

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 Angell Palmer & Dodge 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. 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. The Bonds will not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. See "Tax Exemption" herein.

\$67,515,000

CITY OF CAMBRIDGE
MASSACHUSETTS
GENERAL OBLIGATION BONDS
MUNICIPAL PURPOSE LOAN OF 2006

Dated: February 1, 2006

Due: January 1, 2007-2026

AMOUNTS, MATURITIES, INTEREST RATES, AND PRICES OR YIELDS

Year	Principal Amount	Interest Rate	Initial Yield	Year	Principal Amount	Interest Rate	Initial Yield
2007	\$4,205,000	3.500%	3.215%	2017	\$2,550,000	4.000%	3.850%
2008	4,205,000	3.500	3.200	2018	2,550,000	4.000	4.000
2009	4,205,000	3.500	3.220	2019	2,550,000	4.000	4.050
2010	4,200,000	3.625	3.250	2020	2,550,000	4.000	4.100
2011	4,200,000	3.625	3.320	2021	2,550,000	4.000	4.150
2012	4,200,000	3.750	3.420	2022	2,550,000	4.125	4.200
2013	4,200,000	3.750	3.500	2023	2,550,000	4.125	4.240
2014	4,200,000	3.750	3.600	2024	2,550,000	4.200	4.280
2015	4,200,000	4.000	3.670	2025	2,550,000	4.250	4.320
2016	4,200,000	4.000	3.720	2026	2,550,000	4.250	4.350

The Bonds will be dated February 1, 2006. Principal on the Bonds will be payable on January 1 of the years in which the Bonds mature. Interest will be payable semiannually on January 1 and July 1, commencing on July 1, 2006. The Bonds shall be subject to redemption prior to maturity as described herein.

The Bonds are issuable only as fully registered Bonds 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.

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.

UBS Investment Bank

The date of this official statement is February 1, 2006.

CITY OF CAMBRIDGE, MASSACHUSETTS

THE CITY COUNCIL

Kenneth E. Reeves, Mayor
Timothy J. Toomey, Jr., Vice-Mayor
Henrietta Davis
Marjorie C. Decker
Anthony D. Galluccio
Craig A. Kelley
Brian Murphy
E. Denise Simmons
Michael A. Sullivan

CERTAIN APPOINTED OFFICIALS

Robert W. Healy, City Manager
Richard C. Rossi, Deputy City Manager
Louis A. DePasquale, Assistant City Manager for
Fiscal Affairs and Treasurer/Collector
Donald A. Drisdell, City Solicitor
D. Margaret Drury, City Clerk
James H. Monagle, City Auditor

BOND COUNSEL

Edwards Angell Palmer & Dodge LLP
111 Huntington Avenue
Boston, MA 02199-7613

FINANCIAL ADVISOR

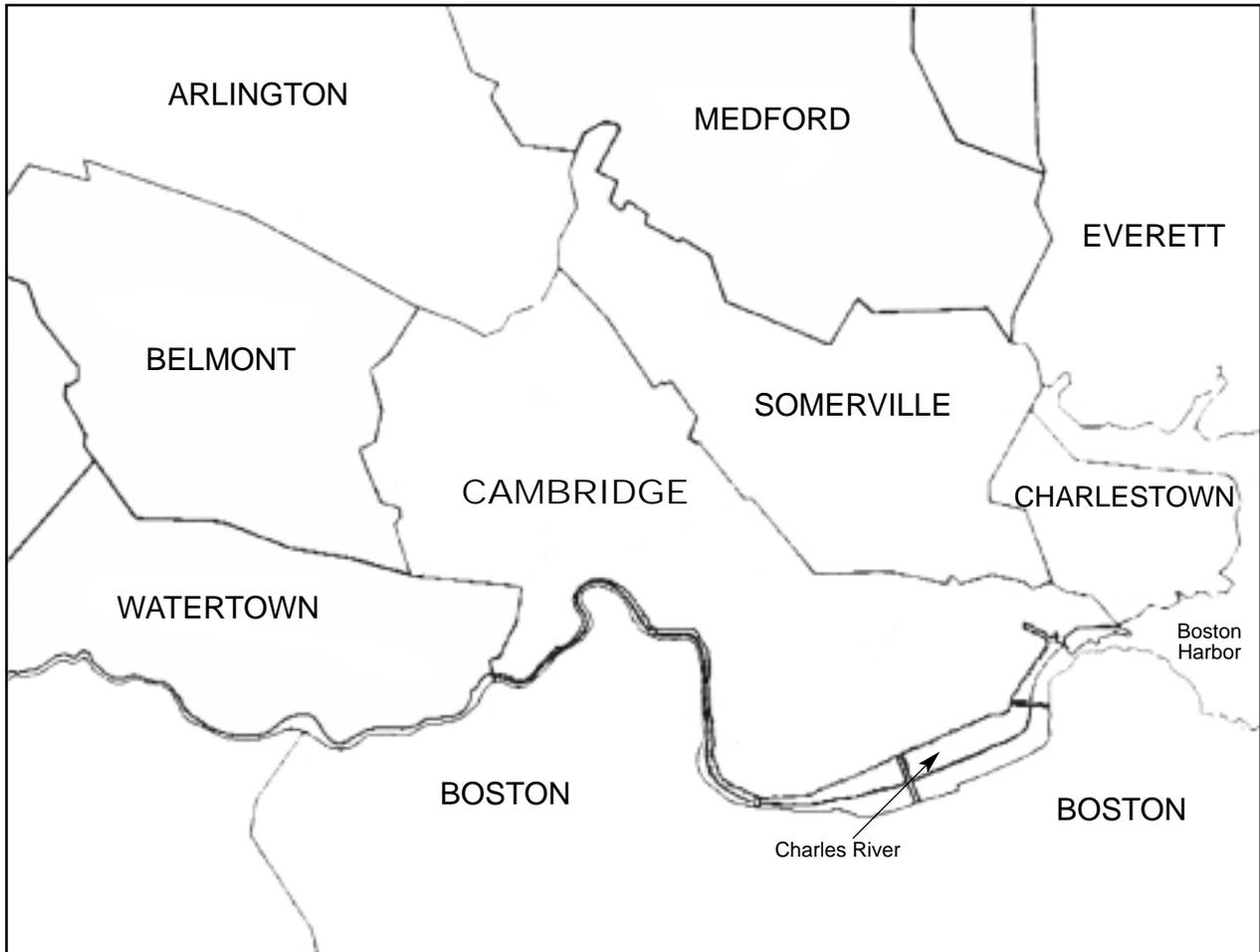
ARD Government Finance Group
1601 North Kent Street
Suite 800
Arlington, VA 22209

CERTIFIED PUBLIC ACCOUNTANTS

KPMG Peat Marwick
99 High Street
Boston, MA 02110

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
PART I: INTRODUCTION	1	Types of Obligations	28
The Issuer	1	General Obligations	28
The Bonds	1	Serial Bonds and Notes	28
Security for the Bonds	1	Bond Anticipation Notes	29
Use of Proceeds	1	Revenue Anticipation Notes	29
Optional Redemption	1	Grant Anticipation Notes	29
Tax Exemption	1	Revenue Bonds	29
Legal Matters	1	Statement of Indebtedness	30
Delivery	1	Contracts and Municipal Leases	31
Financial Advisor	2	Overlapping Debt	32
Bond Counsel	2	Massachusetts Water Resources	
Ratings	2	Authority	32
Auditors	2	Massachusetts Bay Transportation	
Absence of Material Litigation	2	Authority	33
Miscellaneous	2	Key Debt Ratios	34
Disclosure	2	Five-Year Debt Summary	34
Continuing Disclosure	3	Schedule of Principal and	
Additional Information	3	Interest Payments	35
PART II: THE BONDS	4	Rapidity of Principal Retirement	35
Description of the Bonds	4	Ratios of Gross Direct Debt	36
General	4	Ratios of General Bonded Debt	36
Optional Redemption	4	Public Investment Program	36
Manner of Redemption	4	PART V: CITY FINANCIAL INFORMATION	39
Book-Entry Only System	4	Basis of Accounting and Reporting	
Authorization and Use of Proceeds	6	Structure	39
Security and Remedies	7	Reporting Entity	39
Full Faith and Credit	7	Fund Accounting	39
Tax Levy	7	Budget and Appropriation Process	40
Court Proceedings	7	Budget Comparison	41
Restricted Funds	7	Property Taxation	43
State Distributions	8	Tax Rate and Valuation-General	43
Bankruptcy	8	Tax Levies	46
Opinion of Bond Counsel	8	Levy-General	46
Tax Exemption	8	Taxation to Meet Deficits	46
Original Issue Discount and Premium	9	Tax Limitations	47
Sale at Competitive Bidding	9	Pledged Taxes	48
Continuing Disclosure	10	Initiative Petitions	48
PART III: THE CITY	11	Tax Limitations: Effect on the City	48
Introduction	11	Tax Limitations: Five-Year Projections	48
Constitutional Status and Form of		The Revaluation Process: A Review	
Government	11	and Update	49
Certain Elected Officials and		Tax Collections and Abatements	50
Administrative/Financial		Payment Dates	50
Staff Members	12	Lien	50
Principal Elected Officials	12	Personal Liability	50
Principal Executive Officers	12	Abatements and Overlay	51
Governmental Services and Facilities	13	Taxes Outstanding	52
Economic and Demographic Factors	16	Taking and Sale	52
Economic Development Activity	16	Federal and State Aid	52
Economic Development Districts	16	Federal	52
Housing Preservation		State	53
and Development	18	State School Building Assistance Program ..	54
Employment by Sector	19	Motor Vehicle Excise Tax	55
Retail and Services Industry	21	Room Occupancy Excise	56
Housing and Construction Activity	22	Community Preservation Act	56
Population and Income		Published Financial Information	57
Characteristics	23	Surplus Revenue and Free Cash	60
Income	24	Investments	60
Education	25	Tax Increment Financing for	
Elementary and Secondary Schools	25	Development Districts	61
Higher Education	26	Retirement Plan	61
The Cambridge Public Health Commission ..	27	Employee Relations and Collective	
PART IV: CITY INDEBTEDNESS AND		Bargaining	62
CAPITAL PLAN	28	APPENDICES	
Authorization of General		Appendix A: Financial Statements	
Obligation Bonds and Notes	28	for Fiscal Year 2005	A-1
Debt Limits	28	Appendix B: Form of Legal Opinion	B-1
General Debt Limit	28	Appendix C: Continuing Disclosure	
Revenue Anticipation Notes	28	Certificate	C-1



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 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 1940, 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 2000 census population of 101,355.

The Bonds

The City of Cambridge General Obligation Bonds, Municipal Purpose Loan of 2006, in book-entry-only-form, dated February 1, 2006, are due January 1 in each year of the years 2007 through 2026 in the aggregate principal amount of \$67,515,000.

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 the acquisition of and renovations to buildings to be used for police headquarters and a youth center, the remodeling of the main library, street improvements, sewer reconstruction, public building renovations, and recreation improvements.

Optional Redemption

Bonds maturing on or after January 1, 2017, will be subject to redemption beginning January 1, 2016 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 Angell Palmer & Dodge 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. 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. See "Tax Exemption" herein.

Legal Matters

A copy of the legal opinion of the firm of Edwards Angell Palmer & Dodge 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 Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel. Delivery of the Bonds is expected on or about February 8, 2006.

Financial Advisor

ARD Government Finance Group, a division of ARD, Inc., Arlington, 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 Angell Palmer & Dodge 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., 99 Church Street, 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 Peat Marwick, 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 2005 Financial Statements are presented as a part of this Official Statement. (See Appendix A.)

