1,763</u>
Veterans benefits:			
Salaries and wages	298,235	298,203	32
Other ordinary maintenance	54,900	52,627	2,273
Travel and training	<u>678,500</u>	<u>667,067</u>	<u>11,433</u>
Total veterans benefits	<u>1,031,635</u>	<u>1,017,897</u>	<u>13,738</u>
Total human resource development	<u>30,504,110</u>	<u>30,152,199</u>	<u>351,911</u>
Education:			
Salaries and wages	106,122,238	105,078,128	1,044,110
Other ordinary maintenance	26,640,392	26,633,653	6,739
Travel and training	1,373,358	1,234,481	138,877
Extraordinary expenditures	1,224,920	1,223,423	1,497
Debt:			
Principal payments	1,009,916	1,002,167	7,749
Interest payments	<u>196,451</u>	<u>196,451</u>	<u>—</u>
Total education	<u>136,567,275</u>	<u>135,368,303</u>	<u>1,198,972</u>
Judgments and claims	929,155	929,151	4
Debt retirement:			
Principal payments	34,865,930	34,865,929	1
Interest payments	<u>10,439,725</u>	<u>10,381,632</u>	<u>58,093</u>
Total debt retirement	<u>45,305,655</u>	<u>45,247,561</u>	<u>58,094</u>
State and district assessments:			
MBTA assessment	8,618,085	8,618,077	8
MWRA assessment	21,622,820	21,622,817	3
Other State assessments	10,894,740	8,651,213	2,243,527
Cambridge Health Alliance	<u>6,000,000</u>	<u>6,000,000</u>	<u>—</u>
Total state and district assessments	<u>47,135,645</u>	<u>44,892,107</u>	<u>2,243,538</u>
Total general fund expenditures	\$ <u><u>441,689,240</u></u>	\$ <u><u>433,786,730</u></u>	\$ <u><u>7,902,510</u></u>

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Supplemental Statements and Schedules

June 30, 2011

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, 2011

Assets	Special revenue					Permanent funds	Total
	Community development block grant	School grants	Parking fund	Community preservation act	Other grants		
Cash and short-term investments	\$ 266,372	5,296,899	14,111,398	9,822,098	1,908,490	3,446,976	34,852,233
Accounts receivable	265,000	—	391,167	53,328	3	—	709,498
Due from other governments	375,638	552,604	—	—	809,045	—	1,737,287
Total assets	\$ 907,010	5,849,503	14,502,565	9,875,426	2,717,538	3,446,976	37,299,018
Liabilities and Fund Balances							
Warrants payable	\$ 48,518	589,998	—	250,539	925,149	—	1,814,204
Accrued liabilities	23,523	22,830	—	39,918	85,721	—	171,992
Deferred revenue	—	—	—	53,328	—	—	53,328
Due to other funds	834,969	—	—	—	—	—	834,969
Total liabilities	907,010	612,828	—	343,785	1,010,870	—	2,874,493
Fund balances:							
Nonspendable	—	—	—	—	—	2,075,173	2,075,173
Restricted	—	5,236,675	—	9,531,641	1,706,668	1,371,803	17,846,787
Committed	—	—	14,502,565	—	—	—	14,502,565
Total fund balances	—	5,236,675	14,502,565	9,531,641	1,706,668	3,446,976	34,424,525
Total liabilities and fund balances	\$ 907,010	5,849,503	14,502,565	9,875,426	2,717,538	3,446,976	37,299,018