Absence of Material Litigation

According to the City Solicitor, there is no litigation of any kind now pending or, to the best of his information, knowledge, and belief, threatened to restrain or enjoin the issuance or delivery of the Bonds or in any manner questioning the proceedings and authority under which the Bonds are issued.

In addition, according to the City Manager, no litigation is considered likely to result either individually or in the aggregate in final judgements which would materially affect the City's financial position.

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 ARD 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 material event notices 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 Roger P. Vacco, Edwards Angell Palmer & Dodge LLP, (617) 239-0100.

PART II: THE BONDS

DESCRIPTION OF THE BONDS

General

The Bonds are dated February 1, 2006, and will bear interest from that date which will be payable beginning July 1, 2006 and semi-annually thereafter on January 1 and July 1 until maturity. The Bonds will mature on January 1 each year as specified below:

<u>Due</u> <u>January 1</u>	<u>Principal</u> <u>Amount</u>	<u>Due</u> <u>January 1</u>	<u>Principal</u> <u>Amount</u>
2007	\$4,205,000	2017	\$2,550,000
2008	4,205,000	2018	2,550,000
2009	4,205,000	2019	2,550,000
2010	4,200,000	2020	2,550,000
2011	4,200,000	2021	2,550,000
2012	4,200,000	2022	2,550,000
2013	4,200,000	2023	2,550,000
2014	4,200,000	2024	2,550,000
2015	4,200,000	2025	2,550,000
2016	4,200,000	2026	2,550,000

Optional Redemption

The Bonds that mature on or before January 1, 2016, are not subject to redemption prior to their stated maturities. The Bonds that mature on and after January 1, 2017, will be subject to redemption beginning January 1, 2016, 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.

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 as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other nominee as may be requested by an authorized representative of DTC. One fully-registered Bond Certificate will be issued for each maturity of the Bonds each in the aggregate principal amount of such maturity and will be deposited with DTC. The record date for debt service payment is the close of business on the fifteenth day of the month prior to the month in which a debt service payment comes due.

DTC, the world's largest 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, 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 Standard & Poor's highest rating: AAA. 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.

Purchases of Bonds under the DTC system 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The 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 the Bonds within a maturity are 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 procedures. Under its usual procedures DTC mails an Omnibus Proxy to the City 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds 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.

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.

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 \$67,515,000 General Obligation Bonds consist of the following authorizations:

West Cambridge Youth and Community Center

\$3,000,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by a loan order of the City Council on May 23, 2005 to provide funds for acquisition of and renovations to a building to be used as a youth center.

Library Construction

\$16,000,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by a loan order of the City Council on January 22, 2001 and February 23, 2004 to provide funds for renovations and the construction of an addition to the main library.

Street Reconstruction

\$800,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by loan orders of the City Council on May 24, 2004 and September 27, 2004 to provide funds for the reconstruction of Harvard and Porter Squares.

Sewer Reconstruction

\$10,215,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by loan orders of the City Council on May 21, 2001, May 20, 2002, June 16, 2003, May 24, 2004, and May 23, 2005 to provide funds for various sewer projects.

Open Space Improvements

\$500,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by loan orders of the City Council on May 24, 2004 to provide funds for the construction of two neighborhood parks.

Yerxa Road Underpass Construction

\$1,000,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by a loan order of the City Council on June 16, 2003 to provide funds for the construction of an underpass at Yerxa Road.

Acquisition of Police Station

\$35,000,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by a loan order of the City Council on April 25, 2005 to provide funds for the acquisition and renovations to a building to be used for police headquarters.

Building Renovations

\$1,000,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by a loan order of the City Council on May 23, 2005 to provide funds for improvements to certain City buildings.

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

In the opinion of Bond Counsel, the City of Cambridge is subject to suit on its 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 City 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 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 receipts may be used only for water, gas and electric, community antenna television system, telecommunications, sewer, parking, mitigation of ferry service impacts, and related 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. 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”), 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 law 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.

OPINION OF BOND COUNSEL

The legal opinion of the firm of Edwards Angell Palmer & Dodge 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 Angell Palmer & Dodge 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 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 has not opined 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 has not opined as to the taxability of the Bonds or the income therefrom 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.

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 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.

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 or deduction. 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.

The Bonds will not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. Accordingly, in the opinion of Bond Counsel, no deduction will be allowed to a financial institution for any of its interest expense allocable to the Bonds.

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.

To the extent the issue price of any maturity of the Bonds (as described in the preceding paragraph) is more than the stated principal amount of such Bonds, the difference constitutes "original issue premium." Original issue premium on any Bond is not deductible for federal income tax purposes, and owners of Bonds with original issue premium are required to reduce their basis in such Bonds from time to time as such original issue premium accrues with respect to such Bonds. Owners of Bonds with original issue premium (including owners who purchase such Bonds other than pursuant to the original public offering of such Bonds) should consult their own tax advisors as to the determination for federal income tax purposes of the amount of premium accruing each year with respect to such Bonds, the adjusted basis of such Bonds from time to time (including at the time of sale, redemption at maturity or other disposition of such Bonds), and as to other federal tax consequences and state tax consequences of owning Bonds offered and sold with original issue premium.

Sale at Competitive Bidding

After competitive bidding on February 1, 2006, the Bonds were awarded to UBS Securities LLC (the "Underwriter"). The Underwriter has supplied the information as to the public offering yields or prices of the Bonds set forth on the cover hereof. 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 \$137,840.30 premium to the City, to be \$232,251.60. The Underwriters may change the public offering yields or prices from time to time.

Continuing Disclosure

The City desires to assist the successful bidder in complying with the provisions of the Rule and has agreed to execute a continuing disclosure agreement to provide certain annual financial information and material event notices required by the Rule (collectively, "Continuing Disclosure"). As set forth in Appendix C, such undertaking requires the City to provide only limited information at specified times and does not require it to disclose all information that may affect the value of the Bonds. The City may choose to make additional information available from time to time, but has no obligation to do so. 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.

The City is required to file its annual Continuing Disclosure with each nationally recognized municipal securities information repository ("NRMSIRs") and to any state information depository ("SID") created in Massachusetts. No SID has been created for Massachusetts. The City may satisfy its obligations to make such filings with the NRMSIRs by making such filings with any central filing office, conduit or similar entity (a "Transmission Agent") which undertakes responsibility for accepting filings under the Rule for submission to each NRMSIR. The City is required to file any material event notice with (1) each NRMSIR or the Municipal Securities Rulemaking Board and (2) any Massachusetts SID. As of the date of this Official Statement, the SEC has recognized the following entities as NRMSIRs:

Bloomberg Municipal Repository

100 Business Park Drive
Skillman, New Jersey 08558
Telephone: (609) 279-3225
Facsimile: (609) 279-5962
E-Mail: Munis@Bloomberg.com

Standard & Poor's Securities Evaluations, Inc.

55 Water Street, 45th Floor
New York, New York 10041
Telephone: (212) 438-4595
Facsimile: (212) 438-3975
E-Mail: nrmsir_repository@sandp.com

DPC Data Inc.

One Executive Drive
Fort Lee, New Jersey 07024
Telephone: (201) 346-0701
Facsimile: (201) 947-0107
E-Mail: nrmsir@dpcdata.com

FT Interactive Data

Attn: NRMSIR
100 William Street
New York, New York 10038
Telephone: (212) 771-6999
Facsimile: (212) 771-7390
(Secondary Market Information)
Facsimile: (212) 771-7391
(Primary Market Information)
E-Mail: nrmsir@ftid.com

and the following entity as a Transmission Agent:

Disclosure USA

P.O. Box 684667
Austin, Texas 78768-4667
E-Mail: www.DisclosureUSA.org

As described more fully in Appendix C, any Bondholder may take steps to enforce the obligation of the City to provide Continuing Disclosure, but any failure by the City under its obligation will not result in an event of default under the Bonds.

Investors and other interested parties may contact any NRMSIR or the Transmission Agent for additional information concerning its services. The City makes no representation as to the scope of the services provided to the secondary market by any NRMSIR or the Transmission Agent or as to the costs for the provision of such services by any NRMSIR or the Transmission Agent.

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 is 101,355 in 2000.

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 1940, 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 2003, the City Council approved a contract for the present City Manager, which expires August 31, 2006.

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, 2007:

Kenneth E. Reeves, Mayor	
Timothy J. Toomey, Vice-Mayor	Craig A. Kelley
Henrietta Davis	Brian Murphy
Marjorie C. Decker	E. Denise Simmons
Anthony D. Galluccio	Michael A. Sullivan

The following are the six members of the School Committee elected for two-year terms ending December 31, 2007 (the Mayor serves as Chairman of the School Committee):

Kenneth E. Reeves, Chairman	
Alfred B. Fantini	Patricia M. Nolan
Joseph G. Grassi	Luc Schuster
Richard Harding, Jr.	Nancy Walser

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 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.

Beth Rubenstein, Assistant City Manager for Community Development since June, 1999.

Previously served the City as Acting Assistant City Manager for Community Development and Deputy Director of Community Development. Also served as planner for the Cambridge Housing Authority, Commonwealth of Massachusetts, and Massachusetts Port Authority. Bachelor of Arts from the University of Wisconsin and Masters of Arts from Harvard University.

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.

Donald A. Drisdell, City Solicitor since December, 2002.

Previously served the City as Deputy City Solicitor from 1987 to 2002 and Legal Counsel to the City from 1986 to 1987. Legal Counsel to State Department of Social Services from 1981 to 1986. Bachelor of Arts degree from the University of Massachusetts and a Doctor of Jurisprudence degree from Suffolk Law School.

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.

Thomas Fowler-Finn, Superintendent of the Cambridge School System since August, 2003.

Appointed by the Cambridge School Committee. Previously served as Superintendent of Schools for the Ft. Wayne Community Schools in Indiana, and Haverhill, Massachusetts. Prior to that, he held administrative leadership positions in Cincinnati, Ohio and New York. He holds a Masters in Education in Administration from the Massachusetts College of Liberal Arts and a Doctorate in Education in Instructional Leadership/Staff Development from the University of Massachusetts at Amherst as well as engaging in leadership course work at the John F. Kennedy School of Government at Harvard University.

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 police headquarters building, nine fire stations, six area libraries, plus a main branch, approximately 80 parks and playground areas, a high school, plus 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.

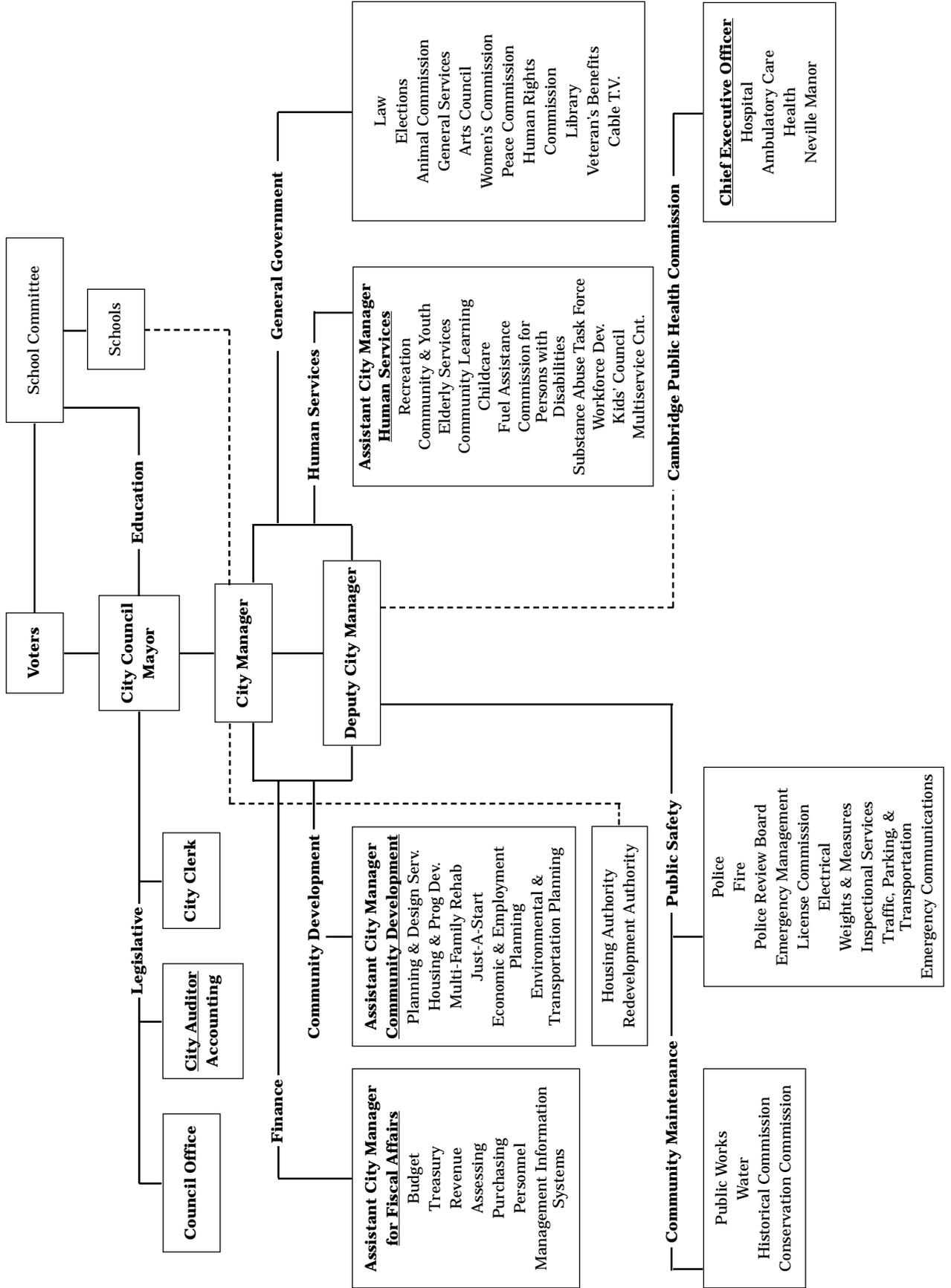
Federal buildings which are located in the City include offices for the Department of Transportation and the Social Security Administration. Also, in connection with Harvard University, the Smithsonian Astrophysical Observatory is located in the City.

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

Cambridge continues to experience strong economic activity. A number of biotechnology companies have recently established a presence or increased the size of their Cambridge operations. In 2004, Novartis moved into its new global research headquarters and construction is under way on the new Broad Institute in Kendall Square next to the Whitehead Institute. Permitting and building activity continue to be strong, particularly in the residential sector. Office vacancy rates in Cambridge continue to be higher than in the late 1990's, but more recently show signs of improvement: the fourth quarter 2005 vacancy rate was 12.3%, down from 14.3% in the third quarter of 2005. Cambridge continues to fare well compared with the suburban market, which has a vacancy rate of approximately 18%. Cultural amenities, proximity to world-class educational and medical institutions, a highly educated workforce, innovative reuse of existing structures, and the construction of state-of-the-art new facilities have added to the City's unique strength as both a business and residential community.

Assessed Valuation. The fiscal year 2006 total assessed valuation, including both real and personal property, is \$21.8 billion. Of the total, approximately \$7.9 billion consists of industrial, commercial, and personal property. New growth in the last year added approximately \$905.9 million to the taxable valuation base of the City.

The City's total assessed valuation increased by \$0.5 billion, or 2.3%, from fiscal year 2005.

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 last fifteen years. In October 2005 the Division of Employment and Training (DET) reported a seasonally unadjusted unemployment rate of 3.3% for Cambridge (compared to 3.1% a year ago), 4.3% for the state and 4.6% for the United States.

DET reported employment of 101,965 persons in Cambridge during 2004. While major employers witnessed some fluctuations in workforce levels, Cambridge continues to consolidate its position as an employment leader in the biotechnology industry. Novartis currently employs approximately 1,000 in Cambridge. In addition to new employment created by the growth of both the research and development and service industries, the City retains traditional employers in the areas of education, medicine, and government, which promote the City's overall economic diversity.

Commercial Real Estate Market. Since the beginning of 2001 through 2005, Cambridge added approximately 4.4 million square feet (SF) to its inventory of commercial real estate, with 0.8 million SF under construction, and an additional 2.8 million SF currently in the permitting stage.

The fourth quarter 2005 vacancy rate is 12.3%, down from 14.3% in the third quarter of 2005. The total net absorption for the fourth quarter of 2005 was 447,000 SF and total net absorption for 2005 was 592,000 SF. Demand from the life sciences industry remains strong. In addition to leasing 250,000 square feet of R&D space at Technology Square, in 2004 Novartis moved into an additional 484,000 square feet of newly renovated space that once housed the NECCO candy company. Schlumberger recently announced plans to lease a combined total of 226,000 square feet in East Cambridge, some of it at the building addition being built by Draper Labs.

Other major lease activity included those entered into by Genzyme, Forrester Research, and Idenix Pharmaceuticals. The Broad Institute will occupy its new building early in 2006 and a new 135,000 SF building for the Smithsonian Astrophysical Observatory in the Alewife area was completed in the fall of 2005. At completion, these phased projects will add 827,000 SF of office and laboratory space.

Economic Development Districts

The City guides development through an orderly process, utilizing control over infrastructure, planned unit development, and zoning strategies. Presented below is a summary of recent and current economic activities and future potential of several major development areas, along with a short citywide summary. 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.

Alewife/Fresh Pond. Located in the western portion of the City, near Fresh Pond Reservoir, the Department of Conservation and Recreation (DCR) Alewife Reservation, and the Belmont and Arlington town lines, the district consists of approximately 370 acres. 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.

Alewife acts as both an office/R&D district and a lively retail center. The area is home to Wyeth Pharmaceuticals, Abt Associates and BBN Technologies. Since 1980, Alewife has seen the construction of over 2.3 million SF of prime office/R&D space. The nearby Fresh Pond Shopping Center houses a major grocery store, restaurants, a movie theater, hotel, and a number of smaller independent and chain retailers. The owners of the shopping center have been exploring major renovation and new construction to add residential uses and updated retail space; development potential is in excess of 1 million square feet.

The portion of the district north of the Alewife Reservation contains the 26.5 acre former Arthur D. Little campus, currently occupied in part by the technology and innovation consultant TIAX. Permitting is now complete to redevelop this parcel, adding 820,000 SF of new office and R&D space. The first phase, a 135,000 SF building for the Smithsonian Astrophysical Observatory, was completed in late 2005.

South of the Reservation lies the Concord Alewife industrial area or quadrangle. The City recently completed a planning study for the area, which encompasses the office park along Cambridgepark Drive, the industrial area to the south and the Fresh Pond Shopping Center. The City Council is currently reviewing zoning changes, which will encourage creation of a mixed-use, transit-oriented district, including an enhanced pedestrian environment, new roadway infrastructure and improved stormwater management. When approved, zoning is expected to allow approximately 2.8 million SF of additional development, which would likely occur over the next 20 years.

Harvard Square. While densely developed and limited in further potential, Harvard Square continues to attract development interest. 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. The completion of Zero Arrow Street brought an exciting cultural addition to the Square. The 48,000 square foot structure includes a second home for the American Repertory Theater and numerous smaller performance companies as well as the Carr Center for Human Rights. The City has recently started a \$3.5 million surface enhancement project in Harvard Square, to include improved pedestrian walkways, lighting and landscaping, which will be completed in 2007.

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. An additional \$6.8 million roadway improvement project now underway will upgrade the pedestrian environment, lighting and landscaping, and improve traffic flow through nearby Lafayette Square and along Massachusetts Avenue, extending down to the MIT campus and the Charles River.

The new Novartis headquarters, which opened in 2004, links the MIT campus to Central Square. Novartis is now building a 65,000 square foot office and retail addition, which will enliven the Massachusetts Avenue streetscape between University Park and MIT.

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 private shuttle buses, serve the area. Over \$8 million in roadway improvements, including substantial underground utility work, now under construction in Cambridgeport, will be substantially complete in 2005.

University Park, a \$600 million, 2.3 million SF major mixed-use development project undertaken by Forest City Development in conjunction with MIT, was completed in 2005. The entire project includes 21 buildings comprising over 1.3 million SF office/R&D space, two parking garages with 2,700 parking spaces, a 250,000 square foot of hotel, restaurant and retail facilities, and more than 600 units of housing. The final two buildings, both residential and totalling 252 units, are now being occupied.

Other recent projects in the area include headquarters for Millennium Pharmaceuticals, one of Cambridge's largest biotechnology employers (four buildings with 700,000 SF in University Park), 180 Sidney Street occupied by Vertex (191,000 SF), Alkermes and Partners Healthcare. Nearby, a new Whole Foods supermarket and Brooks Pharmacy provide 57,000 SF of retail space.

East Cambridge/Riverfront. This 110-acre Riverfront area lies directly across the Charles River from Boston, between Kendall Square and North Point. The Riverfront 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. 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 years includes 5.0 million SF of new and renovated office/R&D and retail space, as well as 600 hotel rooms and over 525 housing units. In early 2003 a 236-room hotel, adjacent to the Galleria Mall, opened on the last development parcel remaining in the Riverfront area.

Several development proposals totaling 2.0 million SF are under construction in East Cambridge. Cambridge Research Park, under development at a site formerly owned by Commonwealth Energy, will include 738,000 SF of office/R&D, 50,000 SF of retail space, a hotel, 352,000 SF of housing, and 2,800 underground parking spaces. The first two buildings are complete: a 275,000 SF state-of-the-art green building, Genzyme's new headquarters, and a 247,000 SF building leased by Vertex Pharmaceuticals. A third building, now in construction, will add 321 rental units of housing to Cambridge Research Park.

Other residential projects now underway in East Cambridge include 196 units at One First Street, site of the old Davenport Factory, and 526 condominium and rental units at 303 Third Street near Cambridge Research Park and Kendall Square.

Kendall Square/Cambridge Center. This 50-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, a public plaza adjacent to the MBTA station, and a year-round fountain/steam sculpture.

The Kendall Square area includes over 7.2 million SF of first class office/R&D space. The area houses the corporate headquarters of Akamai Technologies, Biogen Idec, Forrester Research, Draper Labs, and CDM. Buildings completed in the 1980s contributed over 4.8 million SF to this total. The 1990s saw the addition of another 1.3 million SF. The current decade has seen completion of a 210,000 SF building for Biogen at 15 Cambridge Center and a 285,000 SF building for Amgen at 1 Kendall Square. Construction at Tech Square added 600,000 SF of office/R&D space. Office leasing at all of these locations is heavily influenced by close proximity to the biotechnology industry cluster found around MIT and the Whitehead Institute. Boston Properties recently began construction of a 220,000 SF building to house the new Broad Institute. Located directly adjacent to the Whitehead Institute, the Broad Institute will create new tools for genomic medicine and pioneer the application of new disease treatments. Harvard, MIT and the Broad Foundation are funding this research and development venture. An associated housing project, now in construction, will add 187 units of housing, bringing 24-hour life to the area.

North Point. Situated on a prominent 60-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. Recent years have seen North Point begin a transformation. In conjunction with Boston's Central Artery project, the state is constructing infrastructure improvements to provide roadway access through the North Point district and to create a new park along the Charles River. 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 has attracted substantial interest from developers in recent years.