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, 2011

	Special revenue						
	Community development block grant	School grants	Parking fund	Community preservation act	Other grants	Permanent funds	Total
Revenues:							
Intergovernmental	\$ 1,810,466	13,038,648	—	1,931,206	8,782,446	—	25,562,766
Investment income	—	—	64,020	18,287	(5,320)	12,388	89,375
Other:							
Permits	—	—	460,096	—	—	—	460,096
Fines	—	—	10,758,463	—	—	—	10,758,463
Charges for services	—	—	9,211,286	—	—	—	9,211,286
Miscellaneous	—	1,324,233	68,187	7,334,122	449,126	164,219	9,339,887
Total revenues	<u>1,810,466</u>	<u>14,362,881</u>	<u>20,562,052</u>	<u>9,283,615</u>	<u>9,226,252</u>	<u>176,607</u>	<u>55,421,873</u>
Expenditures:							
General government	—	—	—	200,631	49,240	109,098	358,969
Public safety	—	—	—	—	1,439,350	—	1,439,350
Community maintenance and development	1,192,446	—	—	2,163,878	301,254	—	3,657,578
Human services	561,916	—	—	—	8,220,172	—	8,782,088
Education	—	13,341,394	—	—	—	—	13,341,394
Total expenditures	<u>1,754,362</u>	<u>13,341,394</u>	<u>—</u>	<u>2,364,509</u>	<u>10,010,016</u>	<u>109,098</u>	<u>27,579,379</u>
Excess (deficiency) of revenues over expenditures	56,104	1,021,487	20,562,052	6,919,106	(783,764)	67,509	27,842,494
Other financing sources (uses):							
Transfers from other funds	—	—	—	—	30,000	—	30,000
Transfers to other funds	(56,104)	—	(19,044,945)	(7,640,000)	—	(40,000)	(26,781,049)
Excess of revenues over expenditures and transfers	—	1,021,487	1,517,107	(720,894)	(753,764)	27,509	1,091,445
Fund balances at beginning of year	—	4,215,188	12,985,458	10,252,535	2,460,432	3,419,467	33,333,080
Fund balances at end of year	\$ <u>—</u>	<u>5,236,675</u>	<u>14,502,565</u>	<u>9,531,641</u>	<u>1,706,668</u>	<u>3,446,976</u>	<u>34,424,525</u>

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Supplemental Statements and Schedules

June 30, 2011

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, 2011

Assets	Balance at June 30, 2010	Additions	Deductions	Balance at June 30, 2011
Contract Bids	\$ 113,214	—	—	113,214
Plans	2,065	—	—	2,065
Tree Removals	485	—	—	485
Driveways	266,560	199,387	260,871	205,076
Sidewalk Openings	150	—	—	150
In Lieu of Bond	70,945	—	—	70,945
License Commission	10,149	—	—	10,149
Cambridge Police Detail	180,018	4,624,162	4,718,767	85,413
Cambridge Fire Detail	96,701	921,466	935,358	82,809
Dog Licenses	14,212	—	—	14,212
Sporting Licenses	2,703	2,687	2,528	2,862
Dog Officer	(3,555)	—	—	(3,555)
Constable Fees	203,055	139,529	122,604	219,980
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	102,650	2,540	104,269	921
Accident and life Insurance	673,984	157,812	142,588	689,208
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	700,441	419,792	438,508	681,725
Continental Casualty	12,407	—	—	12,407
Teacher Insurance Reimbursement	4,940	—	—	4,940
Teachers Retirement	1,207,254	667,144	300,000	1,574,398
Excise Registry Fees	13,857	—	—	13,857
3 Bigelow Contingency Fund	67,653	9,858	3,725	73,786
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	192,615	130,720	27,450	295,885
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	(91)	447	264	92
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	3,482	—	384	3,098
Firearms Recordkeeping Fund	18,786	11,938	22,388	8,336
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	(154,919)	2,653	—	(152,266)
Robert Chambers Settlement	7,799	—	—	7,799
Total	\$ <u>4,593,792</u>	<u>7,290,135</u>	<u>7,079,704</u>	<u>4,804,223</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Statement of Changes in Assets and Liabilities – Agency Funds