A 159,000 SF headquarters for EF International, an educational services company, and a 435-unit housing development were occupied in 1999. In 2002 the Cambridge Planning Board approved a proposal from Charles E. Smith Residential to construct a 767-unit housing community over the next several years. In 2003 the Planning Board approved a mixed-use development proposal from Spaulding & Slye, in partnership with the Guilford Transportation. The 4.5 million SF development includes up to 1.9 million SF of commercial space, including retail, and at least 2,400 housing units. The Spaulding & Slye project also includes redevelopment in Lechmere Square and replacement of the Lechmere Green Line station. The first residential building began construction in spring 2005, along with construction of a 5-acre park. When complete, North Point will be home to the largest mixed-use development project in the City's history.

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 3,400 housing units have been constructed since 1996. Over 4,600 additional units are in various stages of permitting.

Since the end of rent control, the City, in collaboration with local non-profit agencies, has developed affordable units with Affordable Housing Trust, CDBG and HOME funds. These funds, in turn, help leverage other public and private funds. Approximately 16% 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 in new construction.

City Funding. Since the end of rent control, the City has allocated over \$59.9 million to the City-sponsored Affordable Housing Trust from local tax and Community Preservation Act funds, developing or preserving over 2,700 affordable units of housing. City affordable housing programs include the following:

- **Non-Profit Acquisition and Development of Multifamily Properties** Through this program, non-profit 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 homebuyer classes ten times annually and offer one-on-one counseling. Over 500 residents participate annually. Grants and loans are also available to income-eligible first time buyers.

- **Preservation of Expiring Use Restriction Properties** This program provides technical and financial assistance to tenants and landlords of privately owned federally assisted properties in danger of conversion to market rate housing. To date, over 1,200 units have been preserved as affordable.

- **Home Improvement Programs** 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 low and moderate-income tenants. 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 improve their buildings to meet HUD and City building code requirements and are required to keep rents affordable.

• **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 15% of the total number of units as affordable housing. To date, 253 affordable Inclusionary units have been created, with many more in the pipeline due to the residential construction boom.

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 \$2.6 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 \$3.6 million annually through the CDBG program, 50% of which is allocated to housing related activities. In addition, in 2004 the City received a \$3.0 million federal grant from HUD to assist property owners with deleading their units, supplementing \$10 million received since 1994.

Public Housing. The focus of the Cambridge Housing Authority is currently on the planning and construction of large-scale capital improvements to its federally assisted elderly housing stock. With the completion of these upgrades in the coming years, the Housing Authority will have greatly improved conditions in 748 units of elderly/disabled housing. Additionally, the Housing Authority has prioritized modernization of its state-assisted housing stock, upgrading building systems and implementing energy saving measures at three sites and planning the comprehensive modernization of two large family developments.

The Housing Authority's Planning and Development staff currently manages active federally funded design and construction projects totaling \$38.5 million. These projects use resources from HUD's Capital Fund and HOPE VI programs and commit the bulk of available funds to capital improvements. The Authority also manages \$3.9 million in active state-funded modernization contracts.

Employment by Sector

The following table presents the number of employees for the calendar year 2004, as compiled by the Massachusetts Division of Employment and Training. The annual payroll for the almost 4,000 businesses and government agencies conducting business in Cambridge during 2004 totaled approximately \$6.3 billion.

**CITY OF CAMBRIDGE
EMPLOYMENT BY SECTOR – CALENDAR YEAR 2004**

	2004 Average Employees	Percent of Total Employment
Private Sector:		
Construction	2,598	2.5%
Manufacturing	3,595	3.5
Trade, Transportation and Utilities	10,348	10.2
Information	4,740	4.6
Financial Activities	2,544	2.5
Professional and Business Services	23,630	23.2
Education and Health Services	35,173	34.5
Leisure and Hospitality	8,720	8.6
Other Services	2,191	2.1
Total Private Sector	93,589	91.7
Public Sector Employment	8,426	8.3
TOTAL	101,965	100.0%

Source: Massachusetts Division of Employment and Training.

**CITY OF CAMBRIDGE
TOP TWENTY-FIVE EMPLOYERS – OCTOBER 2005**

2005 Rank	Name of Employer	Nature of Business	2005 Employees(1)	2004 Rank(5)
1	Harvard University	Higher Education	10,282	1
2	MIT	Higher Education	7,026	2
3	City of Cambridge(2)	Government	3,251	3
4	Cambridge Health Alliance	Medical	1,777	4
5	Biogen Idec	Biotechnology	1,767	7
6	Federal Government	Government	1,656	6
7	Mt. Auburn Hospital	Medical	1,379	5
8	Millennium Pharmaceuticals	Biotechnology	1,339	8
9	Genzyme Corporation	Biotechnology	1,231	9
10	Draper Laboratory Inc.	Research & Development	1,052	10
11	Novartis Institute for Biomedical Research ..	Biotechnology	960	14
12	Wyeth Cambridge	Biotechnology	780	11
13	EF International	Travel & Exchange Programs	703	22
14	Commonwealth of Massachusetts	Government	692	13
15	Quest Diagnostics	Clinical Testing Services	649	12
16	Camp, Dresser & McKee	Engineering Consultants	631	15
17	Whole Foods	Retail Supermarket	612	18
18	Lesley University	Higher Education	569	17
19	Vertex Pharmaceuticals	Biotechnology	539	21
20	Shaw's Supermarkets/Star Market(3)	Retail Supermarket	510	19
21	Whitehead Institute	Research & Development	500	20
22	Monitor Group	Management Consulting	466	25
23	Grace Construction	Construction Products	410	23
24	ABT Associates	Management Consulting	396	24
25	Youville Hospital & Rehabilitation Center(4)	Medical	380	NA
	TOTAL		39,557	

(1) All figures collected between 7/05 and 10/05. 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) Shaw's Supermarkets/Star Market figure is from 2004.

(4) Not on 2004 Top 25 list. Youville Hospital was among the Top 25 Employers at various times in the past.

(5) One 2004 employer deleted since 2004: Akamai Technologies.

Source: Cambridge Community Development Department and cited employers, 2005.

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 1994 TO 2005(1)**

	<u>Cambridge</u>	<u>Boston PMSA</u>	<u>Massachusetts</u>	<u>United States</u>
2005 (October).....	3.3%	4.2%	4.3%	4.6%
2004	2.5	3.8	4.3	5.1
2003	3.6	5.2	5.8	6.0
2002	3.8	4.8	5.3	5.8
2001	2.5	3.2	3.7	4.9
2000	1.6	2.1	2.4	4.1
1999	1.9	2.7	3.2	4.2
1998	1.9	2.8	3.3	4.5
1997	2.4	3.4	4.0	4.9
1996	2.5	3.7	4.3	5.4
1995	3.3	4.7	5.6	5.6
1994	4.0	5.2	6.0	6.1

(1) Unadjusted Monthly Rate

Source: U.S. Dept. of Labor, Bureau of Labor Statistics; Massachusetts Division of Unemployment

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 2002 calendar year, the most recent data available.

**CITY OF CAMBRIDGE
RETAIL ESTABLISHMENTS AND SALES
CALENDAR YEAR 2002 (1)(2)**

	<u>Cambridge</u>			<u>Boston PMSA</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.....	8	\$ 58,468	4.9%	402	\$ 3,965,361	23.5%
Furniture and Home Furnishings Stores	42	62,233	5.2	366	693,412	4.1
Electronics and Appliances Stores.....	26	112,702	9.4	233	635,090	3.8
Buildings Materials & Garden Equipment & Supplies Dealers	13	56,831	4.7	365	1,415,886	8.4
Food & Beverages Stores ..	85	287,423	23.9	884	3,024,081	17.9
Health & Personal Care Stores.....	40	86,696	7.2	408	1,310,611	7.8
Gasoline Stations.....	27	34,828	2.9	491	959,114	5.7
Clothing & Clothing Accessories Stores	108	173,159	14.4	775	1,205,917	7.1
Sporting Goods, Hobby, Book & Music Stores ...	53	108,331	9.0	378	623,001	3.7
General Merchandise Stores (1).....	5	suppressed	—	108	1,561,740	9.3
Miscellaneous Stores (1) ..	60	suppressed	—	615	443,242	2.6
Nonstore Retailers.....	31	111,636	9.3	368	1,038,621	6.2
Total.....	498	\$1,202,824	100.0%	5,393	\$16,876,076	100.0%

(1) Most recent data available.

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

Source: 2002 Economic Census Geographic Area Series Massachusetts, U.S. Census Bureau.

**CITY OF CAMBRIDGE
SERVICE ESTABLISHMENTS AND SALES
CALENDAR YEAR 2002(1)**

	Cambridge			Boston PMSA		
	Firms With Payrolls	Sales (000)	% of Total	Firms With Payrolls	Sales (000)	% of Total
Information Related	206	—	—	1,405	—	—
Real Estate & Rental & Leasing	144	\$ 191,097	3.0%	1,466	\$ 1,940,807	5.8%
Professional, Scientific & Technical	792	4,134,450	65.3	6,948	14,592,119	43.8
Administrative, Support & Waste Management & Remediation.....	159	284,174	4.5	2,467	3,900,656	11.7
Educational Services	70	95,346	1.5	478	441,131	1.3
Health Care & Social Assistance (1) ...	313	849,635	13.4	4,166	7,168,647	21.5
Arts, Entertainment & Recreation.....	63	55,016	0.9	630	526,424	1.6
Accommodation & Food Services	398	485,242	7.7	3,126	2,561,961	7.7
Other Services (except public administration).....	266	241,226	3.8	3,237	2,180,617	6.5
Total.....	2,411	\$6,336,186	100.0%	23,923	\$33,312,362	100.0%

(1) Sales figures reflect taxable establishments only. Most recent data available.

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

Source: 2002 Economic Census Geographic Area Series Massachusetts, U.S. Census Bureau.

Housing and Construction Activity

The data in the tables on the following page 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, 2005.

**CITY OF CAMBRIDGE
PARCEL COUNT BY TYPE
As of January, 2005**

<u>Type of Housing</u>	<u>Number of Parcels</u>
One-Family	3,709
Two-Family	2,849
Three-Family	1,450
Four to Eight Family	935
Nine or More Units	191
Condominiums	10,344 (1)
Mixed Res./Comm. Bldgs.	339
Multiple Residential	158
Total	19,975

(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 1999 TO 2005**

<u>Fiscal Year</u>	<u>Est. Value of Construction</u>	<u>% Distribution</u>	
		<u>Residential</u>	<u>Commercial</u>
2005	\$559,360,429	21%	79%
2004	412,337,048	40	60
2003	844,862,605	33	67
2002	462,909,241	31	69
2001	825,695,634	28	72
2000	720,646,992	29	71
1999	321,834,613	31	69

(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 2000, the City of Cambridge had a population of 101,355. This figure represents a 5.8 percent increase from the 1990 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>
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, and 2000 figures are from the U.S. Decennial Census which is provided by the U.S. Department of Commerce, Bureau of the Census.

The 2000 U.S. Census reported the City's median age to be approximately 30 years with a much greater representation of residents in the 25–34 year old age group than the national average. In addition, the City has a very high 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 (2000)	101,355	3,398,051	6,349,097	281,421,906
Median Age				
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 (2000 data)				
0-4.....	4.1%	6.2%	6.3%	6.9%
5-17	9.2	16.3	17.4	18.9
18-24.....	21.2	9.4	9.1	9.6
25-44.....	38.5	32.8	31.3	30.2
45-64.....	17.8	22.2	22.4	22.0
65 and over.....	9.2	13.1	13.5	12.4
Total	100.0	100.0	100.0	100.0
Four or more years of college education				
25 years or older.....	65.1%	39.5%	33.2%	24.4%
High school graduates				
25 years or older.....	89.5%	87.1%	84.8%	80.4%

Source: U.S. Department of Commerce, Bureau of the Census, Decennial Census, 1960, 1970, 1980, 1990, 2000.