Year ended June 30, 2011

Liabilities	Balance at June 30, 2010	Additions	Deductions	Balance at June 30, 2011
Guarantee deposits and amounts due other:				
Contract Bids	\$ 113,214	—	—	113,214
Plans	2,065	—	—	2,065
Tree Removals	485	—	—	485
Driveways	266,560	199,387	260,871	205,076
Sidewalk Openings	150	—	—	150
In Lieu of Bond	70,945	—	—	70,945
License Commission	10,149	—	—	10,149
Cambridge Police Detail	180,018	4,624,162	4,718,767	85,413
Cambridge Fire Detail	96,701	921,466	935,358	82,809
Dog Licenses	14,212	—	—	14,212
Sporting Licenses	2,703	2,687	2,528	2,862
Dog Officer	(3,555)	—	—	(3,555)
Constable Fees	203,055	139,529	122,604	219,980
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	102,650	2,540	104,269	921
Accident and life Insurance	673,984	157,812	142,588	689,208
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	700,441	419,792	438,508	681,725
Continental Casualty	12,407	—	—	12,407
Teacher Insurance Reimbursement	4,940	—	—	4,940
Teachers Retirement	1,207,254	667,144	300,000	1,574,398
Excise Registry Fees	13,857	—	—	13,857
3 Bigelow Contingency Fund	67,653	9,858	3,725	73,786
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	192,615	130,720	27,450	295,885
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	(91)	447	264	92
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	3,482	—	384	3,098
Firearms Recordkeeping Cash	18,786	11,938	22,388	8,336
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	(154,919)	2,653	—	(152,266)
Robert Chambers Settlement	7,799	—	—	7,799
Total	\$ <u>4,593,792</u>	<u>7,290,135</u>	<u>7,079,704</u>	<u>4,804,223</u>

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Supplemental Statements and Schedules

June 30, 2011

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, 2011.

CITY OF CAMBRIDGE, MASSACHUSETTS
Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes
June 30, 2011

	<u>Uncollected June 30, 2010</u>	<u>Commitments</u>	<u>Abatements</u>	<u>Transfers to tax title</u>	<u>Refunds</u>	<u>Collections</u>	<u>Adjustments increase (decrease)</u>	<u>Uncollected June 30, 2011</u>
Real estate taxes:								
2001	\$ —	—	—	—	4,785	—	(4,785)	—
2002	—	—	—	—	73	—	(73)	—
2003	—	—	—	—	—	—	521	521
2004	100	—	—	—	125	(1,009)	1,432	648
2005	101	—	(287,064)	—	141,760	287,572	(141,645)	724
2006	—	—	(536,795)	—	4,207	536,905	(3,911)	406
2007	1,447	—	(738,640)	—	527	846,252	(108,988)	598
2008	53,425	—	(205,315)	(41,545)	12,775	207,141	(19,474)	7,007
2009	441,770	—	(236,068)	(390,210)	16,038	205,817	(20,731)	16,616
2010	3,682,565	—	(478,436)	(690,927)	3,474	(2,420,991)	(32,977)	62,708
2011	—	266,017,136	(1,293,144)	—	79,468	(262,310,044)	(9,245)	2,484,171
Total real estate	<u>4,179,408</u>	<u>266,017,136</u>	<u>(3,775,462)</u>	<u>(1,122,682)</u>	<u>263,232</u>	<u>(262,648,357)</u>	<u>(339,876)</u>	<u>2,573,399</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, 2011

	Uncollected June 30, 2010	Commitments	Abatements	Transfers to tax title	Refunds	Collections	Adjustments increase (decrease)	Uncollected June 30, 2011
Personal property taxes:								
1998	\$ 20	—	—	—	—	—	—	20
2002	33	—	—	—	—	—	—	33
2003	172,686	—	—	—	—	(133)	—	172,553
2004	99,782	—	(2,692)	—	2,692	(158)	(9)	99,615
2005	66,316	—	—	—	—	—	—	66,316
2006	122,744	—	—	—	—	(468)	1	122,277
2007	89,484	—	—	—	—	(1,499)	(58)	87,927
2008	103,306	—	(15,825)	—	15,825	(1,167)	(630)	101,509
2009	228,415	—	(3,221)	—	6,106	(16,409)	(2,964)	211,927
2010	388,290	—	(6,472)	—	2,702	(227,400)	(7,753)	149,367
2011	—	19,220,571	(178,498)	—	34,097	(18,783,156)	—	293,014
Total personal property	1,271,076	19,220,571	(206,708)	—	61,422	(19,030,390)	(11,413)	1,304,558
Other	78,016	—	—	—	—	—	13,501	91,517
Property taxes	\$ 5,528,500	285,237,707	(3,982,170)	(1,122,682)	324,654	(281,678,747)	(337,788)	3,969,474