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
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: U.S. Department of Commerce, Bureau of the Census.

PER CAPITA INCOME

<u>Year</u>	<u>Cambridge</u>	<u>Boston PMSA</u>	<u>Massachusetts</u>	<u>United States</u>
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: U.S. Department of Commerce, Bureau of the Census.

EDUCATION

Elementary and Secondary Schools

The City of Cambridge public school enrollment totals 6,001 for the 2005-06 school year. It is projected that the figures will show a slight decrease over the next four years. In addition to the public school system, there are approximately eleven private and parochial schools as well as two charter schools in the City. In 2004-05, there were approximately 1,218 students enrolled in the private and parochial schools, and 233 in the charter schools.

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
2005-2006 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 2006-2010 (1)**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Elementary	4,076	3,905	3,910	3,952	3,997
Secondary	1,691	1,638	1,502	1,391	1,302
Ungraded	234	277	276	276	275
Total	6,001	5,820	5,688	5,619	5,574

(1) Enrollments are as of October 1 for the school years shown and include tuitioned-out students. The figures shown for 2006 are actual with the following years as projections. The ungraded category includes special education students in self-contained classrooms plus special education tuitioned-out students.

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

Fiscal Year	K-8	9-12	Special	Total	Percentage Change
2005	4,361	1,827	262	6,450	-4.53%
2004	4,472	1,987	297	6,756	-4.99
2003	4,777	1,996	338	7,111	-2.54
2002	4,985	2,025	286	7,296	-0.97
2001	4,967	2,010	390	7,367	-1.77
2000	5,142	1,939	419	7,500	-1.91
1999	5,294	1,918	434	7,646	-2.90
1998	5,522	1,918	434	7,874	-2.22
1997	5,563	1,983	507	8,053	-1.41
1996	5,554	1,989	625	8,168	-1.48

 (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 19,730 degree candidates.

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 Massachusetts Institute of Technology 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 10,320 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 in December, 2003. Under the terms of the new contract, the City provided the Commission with \$6.5 million in net property tax support in fiscal years 2004 and 2005 and will provide \$6.25 million in fiscal year 2006 and \$6.0 million for the remainder of the contract. The total amount provided by the City to the Commission under the new contract is significantly less than the amount provided under the contract that was in effect from fiscal year 1997 through fiscal year 2003.

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 statutes, the General Debt Limit of the City of Cambridge 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 a separate limit equal to the General Debt Limit, including the same doubling provision). 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 statutes, 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 equal or diminishing 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. Level debt service is permitted for bonds or notes issued for certain pur-

poses, including self-supporting enterprise purposes, certain state-aided school projects, and certain community preservation and open space projects, as well as for those projects for which debt service has been exempted from property tax limitations. 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. 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 term measured from the date of the original bonds or notes. 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 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.

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. 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, 2005**

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 Limit: (2)	\$171,876,282	\$192,044,922	\$239,391,282	\$124,529,922
Outside General Debt Limit:				
School (3)	14,575,000	—	14,575,000	—
Water	58,745,699	—	58,745,699	—
Sub Total	<u>73,320,699</u>	<u>—</u>	<u>73,320,699</u>	<u>—</u>
Total Bonds	<u>\$245,196,981</u>	<u>\$192,044,922</u>	<u>\$312,711,981</u>	<u>\$124,529,922</u>

Temporary Loans:

	<u>Outstanding Notes</u>
Bond Anticipation (4).....	\$31,000,000
Grant Anticipation	0
Revenue Anticipation: (5)	
For Current Year.....	0
For Prior Year	<u>0</u>
	\$31,000,000

-
- (1) Excludes lease and installment purchase obligations, overlapping debt, and unfunded pension liability.
 - (2) Based upon the 2004 final equalized valuation of the City, the Normal General Debt Limit is \$1,064,125,665 and the Double General Debt Limit (see "Debt Limit" above) is \$2,128,251,330.
 - (3) The unpaid balance of state school construction grants payable over the life of outstanding school bonds for both principal and interest (interest is partially or wholly included in eligible costs of projects approved after January 1, 1971) was estimated at approximately \$12,323,428 on June 30, 2005. Source: Massachusetts School Building Authority.
 - (4) These notes will be retired from a portion of the proceeds of this issue on March 1, 2006.
 - (5) 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 \$355,000.

**CITY OF CAMBRIDGE
GROSS AND NET DIRECT DEBT
as of June 30, 2005 (1)**

General Obligation Bonds (before current issue)	\$213,625,000
MWPAT and MWRA Loans	31,571,981
	<hr/>
Gross Direct Debt	245,196,981
Current Issue	67,515,000
	<hr/>
TOTAL GROSS DIRECT DEBT	312,711,981
Less:	
Self-Supporting GO Water Bonds	44,375,000
Self-Supporting GO Sewer Bonds	51,739,500
Self-Supporting GO Golf Course Bonds	680,000
Self-Supporting MWPAT and MWRA Loans	21,557,926
Self-Supporting GO Hospital Bonds	19,500,000
Self-Supporting HUD Section 108 Loan	385,000
Self-Supporting Current Issue for Sewer	10,215,000
	<hr/>
SUBTOTAL SELF-SUPPORTING	148,452,426
Less:	
Commonwealth Subsidy of MWPAT Loans (2)	10,014,055
Commonwealth Subsidy of School Debt Service (3)	11,004,821
	<hr/>
TOTAL NET DIRECT DEBT	<u>\$143,240,679</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).

(3) This figure represents the amount outstanding in principal reimbursements from the state for school construction projects as of June 30, 2005. Interest costs have been excluded from this figure in order to show only that portion of the State reimbursements which may be applied against the outstanding debt. Source: Massachusetts School Building Authority.

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 MWRA may borrow up to \$5.8 billion for its corporate purposes. 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 (1):

CITY OF CAMBRIDGE OVERLAPPING DEBT				
	<u>Outstanding</u>	<u>Authorized Unissued</u>	<u>Estimated City Share</u>	<u>Overlapping Debt</u>
Massachusetts Water Resources Authority (2)				
Sewer.....	\$3,529,647,000	(see above)	4.86%	<u>\$171,494,612</u>
Total.....				<u><u>\$171,494,612</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, 2005.

Source: City Department of Finance.

**CITY OF CAMBRIDGE
KEY DEBT RATIOS
as of June 30, 2005**

	<u>Amount (1)</u>	<u>Per Capita (2)</u>	<u>Ratio to Assessed Valuation (3)</u>
Gross Direct Debt	\$312,711,981	\$3,085	1.4%
Net Direct Debt (4).....	143,240,679	1,413	0.7
Gross Direct and Gross Overlapping Debt.....	484,206,593	4,777	2.2
Net Direct and Net Overlapping Debt	314,735,291	3,105	1.4

(1) Includes current bond issue.

(2) Based on 2000 population of 101,355.

(3) Based on January 1, 2005 value of \$21,846,898,010.

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

Source: City Department of Finance.

**CITY OF CAMBRIDGE
FIVE-YEAR DEBT SUMMARY
OUTSTANDING GENERAL OBLIGATION DEBT
FISCAL YEARS 2000 TO 2005 (1)(2)
(\$ in 000s)**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Inside	\$ 93,712	\$109,734	\$123,971	\$140,530	\$171,876
Outside:					
School	36,992	31,119	25,251	19,383	14,575
Water.....	71,485	72,702	66,789	63,820	58,746
Sub Total	<u>108,477</u>	<u>103,821</u>	<u>92,040</u>	<u>83,203</u>	<u>73,321</u>
Total.....	<u>\$202,189</u>	<u>\$213,555</u>	<u>\$216,011</u>	<u>\$223,733</u>	<u>\$245,197</u>

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

(2) Does not include current issue.

Source: City Department of Finance.

**CITY OF CAMBRIDGE
GENERAL OBLIGATION BONDS
SCHEDULE OF PRINCIPAL AND INTEREST
PAYMENTS BY FISCAL YEAR
As of June 30, 2005 (1)**

Fiscal Year	Principal	Interest	Principal This Issue	Interest This Issue	Total
2006	\$ 30,705,099	\$ 9,617,858	\$ —	\$ —	\$ 40,322,957
2007	29,786,077	8,583,531	4,205,000	2,382,188	44,956,796
2008	28,211,626	7,401,362	4,205,000	2,451,575	42,269,563
2009	27,052,903	6,280,122	4,205,000	2,304,400	39,842,425
2010	26,988,293	5,170,218	4,200,000	2,157,225	38,515,736
2011	24,069,454	4,102,062	4,200,000	2,004,975	34,376,491
2012	17,618,377	3,218,100	4,200,000	1,852,725	26,889,202
2013	14,370,160	2,562,594	4,200,000	1,695,225	22,827,979
2014	11,517,774	1,992,312	4,200,000	1,537,725	19,247,811
2015	9,007,218	1,494,595	4,200,000	1,380,225	16,082,038
2016	5,130,000	1,109,601	4,200,000	1,212,225	11,651,826
2017	5,130,000	871,426	2,550,000	1,044,225	9,595,651
2018	5,130,000	632,751	2,550,000	942,225	9,254,976
2019	3,630,000	393,001	2,550,000	840,225	7,413,226
2020	1,630,000	269,676	2,550,000	738,225	5,187,901
2021	1,130,000	210,413	2,550,000	636,225	4,526,638
2022	1,130,000	165,213	2,550,000	534,225	4,379,438
2023	1,130,000	120,013	2,550,000	429,037	4,229,050
2024	1,130,000	74,275	2,550,000	323,850	4,078,125
2025	700,000	28,000	2,550,000	216,750	3,494,750
2026	—	—	2,550,000	108,375	2,658,375
	<u>\$245,196,981</u>	<u>\$54,297,123</u>	<u>\$67,515,000</u>	<u>\$24,791,850</u>	<u>\$391,800,954</u>

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

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, 2005 including these Bonds.

Maturing Within	Amount to be Retired	Cumulative % Principal Retired
5 years	\$159,558,998	51.02%
10 years	257,141,981	82.23
20 years	312,711,981	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 2001 TO 2005**

Fiscal Year	Population (1)	Assessed Value (2)	Gross Direct Debt (3)	Ratio of Gross Direct Debt to Assessed Value	Gross Direct Debt Per Capita
2001	101,355	\$12,703,137,530	\$234,819,166	1.8%	\$2,317
2002	101,355	16,837,087,126	242,229,858	1.4	2,390
2003	101,355	17,750,735,596	251,175,958	1.4	2,478
2004	101,355	19,226,572,680	269,817,142	1.4	2,662
2005	101,355	21,348,000,524	312,711,981 (4)	1.5	3,085

(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 2001 TO 2005**

Fiscal Year	Principal	Interest	Total Debt Service	Total Expenditures (1)	Ratio of Debt Service to Total Expenditures
2001	\$17,829,926	\$8,399,329	\$26,229,255	\$289,962,340	9.0%
2002	22,510,723	9,281,559	31,792,282	312,014,726	10.2
2003	25,825,664	9,550,789	35,376,453	328,943,844	10.8
2004	28,039,796	9,223,497	37,263,293	334,865,933	11.1
2005	29,484,947	9,055,488	38,540,435	344,893,410	11.2

(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 moderate decrease from \$3,010,000 in fiscal year 2005 to \$2,830,000 in fiscal year 2006. The five year plan calls for a total of \$13,430,000 in general fund revenues or free cash 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, 2005, is a program of capital spending for the five-year period beginning July 1, 2005 and ending June 30, 2010. 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 \$159,224,490. 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 2006 TO 2010**

Expenditure Category	2006	2007	2008	2009	2010	Total
General						
Government ...	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 3,000,000
Public Safety	385,000	350,000	750,000	350,000	350,000	2,185,000
Community						
Maintenance & Development...	19,745,580	36,851,740	17,879,740	36,894,740	32,609,740	143,981,540
Human Resource						
Development	6,252,590	652,590	372,590	372,590	407,590	8,057,950
Education	400,000	400,000	400,000	400,000	400,000	2,000,000
Total	<u>\$27,383,170</u>	<u>\$38,854,330</u>	<u>\$20,002,330</u>	<u>\$38,617,330</u>	<u>\$34,367,330</u>	<u>\$159,224,490</u>

Source: "Public Investment Plan, Fiscal Year 2006 to Fiscal Year 2010."
Annual Budget Fiscal Year 2006, as adopted.