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, 2011

	Uncollected June 30, 2010	Commitments	Abatements	Transfers to tax title	Refunds	Collections	Adjustments increase (decrease)	Uncollected June 30, 2011
Motor vehicle excise taxes:								
1986	\$ 2,655	—	—	—	—	(5)	—	2,650
1987	57,499	—	—	—	—	(13)	1	57,487
1988	71,855	—	—	—	—	(56)	—	71,799
1989	76,641	—	—	—	—	(16)	—	76,625
1990	68,534	—	—	—	—	(16)	—	68,518
1991	51,623	—	—	—	—	(20)	—	51,603
1992	51,831	—	—	—	—	(79)	1	51,753
1993	49,166	—	—	—	—	(163)	—	49,003
1994	52,289	—	—	—	—	(482)	—	51,807
1995	56,260	—	—	—	—	(33)	—	56,227
1996	55,711	—	—	—	—	(38)	1	55,674
1997	47,927	—	—	—	—	(141)	—	47,786
1998	63,151	—	—	—	—	(230)	—	62,921
1999	111,297	—	—	—	—	(456)	—	110,841
2000	172,638	—	(75)	—	—	(781)	—	171,782
2001	215,520	—	—	—	—	(947)	—	214,573
2002	199,533	—	—	—	—	(2,272)	85	197,346
2003	180,416	—	—	—	—	(3,771)	144	176,789
2004	154,598	—	(77)	—	—	(5,704)	58	148,875
2005	129,282	—	—	—	—	(5,060)	88	124,310
2006	126,159	—	(301)	—	—	(9,089)	418	117,187
2007	197,522	—	(2,056)	—	—	(32,489)	57	163,034
2008	186,531	—	(3,742)	—	—	(36,975)	(1)	145,813
2009	228,270	6,029	(11,555)	—	58	(78,839)	(124)	143,839
2010	493,767	810,143	(87,601)	—	164	(971,587)	49	244,935
2011	—	5,664,363	(93,988)	—	11	(5,046,940)	(5,840)	517,606
Total motor vehicle	\$ 3,100,675	6,480,535	(199,395)	—	233	(6,196,202)	(5,063)	3,180,783