**PUBLIC INVESTMENT PROGRAM
USES AND SOURCES OF FUNDS
FISCAL YEARS 2006 TO 2010**

Uses	Total Amount	Percent of Total
General Government	\$ 3,000,000	1.88%
Public Safety	2,185,000	1.37
Community Maintenance and Development		
Housing Development	6,630,225	4.16
Economic Development	3,835,000	2.41
Streets, Highways & Transportation	15,728,475	9.88
Water & Sewer	114,057,840	71.63
Other	3,730,000	2.34
Human Resource Development	8,057,950	5.06
Education	2,000,000	1.27
Total	<u>\$159,224,490</u>	<u>100.00%</u>

Sources	Total Amount	Percent of Total
Free Cash	\$ 5,930,000	3.72%
Property Taxes	7,500,000	4.71
Block Grant	10,070,675	6.32
Parking Fund	4,600,000	2.89
Sewer Service Charge	6,450,000	4.05
Water Service Charge	5,220,000	3.28
Bond Proceeds	84,137,840	52.84
Chapter 90 Grant	7,628,475	4.79
MWRA Grant	27,550,000	17.30
Golf Course Fees	137,500	0.10
Total	<u>\$159,224,490</u>	<u>100.00%</u>

Source: "Public Investment Plan, Fiscal Year 2006 to Fiscal Year 2010."
Annual Budget Fiscal Year 2006, as adopted.

**PUBLIC INVESTMENT PROGRAM
SOURCES OF FINANCING
FISCAL YEARS 2005 TO 2010**

Financing Category	2006	2007	2008	2009	2010	Total
General Government:						
Property Taxes	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 3,000,000
Subtotal	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 3,000,000
Public Safety:						
Property Taxes	\$ 385,000	\$ 350,000	\$ 750,000	\$ 350,000	\$ 350,000	\$ 2,185,000
Subtotal	\$ 385,000	\$ 350,000	\$ 750,000	\$ 350,000	\$ 350,000	\$ 2,185,000
Community Maintenance & Development:						
Property Taxes	\$ 515,000	\$ 550,000	\$ 150,000	\$ 550,000	\$ 550,000	\$ 2,315,000
Free Cash	800,000	270,000	750,000	350,000	315,000	2,485,000
Parking Fund	600,000	1,000,000	1,000,000	1,000,000	1,000,000	4,600,000
Sewer Service Charge	1,200,000	1,200,000	1,250,000	1,400,000	1,400,000	6,450,000
Water Service Charge	820,000	1,000,000	1,000,000	1,200,000	1,200,000	5,220,000
Block Grant	1,919,045	1,919,045	1,919,045	1,919,045	1,919,045	9,595,225
Chapter 90	1,525,695	1,525,695	1,525,695	1,525,695	1,525,695	7,628,475
MWRA Grant	—	13,800,000	—	13,750,000	—	27,550,000
Bond Proceeds	12,365,840	15,587,000	10,285,000	15,200,000	24,700,000	78,137,840
Subtotal	\$19,745,580	\$36,851,740	\$17,879,740	\$36,894,740	\$32,609,740	\$143,981,540
Human Resource Development:						
Free Cash	\$ 130,000	\$ 530,000	\$ 250,000	\$ 250,000	\$ 285,000	\$ 1,445,000
Block Grant	95,090	95,090	95,090	95,090	95,090	475,450
Bond Proceeds	6,000,000	—	—	—	—	6,000,000
Golf Course Fees	27,500	27,500	27,500	27,500	27,500	137,500
Subtotal	\$ 6,252,590	\$ 652,590	\$ 372,590	\$ 372,590	\$ 407,490	\$ 8,057,950
Education:						
Free Cash	\$ 400,000	400,000	400,000	400,000	400,000	\$ 2,000,000
Subtotal	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ 2,000,000
Grand Total	\$27,383,170	\$38,854,330	\$20,002,330	\$38,617,330	\$34,367,330	\$159,224,490

Source: "Public Investment Plan, Fiscal Year 2006 to Fiscal Year 2010."
Annual Budget Fiscal Year 2006, 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, 2004, which is the system's fiscal period for reporting to the Commissioner of the Retirement of the Commonwealth of Massachusetts. The financial statements for the year ending December 31, 2005 are in the process of being prepared. 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 and a long-term debt group of accounts, each of which is a separate accounting entity. 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.

Account Group

General Long-Term Debt—This group of accounts is used to account for all long-term debt of the City except for debt issued for hospital improvements.

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 between December 1 and 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.

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 2002 through 2006. 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 2006 budget of \$384,709,016 includes all appropriations made to operating budgets prior to the calculation of the fiscal year 2006 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 2006 operating budget represents an increase of \$15,159,098, or 4.1%, over the fiscal year 2005 budget. Increases in the fiscal year 2006 budget include salary adjustments for employees which are spread over most City departments, debt service costs, health and retirement costs, and additional school expenditures of \$1,991,205.

The largest source of funding for the operating budget is property taxes. This revenue increased from a fiscal year 2005 level of \$222,953,435 (including an allocation of \$1,510,000 to the Public Investment Fund and \$1,000,000 to the Stabilization Fund) to a fiscal year 2006 level of \$222,960,291 (including \$1,500,000 allocated to the Public Investment Fund). An additional \$7,517,330 from other current revenue sources has been combined with bond authorizations of \$18,365,840 for a total capital budget of \$27,383,170.

CITY OF CAMBRIDGE
BUDGETED REVENUES AND EXPENDITURES
FISCAL YEARS 2002 THROUGH 2006
(\$ in 000s)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenues:					
Real & Personal Property Taxes(1)	\$184,430.6	\$194,735.5	\$207,099.4	\$220,443.4	\$221,460.3
Local Estimated Receipts:					
Motor Vehicle Excise	4,893.0	5,619.6	5,613.5	5,651.9	6,016.6
Water	14,014.0	14,586.7	14,415.9	14,809.0	14,869.2
Sewer	21,073.1	24,058.9	25,850.6	26,769.5	28,604.7
Interest Income	2,550.0	2,000.0	1,290.0	800.0	1,660.7
Other Local Receipts	40,552.7	40,974.8	41,522.1	42,664.4	45,467.0
Subtotal	<u>83,082.8</u>	<u>87,240.0</u>	<u>88,692.1</u>	<u>90,694.8</u>	<u>96,618.2</u>
State Aid	43,956.5	43,225.0	38,568.5	40,753.2	42,811.5
Other Available Funds	14,993.5	15,243.4	15,770.9	17,658.5	23,819.0
Total Revenues	<u>\$326,463.4</u>	<u>\$340,443.9</u>	<u>\$350,130.9</u>	<u>\$369,549.9</u>	<u>\$384,709.0</u>
Expenditures:					
Deficits to be Raised:					
Overlay	\$ 30.9	\$ 3.2	\$ 0.4	\$ 987.1	\$ 0.0
Other	3,754.7	2,820.8	132.8	144.4	148.6
Subtotal Deficits	<u>3,785.6</u>	<u>2,814.0</u>	<u>133.2</u>	<u>1,131.5</u>	<u>148.6</u>
Overlay Reserve	4,250.0	4,145.3	4,499.4	4,515.9	4,510.3
Fixed Expenses:					
State & County					
Assessments	584.4	583.2	4,639.7	5,625.1	8,224.1
Mass. Water Resources					
Authority	14,248.5	15,718.8	16,143.1	16,177.5	15,987.5
Debt Service(2)	17,447.5	19,484.3	21,462.8	23,917.1	28,075.3
Retirement System(3)	11,299.8	10,845.4	14,410.6	16,391.9	16,537.9
MBTA	6,954.1	7,081.4	7,269.2	7,421.2	7,593.3
Cambridge Public Health					
Commission	6,598.0	6,598.0	6,500.0	6,500.0	6,250.0
Other Fixed Costs(4)	1,579.2	1,634.4	1,805.8	1,954.1	2,137.2
Subtotal Fixed	<u>\$ 58,711.5</u>	<u>\$61,945.5</u>	<u>\$ 72,231.2</u>	<u>\$ 77,986.9</u>	<u>\$ 84,805.3</u>
Variable Expense (Budget):					
Schools	112,952.3	116,562.3	117,872.5	122,053.2	124,044.5
Police	27,558.1	29,768.4	29,966.0	31,515.2	33,161.6
Fire	26,298.5	27,188.1	27,793.1	28,891.8	31,003.9
Public Works:					
Water	16,339.1	17,114.2	16,759.7	17,098.1	17,104.0
Sewer	1,591.9	1,743.7	1,806.3	1,918.1	1,978.2
Highway	2,579.0	2,795.6	2,817.5	3,241.2	3,306.3
Other	16,314.3	17,079.8	16,953.1	18,488.8	19,080.5
General Government	16,336.5	16,766.0	15,679.0	18,702.0	20,028.7
Other Variable	39,746.6	42,511.0	43,619.9	44,007.2	45,537.1
Subtotal Variable	<u>\$259,716.3</u>	<u>\$271,529.1</u>	<u>\$273,267.1</u>	<u>\$285,915.6</u>	<u>\$295,244.8</u>
Total Expenditures	<u>\$326,463.4</u>	<u>\$340,443.9</u>	<u>\$350,130.9</u>	<u>\$369,549.9</u>	<u>\$384,709.0</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.

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. Until fiscal year 2004, the share required to be borne by residential real property was at least 50 percent of its share of the total taxable valuation; under legislation enacted in the beginning of 2004, however, cities and towns were authorized to reduce the required share to be borne by residential real property to at least 45 percent of its share of the total taxable valuation in fiscal year 2004, 47 percent in fiscal year 2005, 49 percent in fiscal year 2006 and 50 percent thereafter. The effective rate for open space must be at least 75 percent of the effective rate for residential real property. Until fiscal year 2004, the share of commercial, industrial and personal property was limited to not more than 175 percent of their share of the total valuation; under legislation enacted in the beginning of 2004, however, cities and towns were authorized to increase the limit on the share of the total taxable valuation of such property to not more than 200 percent in fiscal year 2004, 197 percent in fiscal year 2005, 190 percent in fiscal year 2006, 183 percent in fiscal year 2007, 175 percent in fiscal year 2008, and, if the share of such property in a particular city or town exceeded 175 percent in any of fiscal years 2004 through 2007, 170 percent in fiscal years 2009 and thereafter. The City may also exempt up to 30 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 occupied by certain small businesses under the Massachusetts general laws. 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.

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 redetermination of the fair cash value of the taxable property in each municipality. This is known as the "equalized value." The last date that the Commissioner of Revenue made his redetermination of "equalized value" for the City of Cambridge was an amount as of January 1, 2004.