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, 2011

	Interest rates	Issue dates	Final maturity date	Balance June 30, 2010	Additions	Retired	Balance June 30, 2011
Inside debt limit:							
Gately Center Renovations	4.5% – 5.0%	12/1/2000	12/1/2010	250,000	—	250,000	—
City Hall Renovations	4.5% – 5.0%	12/1/2000	12/1/2010	300,000	—	300,000	—
Yerxa Road Underpass	4.5% – 5.0%	12/1/2000	12/1/2010	190,000	—	190,000	—
Open Space Improvements	4.5% – 5.0%	12/1/2000	12/1/2010	450,000	—	450,000	—
MWPAT/Sewer Loan	N/A	10/6/1999	8/1/2009	—	—	—	—
MWPAT/Sewer Loan	N/A	11/1/2000	8/1/2010	227,522	—	227,522	—
MWPAT/Sewer Loan	N/A	11/1/2000	8/1/2010	130,424	—	130,424	—
MWPAT/Sewer Loan	N/A	11/1/2000	8/1/2010	27,142	—	27,142	—
MWPAT/Sewer Loan	N/A	11/1/2000	8/1/2010	928,678	—	928,678	—
MWPAT/Sewer Loan	N/A	11/1/2000	8/1/2010	423,271	—	423,271	—
MWPAT/Sewer Loan	4.5% – 5.0%	12/1/2000	12/1/2010	1,560,000	—	1,560,000	—
Hospital Series B 2007 Bonds	4.0%	3/15/2007	2/1/2018	11,995,000	—	1,500,000	10,495,000
City Hall Renovations	3.5% – 5.0%	12/15/2001	12/15/2011	2,640,000	—	1,320,000	1,320,000
Sewer Loan	3.5% – 5.0%	12/15/2001	12/15/2011	2,240,000	—	1,120,000	1,120,000
Traffic Improvement	3.5% – 5.0%	12/15/2001	12/15/2011	250,000	—	125,000	125,000
Sewer Renovations	2.25% – 4.00%	1/15/2003	1/1/2013	3,985,000	—	1,325,000	2,660,000
Fire Station Renovations	2.25% – 4.00%	1/15/2003	1/1/2013	1,455,000	—	485,000	970,000
Building Renovations	2.25% – 4.00%	1/15/2003	1/1/2013	285,000	—	95,000	190,000
City Hall Annex Renovations	2.25% – 4.00%	1/15/2003	1/1/2013	585,000	—	195,000	390,000
Street Reconstruction	2.25% – 4.00%	1/15/2003	1/1/2013	1,805,000	—	605,000	1,200,000
Golf Course Improvements	2.25% – 4.00%	1/15/2003	1/1/2013	255,000	—	85,000	170,000
Open Space Improvements	2.25% – 4.00%	1/15/2003	1/1/2013	75,000	—	25,000	50,000
Harvard Square Enhancements	2.25% – 4.00%	1/15/2003	1/1/2013	150,000	—	50,000	100,000
Fiber Optic Network Infrastructure	2.5% – 3.3%	1/15/2004	1/1/2014	140,000	—	35,000	105,000
Fire Station Renovations	2.5% – 3.3%	1/15/2004	1/1/2014	65,000	—	15,000	50,000
War Memorial Renovations	2.5% – 3.3%	1/15/2004	1/1/2014	480,000	—	120,000	360,000
Building Renovations	2.5% – 3.3%	1/15/2004	1/1/2014	210,000	—	55,000	155,000
Library Construction	2.5% – 4.25%	1/15/2004	1/1/2024	6,040,000	—	435,000	5,605,000
Russell Donnelly Field Improvements	2.5% – 3.3%	1/15/2004	1/1/2014	3,640,000	—	910,000	2,730,000
Yerxa Road Underpass	2.5% – 3.3%	1/15/2004	1/1/2014	500,000	—	125,000	375,000
Cambridge Street Improvements	2.5% – 3.3%	1/15/2004	1/1/2014	600,000	—	150,000	450,000
Sewer Reconstruction	2.5% – 3.3%	1/15/2004	1/1/2014	3,760,000	—	940,000	2,820,000
Harvard Square Enhancements	3% – 4%	2/1/2005	1/1/2015	1,000,000	—	200,000	800,000
Gold Star Pool Improvements	3% – 4%	2/1/2005	1/1/2015	550,000	—	110,000	440,000
Library Construction	3% – 4%	2/1/2005	1/1/2025	10,500,000	—	700,000	9,800,000
Area 4 Park Improvements	3% – 4%	2/1/2005	1/1/2015	1,000,000	—	200,000	800,000
Russell Field Improvements	3% – 4%	2/1/2005	1/1/2015	1,705,500	—	345,000	1,360,500
Cambridge Street Improvements	3% – 4%	2/1/2005	1/1/2015	1,175,000	—	235,000	940,000
Porter Square Enhancements	3% – 4%	2/1/2005	1/1/2015	1,150,000	—	230,000	920,000
Yerxa Road Underpass	3% – 4%	2/1/2005	1/1/2015	1,100,000	—	220,000	880,000
MWPAT Loan	N/A	10/1/2004	8/1/2010	31,767	—	31,767	—
MWPAT Loan	N/A	11/23/2004	8/1/2014	1,323,016	—	249,736	1,073,280
MWPAT Loan	N/A	11/23/2004	8/1/2014	1,017,674	—	193,962	823,712
MWPAT Loan	N/A	11/23/2004	8/1/2014	69,836	—	13,299	56,537
Sewer Reconstruction	3% – 4%	2/1/2005	1/1/2015	7,754,500	—	1,550,000	6,204,500
Police Station Acquisition/ Renovations	3.50% – 4.25%	2/1/2006	1/1/2026	28,000,000	—	1,750,000	26,250,000
Library Construction	3.50% – 4.25%	2/1/2006	1/1/2026	12,800,000	—	800,000	12,000,000
West Cambridge Youth Center	3.50% – 4.25%	2/1/2006	1/1/2016	1,800,000	—	300,000	1,500,000
Building Renovations	3.50% – 4.25%	2/1/2006	1/1/2016	600,000	—	100,000	500,000
Yerxa Road Underpass	3.50% – 4.25%	2/1/2006	1/1/2016	600,000	—	100,000	500,000
Open Space Improvements	3.50% – 4.25%	2/1/2006	1/1/2016	300,000	—	50,000	250,000
Porter Square Enhancements	3.50% – 4.25%	2/1/2006	1/1/2016	480,000	—	80,000	400,000
MWRA Loan	N/A	11/17/2005	11/15/2010	39,050	—	39,050	—
Sewer Reconstruction	3.50% – 4.25%	2/1/2006	1/1/2016	6,120,000	—	1,020,000	5,100,000
Building Renovations	4.0%	2/15/2007	2/1/2017	455,000	—	65,000	390,000
Police Station Acquisition/ Renovations	4.0%	2/15/2007	2/1/2027	14,450,000	—	850,000	13,600,000
West Cambridge Youth Center	4.0%	2/15/2007	2/1/2017	5,600,000	—	800,000	4,800,000
Area 4 Park Improvements	4.0%	2/15/2007	2/1/2017	350,000	—	50,000	300,000
Yerxa Road Underpass	4.0%	2/15/2007	2/1/2017	770,000	—	110,000	660,000
Harvard Square Enhancements	4.0%	2/15/2007	2/1/2017	1,050,000	—	150,000	900,000
Sewer Reconstruction	4.0%	2/15/2007	2/1/2017	2,390,000	—	345,000	2,045,000
CRLS Renovations	3.0% – 4.0%	2/1/2008	2/1/2028	4,500,000	—	250,000	4,250,000
War Memorial Renovations	3.0% – 3.25%	2/1/2008	2/1/2018	9,780,776	—	1,222,598	8,558,178
Police Station Acquisition/ Renovations	3.0% – 4.0%	2/1/2008	2/1/2028	7,270,000	—	400,000	6,870,000
West Cambridge Youth Center	3.0% – 3.25%	2/1/2008	2/1/2018	4,710,000	—	590,000	4,120,000
Library Construction	3.0% – 4.0%	2/1/2008	2/1/2028	24,415,000	—	1,360,000	23,055,000
War Memorial Renovations	3.0% – 3.25%	2/1/2008	2/1/2018	3,777,336	—	472,167	3,305,169
Harvard Square Enhancements	3.0% – 3.25%	2/1/2008	2/1/2018	480,000	—	60,000	420,000
Sewer Reconstruction	3.0% – 3.25%	2/1/2008	2/1/2018	4,981,888	—	625,235	4,356,653
MWRA Loan	—	8/23/2007	8/15/2012	1,029,732	—	343,244	686,488