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 2004, 2005, and 2006.

**CITY OF CAMBRIDGE
ASSESSED AND EQUALIZED VALUATIONS
FISCAL YEARS 2002 TO 2006**

Fiscal Year	Assessed Value(1)			Equalized Valuation(2)	% of Total Assessed Valuation to Equalized
	Real Property	Personal Property	Total		
2006	\$21,242,055,200	\$604,842,810	\$21,846,898,010	\$21,282,513,300	102.7%
2005	20,880,681,074	467,319,450	21,348,000,524	21,282,513,300	100.3
2004	18,782,704,000	443,868,680	19,226,572,680	18,243,245,900	105.4
2003	17,382,808,566	367,927,030	17,750,785,596	18,243,245,900	97.3
2002	16,531,950,616	305,136,510	16,837,087,126	12,564,293,200	134.0

(1) As of January 1, 2005, 2004, 2003, 2002, and 2001, respectively.

(2) As of January 1, 2004, 2002, and 2000, 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 2004, 2005, AND 2006**

2004 Class	Percentage Assessed Valuation	Percentage of Total Valuation	of Total Tax Levy
Residential	\$12,157,499,831	63.23%	35.66%
Commercial	4,817,575,569	25.06	43.85
Industrial.....	1,807,628,600	9.40	16.45
Personal Property	443,868,680	2.31	4.04
	<u>\$19,226,572,680</u>	<u>100.0%</u>	<u>100.0%</u>

2005 Class	Percentage Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential	\$13,871,143,472	64.98%	38.70%
Commercial	4,979,978,681	23.33	40.83
Industrial.....	2,029,558,921	9.51	16.64
Personal Property	467,319,450	2.18	3.83
	<u>\$21,348,000,524</u>	<u>100.0%</u>	<u>100.0%</u>

2006 Class	Percentage Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential	\$13,961,700,133	63.91%	36.84%
Commercial	4,929,916,582	22.57	39.49
Industrial.....	2,350,438,485	10.76	18.83
Personal Property	604,842,810	2.76	4.84
	<u>\$21,846,898,010</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 2002-2006 and the estimated full value rate based on the equalized valuations for the latest fiscal years:

**CITY OF CAMBRIDGE
PROPERTY TAX RATE
FISCAL YEARS 2002 to 2006**

<u>Fiscal Year</u>	<u>Actual Tax Rate</u>	<u>Category</u>	<u>Estimated Full Value Tax Rate(1)</u>	<u>Average Rate(2)</u>
2006	\$ 7.38	Residential	\$10.48	\$10.21
	17.86	Commercial/Industrial		
2005	\$ 7.78	Residential	\$10.57	\$10.44
	18.28	Commercial/Industrial		
2004	\$ 7.63	Residential	\$11.49	\$10.90
	19.08	Commercial/Industrial		
2003	\$ 7.26	Residential	\$10.84	\$11.14
	18.67	Commercial/Industrial		
2002	\$ 8.97	Residential	\$17.47	\$13.04
	20.30	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.

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 17.2 percent of the City's total assessable base for fiscal year 2006.

CITY OF CAMBRIDGE
10 LARGEST TAXPAYERS
Fiscal Year 2006 (1)

<u>Owner</u>	<u>Nature of Business</u>	<u>Assessed Valuation</u>	<u>Amount of Taxes</u>	<u>% of Total Tax Levy</u>
Mass. Institute of Technology	Educational	\$1,385,771,700	\$23,481,937(2)	10.53%
Lyme Properties	Commercial	557,718,600	9,792,793	4.39
Boston Properties.....	Commercial	398,823,300	7,122,984	3.19
Novartis Pharmaceuticals	Commercial	221,426,400	3,954,676	1.77
Equity Partners.....	Commercial	235,154,200	3,852,045	1.73
New England Development.....	Commercial	193,047,200	3,447,823	1.55
NOP Riverfront LLC	Commercial	180,000,400	3,214,807	1.44
One Kendall LLC	Commercial	177,489,400	3,146,925	1.41
Presidents & Fellows of Harvard College.....	Educational	283,637,800	3,058,258(2)	1.37
Draper Laboratories	Commercial	134,523,400	2,402,588	1.08
Totals.....		<u>\$3,767,592,400</u>	<u>\$63,474,836</u>	<u>28.47%</u>

(1) As of January 1, 2005.

(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 580 of the Acts of 1980, which was proposed by an initiative petition known as "Proposition 2½", was adopted at the November 4, 1980 general election and took effect on December 4, 1980. The law is subject to amendment or repeal by the State Legislature. The Legislation, as subsequently amended, 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. 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, the statute 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 the statute 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 \$65.1 million in FY06.

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 \$43,222,264. In fiscal year 2004 the City received \$38,533,452 in state aid and in fiscal year 2005 the City received \$40,753,232 in state aid. The City's fiscal year 2006 budget is based on the City receiving state aid in the amount of \$42,811,484.

Tax Limitations: Five-Year Projections

Fiscal year 2006 valuations were determined by a statistical update of all property and \$21,846,898,010 in real and personal property valuations were certified by the Massachusetts Department of Revenue. This figure represents a \$498,897,486, or 2.3%, increase over fiscal year 2005 valuations. As can be seen from the chart on the following page, it is anticipated that total assessed values will increase by an average of 4.8% annually over the fiscal year 2006 to fiscal year 2010 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 2010.

**CITY OF CAMBRIDGE
PROJECTED GROWTH IN PROPERTY VALUATION
FISCAL YEARS 2006 TO 2010**

Fiscal Year	Projected Assessments(1)	Projected Levy	Primary Levy Limit(2)	Secondary Levy Limit(3)
2006	\$21,848,898,010	\$222,960,291	\$546,222,450	\$288,048,358
2007	22,861,113,975	237,482,057	571,527,849	300,678,373
2008	24,144,384,852	250,689,019	603,609,621	314,700,549
2009	25,203,459,336	264,562,071	630,086,483	328,737,554
2010	26,370,772,948	279,047,146	659,269,324	343,197,386

-
- (1) The figures for fiscal year 2006 are those which have been certified by the Massachusetts Department of Revenue and the figures for 2007-2010 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 full revaluation was performed in fiscal year 2005 and yielded \$21.3 billion in real and personal property values with the statistical update in fiscal year 2006 producing \$21.8 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 has been among very few jurisdictions in the state which adjust values annually and thereby avoid 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, with the exception of some hotels, hospitals and nursing homes, 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 2002 to 2006.

**CITY OF CAMBRIDGE
CALCULATION OF PROPERTY TAX LEVIES
FISCAL YEARS 2002 TO 2006
(\$ in 000s)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Gross Amount to be Raised:					
Total Appropriations.....	\$343,917	\$356,135	\$370,631	\$388,081	\$402,228
Overlay Deficits from Prior Years.....	31	3	0	987	0
Other Local Expenditures.....	3,755	2,820	132	144	1,515
State and County Assessments.....	7,491	7,700	11,909	13,046	15,817
Overlay for Current Year.....	4,250	4,145	4,500	4,516	4,510
Total to be Raised	<u>\$359,444</u>	<u>\$372,803</u>	<u>\$387,172</u>	<u>\$406,774</u>	<u>\$424,070</u>
Offsets:					
Estimated Receipts from State	\$ 47,376	\$ 43,222	\$ 38,568	\$ 40,753	\$ 42,811
Prior Year's Overestimates					
of State & County Assessments	0	3	0	0	0
Local Estimated Receipts	83,887	88,655	102,842	106,168	113,586
Other Available Funds	40,736	41,202	36,162	36,900	44,713
Total Offsets	<u>\$171,999</u>	<u>\$173,082</u>	<u>\$177,572</u>	<u>\$183,821</u>	<u>201,110</u>
Tax Levy.....	<u>\$187,445</u>	<u>\$197,721</u>	<u>\$209,600</u>	<u>\$222,953</u>	<u>\$222,960</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

The City of Cambridge 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 2001 TO 2005

Fiscal Year	Tax Levy	Overlay Reserve for Abatements	Net Tax Levy(1)	Collections During Fiscal Year Payable (2)	% of Net Levy	Collections as of 6/30/05(3)	% of Net Levy
				Amount		Amount	
2005	\$222,953,435	\$4,515,930	\$218,437,505	\$214,120,685	98.0%	\$214,120,685	98.0%
2004	\$209,599,396	4,499,396	205,100,000	203,031,386	99.0	204,186,724	99.6
2003	197,720,546	4,145,298	193,575,248	192,373,785	99.4	192,986,767	99.7
2002	187,444,551	4,261,178	183,183,373	182,954,775	99.9	182,904,209	99.8
2001	178,484,966	4,290,541	174,194,425	173,621,733	99.7	175,821,020	100.9

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

Source: City Department of Finance.

**CITY OF CAMBRIDGE
OVERLAY RESERVES AND ABATEMENTS
FISCAL YEARS 2001 TO 2005**

Fiscal Year	Overlay Reserve		Abatements	
	Amount	% of Total Levy	During Fiscal Year of Each Tax Levy	Since Fiscal Year Ended (through 6/30/05)(1)
2005	\$4,515,930	2.0%	\$3,419,088	\$3,419,088
2004	4,499,396	2.1	1,781,210	2,648,192
2003	4,145,298	2.1	1,779,074	3,391,335
2002	4,261,178	2.3	807,011	2,744,371
2001	4,290,541	2.4	862,698	1,132,619

(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 2001 TO 2005**

Fiscal Year	Aggregate(1)(2)	For Current Year(1)(2)	Tax Title and Tax Possessions(2)
2005	\$ 8,812,181	\$ 4,994,258	\$ 2,603,326
2004	5,806,078	5,303,783	3,831,857
2003	4,816,887	3,328,489	4,972,580
2002	6,095,610	4,624,227	2,659,463
2001	5,403,720	4,045,619	4,322,324

(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 years.

**CITY OF CAMBRIDGE
PRINCIPAL FEDERAL AID BY SOURCE
FISCAL YEARS 2001 TO 2005**

<u>Fiscal Year</u>	<u>Community Development Block Grant</u>	<u>Other</u>	<u>Total From Federal Government</u>
2005	\$4,697,693	\$11,955,841	\$16,653,534
2004	3,313,432	8,573,053	11,886,485
2003	3,821,370	4,935,175	8,756,545
2002	3,863,126	9,717,735	13,580,861
2001	3,420,303	7,365,702	10,786,005

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 2011, 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. Approved project costs included the interest expense incurred on debt issued by a municipality to finance the school project. In recent years, demand for school building assistance grants far exceeded available funds. As of July 1, 2004, a total of 425 projects for which completed grant applications had been submitted were still on the Department of Education's project priority list awaiting approval of a grant.

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. It is expected that the Authority will continue to pay the remaining amounts of the grants for such projects in annual installments to reimburse debt service on bonds issued by the municipalities to finance such projects.

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. The Authority expects to pay grants for all of the projects on the priority waiting list by the end of fiscal year 2008. Grants for such projects are expected to be paid 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, shall be included in the approved costs of such projects.