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Bonds and Notes Payable

Year ended June 30, 2011

	Interest rates	Issue dates	Final maturity date	Balance June 30, 2010	Additions	Retired	Balance June 30, 2011
Fire Station Renovations	2.0% – 4.0%	3/15/2009	3/15/2019	\$ 900,000	—	100,000	800,000
Library Construction	2.0% – 4.375%	3/15/2009	3/15/2029	10,045,000	—	530,000	9,515,000
Building Renovations	2.0% – 4.0%	3/15/2009	3/15/2019	450,000	—	50,000	400,000
CRLS Renovations	2.0% – 4.375%	3/15/2009	3/15/2029	28,500,000	—	1,500,000	27,000,000
Replacement of Radio System	2.0% – 4.0%	3/15/2009	3/15/2019	450,000	—	50,000	400,000
Sewer Reconstruction	2.0% – 4.0%	3/15/2009	3/15/2019	4,325,000	—	485,000	3,840,000
War Memorial Renovations (MSBA)	2.0%	6/25/2009	11/1/2019	2,100,000	—	210,000	1,890,000
CRLS Renovations	2.0% – 3.0%	2/15/2010	2/15/2030	25,000,000	—	1,250,000	23,750,000
Sewer Reconstruction	2.0% – 3.5%	2/15/2010	2/15/2020	6,925,000	—	695,000	6,230,000
Yerxa Road Underpass Construction	2.0% – 3.75%	2/15/2010	2/15/2020	300,000	—	30,000	270,000
War Memorial Renovations	2.0% – 4.0%	2/15/2011	2/15/2021	—	175,000	—	175,000
Building Renovations	2.0% – 4.0%	2/15/2011	2/15/2021	—	1,500,000	—	1,500,000
Replacement of Radio System	2.0% – 4.0%	2/15/2011	2/15/2021	—	6,200,000	—	6,200,000
Old Police Station Renovation	2.0% – 4.5%	2/15/2011	2/15/2031	—	4,000,000	—	4,000,000
CRLS Renovations	2.0% – 4.5%	2/15/2011	2/15/2031	—	16,145,000	—	16,145,000
Harvard Square Enhancements	2.0% – 4.0%	2/15/2011	2/15/2021	—	2,000,000	—	2,000,000
Danehy Park Improvements	2.0% – 4.0%	2/15/2011	2/15/2021	—	700,000	—	700,000
Kendall Square Improvements	2.0%	2/15/2011	2/15/2016	—	500,000	—	500,000
Sewer Reconstruction	2.0% – 4.0%	2/15/2011	2/15/2021	—	15,000,000	—	15,000,000
Total inside debt limit				<u>289,763,112</u>	<u>46,220,000</u>	<u>35,313,095</u>	<u>300,670,017</u>
Outside debt limit:							
School:							
Elementary school renovations	4.5% – 5.0%	12/1/2000	12/1/2010	530,000	—	530,000	—
Total school				<u>530,000</u>	<u>—</u>	<u>530,000</u>	<u>—</u>
Water:							
MWPAT/Water Loan	4.25% – 5.63%	11/1/2000	11/1/2010	1,418,332	—	1,418,332	—
Construction/Stoney Brook	3.5% – 5.0%	12/15/2001	12/15/2011	1,390,000	—	695,000	695,000
Automated Meter Reading System	2.5% – 3.3%	1/15/2004	1/1/2014	1,200,000	—	300,000	900,000
Automated Meter Reading System	3% – 4%	2/1/2005	1/1/2015	600,000	—	120,000	480,000
Water Series C 2007 Bonds	4% – 5.0%	3/15/2007	8/1/2019	22,245,000	—	2,425,000	19,820,000
Total water				<u>26,853,332</u>	<u>—</u>	<u>4,958,332</u>	<u>21,895,000</u>
HUD Sec 108 Notes	5.07%	9/14/2006	8/1/2014	290,000	—	25,000	265,000
Housing Trust Fund: Note payable	2.00%	6/30/2007	7/1/2021	6,000,000	—	213,272	5,786,728
Total outside debt limit				<u>33,673,332</u>	<u>—</u>	<u>5,726,604</u>	<u>27,946,728</u>
Total debt outstanding				<u>\$ 323,436,444</u>	<u>46,220,000</u>	<u>41,039,699</u>	<u>328,616,745</u>

See accompanying independent auditors' report.

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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
City Treasurer
City of Cambridge
Cambridge, Massachusetts

\$40,485,000
City of Cambridge, Massachusetts
General Obligation Municipal Purpose Loan of 2012 Bonds
Dated February 15, 2012

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.

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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 \$40,485,000 General Obligation Municipal Purpose Loan of 2012 Bonds dated February 15, 2012 (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 _____, 2012 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 Issuer, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by the Massachusetts Uniform Municipal Accounting System promulgated by the Department of Revenue of the Commonwealth. 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 determination 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(c).

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

*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.

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 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: _____, 2012

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]

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