Grant applications for new projects may not be submitted to the Authority until July 1, 2007. The range of reimbursement rates for such projects has been reduced to between 40% and 80% of approved project costs. Prior to that date, the Authority is required to engage in a comprehensive review of the school building assistance program, to recommend legislative changes, to adopt new maximum eligible cost and size standards, and to promulgate new regulations. The Authority expects to pay grants for such projects in lump sum payments as project costs are incurred. None of the interest expense incurred on debt issued by municipalities to finance 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 2001 TO 2005**

<u>Fiscal Year</u>	<u>School Construction</u>	<u>School Operations</u>	<u>Other</u>	<u>Total From State</u>
2005	\$5,808,712	\$7,545,922	\$26,775,291	\$40,129,925
2004	5,183,958	7,283,217	26,066,277	38,533,452
2003	3,466,786	6,339,999	27,969,834	37,776,619
2002	2,700,338	7,860,440	31,819,783	42,380,561
2001	2,700,338	4,755,168	32,741,263	40,196,769

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 2005, motor vehicle excise tax revenue increased from \$2.0 million to approximately \$6.5 million, an increase of approximately 225 percent. 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 2001 TO 2005**

<u>Fiscal Year</u>	<u>Receipts(1)(2)</u>
2005	\$6,452,475
2004	6,087,063
2003	6,031,393
2002	5,838,407
2001	5,921,137

(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.

RECEIPTS FROM ROOM OCCUPANCY EXCISE FISCAL YEARS 2001 to 2005

<u>Fiscal Year</u>	<u>Receipts(1)</u>
2005	\$5,461,027
2004	4,286,681
2003	4,401,259
2002	4,907,532
2001	5,651,401

(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.

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 Peat Marwick, 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 2001 through 2005, while the second table compares City revenues, expenditures, and changes in fund balance for fiscal years 2001 through 2005.

**CITY OF CAMBRIDGE
GENERAL FUND BALANCE SHEETS
FISCAL YEARS 2001 TO 2005(1)
(as of June 30)**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
ASSETS					
Cash	\$ 78,235,106	\$105,531,056	\$111,601,721	\$117,007,650	\$141,163,873
Receivables(2)					
Taxes	5,403,720	6,095,610	3,357,627	5,326,385	5,016,863
Tax Title and Possessions.....	4,322,324	2,659,463	4,972,580	3,831,857	2,603,326
Motor Vehicle Excise	2,787,847	3,353,382	530,800	718,667	558,413
Departmental	1,694,381	6,217,887	2,278,061	8,129,662	9,339,475
Intergovernmental.....	—	—	—	—	16,484,837
Due From Component					
Unit.....	25,650,000	24,000,000	22,500,000	21,000,000	19,500,000
Other Assets.....	—	—	—	193,767	884,382
Total Assets	<u>\$118,093,378</u>	<u>\$147,857,398</u>	<u>\$145,240,789</u>	<u>\$156,207,988</u>	<u>\$195,551,169</u>
LIABILITIES AND FUND EQUITY					
Warrants Payable.....	\$ —	\$ 967,542	\$ 765,053	\$ 1,686,838	657,175
Tax Abatement Refunds	16,578,406	5,154,476	2,500,000	2,482,562	2,655,490
Other	16,550,243	17,566,662	15,987,520	14,483,080	16,628,748
Deferred Revenue.....	<u>38,413,070</u>	<u>41,191,233</u>	<u>34,604,125</u>	<u>37,582,878</u>	<u>51,355,574</u>
Total Liabilities	<u>\$ 71,541,719</u>	<u>\$ 64,879,913</u>	<u>\$ 53,856,698</u>	<u>\$ 56,235,358</u>	<u>\$71,296,987</u>
Fund Equity:					
Fund Balances					
Reserved for Encumbrances ..	9,121,873	7,997,671	6,048,103	8,457,734	13,404,205
Reserved for Specific Purposes..	5,550,000	5,393,075	49,369	1,035,752	10,799,657
Undesignated.....	<u>31,879,786</u>	<u>69,586,739</u>	<u>85,286,619</u>	<u>90,479,144</u>	<u>100,050,320</u>
Total Fund Equity	<u>46,551,659</u>	<u>82,977,485</u>	<u>91,384,091</u>	<u>99,972,630</u>	<u>124,254,182</u>
Total Liabilities & Fund Equity ...	<u>\$118,093,378</u>	<u>\$147,857,398</u>	<u>\$145,240,789</u>	<u>\$156,207,988</u>	<u>\$195,551,169</u>

(1) See Appendix A for complete financial report for 2005. Copies of the financial reports for 2001, 2002, 2003, and 2004 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 Peat Marwick for the fiscal years ended June 30, 2001, 2002, 2003, 2004, and 2005.

CITY OF CAMBRIDGE
GENERAL FUND—COMPARATIVE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL FOR FISCAL YEARS 2001 TO 2005 (1)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Revenues:					
Property Taxes	\$174,681,244	\$198,805,559	\$198,783,571	\$206,354,390	\$220,910,263
In Lieu of Tax Receipts	4,807,067	5,316,254	4,644,373	6,329,176	6,839,369
Hotel/Motel Tax	5,651,401	4,907,532	4,401,259	4,286,681	5,461,027
Intergovernmental Revenue	47,022,550	46,822,454	42,690,497	42,601,103	43,801,641
Sewer Use	20,563,466	23,836,866	27,061,324	26,546,224	28,661,479
Motor Vehicle Excise	5,921,137	5,838,407	6,031,393	6,087,063	6,452,475
Interest	3,208,418	2,344,360	1,512,730	1,180,958	2,888,184
Other	23,498,390	20,273,302	23,720,244	22,382,874	23,167,225
Total Revenues	<u>285,353,673</u>	<u>308,144,734</u>	<u>308,845,391</u>	<u>315,768,469</u>	<u>338,181,663</u>
Expenditures:					
General Government	22,544,458	26,804,656	20,820,149	23,987,401	27,402,446
Public Safety	66,775,542	70,386,768	72,870,295	74,323,702	77,756,125
Community Maintenance and Development	24,591,714	24,171,500	26,956,635	27,019,260	28,551,378
Human Resource Development	15,970,240	17,531,399	19,055,556	19,127,273	20,668,301
Education	105,323,655	112,961,033	117,721,213	114,518,995	111,212,837
Judgements and Claims	708,847	205,418	155,696	533,419	224,964
State Assessments	21,106,942	28,018,935	29,698,511	33,617,517	33,886,544
Debt Service:					
Principal	7,689,430	11,379,352	14,050,350	16,192,014	18,403,133
Interest	3,679,415	5,008,120	5,018,720	5,234,505	5,672,929
Total Expenditures	<u>268,390,243</u>	<u>296,467,181</u>	<u>306,347,125</u>	<u>314,554,086</u>	<u>323,778,657</u>
Transfers from (to) Other Funds: (Net)	<u>(13,916,191)</u>	<u>1,820,125</u>	<u>5,908,340</u>	<u>7,374,156</u>	<u>9,878,546</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	3,047,239	13,497,678	8,406,606	8,588,539	24,281,552
Fund Equity at beginning of year	<u>43,504,420</u>	<u>69,479,807(2)</u>	<u>82,977,485</u>	<u>91,384,091</u>	<u>99,972,630</u>
Fund Equity at end of year	<u>\$ 46,551,659</u>	<u>\$ 82,977,485</u>	<u>\$ 91,384,091</u>	<u>\$ 99,972,630</u>	<u>\$124,254,182</u>

(1) Does not include water revenues and expenditures.

(2) The fund equity at the beginning of fiscal year 2002 was recast to conform with the requirements of GASB.

Several trust funds were reclassified to the General Fund.

Source: Audit Reports of KPMG Peat Marwick for the fiscal years ended June 30, 2001, 2002, 2003, 2004, and 2005.

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 2001 TO 2005**

<u>July 1</u>	<u>Surplus Revenue or (Deficit)(1)(2)</u>	<u>Free Cash</u>
2005	\$89,848,847	\$53,554,528
2004	74,678,233	34,868,986
2003	74,576,940	45,049,838
2002	62,058,818	28,706,934
2001	48,996,299	24,995,755

- (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 Peat Marwick 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 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 2½ (see "Property Tax Limitations" under "PROPERTY TAXATION" above.)

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, 2028, with annual increases in the scheduled payment amounts of not more than 4.5 percent. 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.

Under recent legislation, cities and towns that accepted its provisions and that obtained certain state approvals therefor were allowed, within limits, to reduce the amount of their scheduled appropriations for fiscal year 2004 and fiscal year 2005 for the unfunded portion of their pension liability to offset recent reductions in state aid. Cities and towns that reduced such appropriations were required to revise their retirement system funding schedule for eliminating their unfunded pension liability and were allowed to extend such schedule by one year, provided that in no event could such funding schedule extend beyond June 30, 2028.

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. These cost of living adjustments are currently limited by statute to a maximum of \$360 per year.

In addition to pension benefits, cities and towns may provide retired employees with payments for a portion of their health care and life insurance benefits. These benefit payments are generally provided on a pay-as-you-go basis.

The annual contributions of the City to the contributory and non-contributory retirement system for the 2002 to 2006 fiscal years are set forth below:

**CITY OF CAMBRIDGE
CONTRIBUTIONS TO CITY PENSION FUNDS
FISCAL YEARS 2002 TO 2006**

<u>Fiscal Year</u>	<u>Contributory (1)</u>	<u>Non-contributory</u>	<u>Total</u>
2006	\$23,530,811	\$1,350,000	\$24,880,811
2005	23,019,300	1,350,000	24,369,300
2004	22,049,645	1,350,000	23,399,645
2003	21,398,751	1,400,000	22,798,751
2002	22,030,450	1,450,000	23,480,450

(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 \$85,606,636 as of December 31, 2003. In January, 1991, the City established a state-approved funding schedule that will eliminate the City's unfunded actuarial liabilities by June 30, 2013.

For additional information relating to the City's pension system as well as certain life insurance and health care benefits for retirees, see footnotes 8 and 9 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 66.1 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-Wide	323	6/30/08
Teachers and Administrators (Mass. Teachers Assoc.)	School	767	8/31/06
Clerical	School	75	6/30/06
Custodians (Local 1611 AFL-CIO)	School	72	6/30/06
Food Service	School	55	6/30/06
Safety Specialist	School	13	6/30/06
Paraprofessionals (affiliated with Mass. Teachers Assoc.)	School	204	8/31/06
Substitute Teachers	School	70	8/31/06
Family Resource Liaison (AFSNE)	School	22	6/30/06
International Assoc. of Firefighters	Fire	253	6/30/06
Patrol Officers	Police	203	6/30/06
Superior Officers	Police	51	6/30/06
Traffic Supervisors	Police	46	6/30/08
Independent Water Workers Association	Water	30	6/30/08
Professional Librarians	Library	68	6/30/06
Inspectional Services (Building, Trades)	Inspectional	18	6/30/08
Childcare Workers	Human Services	33	6/30/08
Supervisors	Public Works	12	6/30/06
		2,315	

During the winter and spring of 2006, the City will be in negotiations with those units whose contracts will expire on June 30, 2006. It is expected that these negotiations will progress in a satisfactory manner.

Source: City Personnel Department.

/s/ Louis A. DePasquale
City Treasurer

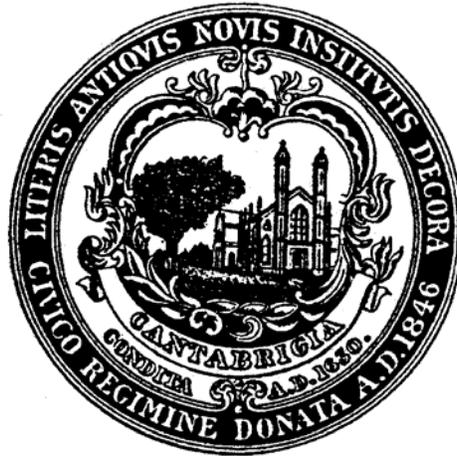
February 1, 2006

CITY OF CAMBRIDGE, MASSACHUSETTS

Basic Financial Statements, Required Supplementary Information,
and Supplemental Schedules

June 30, 2005

(With Independent Auditors' Report Thereon)



CITY OF CAMBRIDGE, MASSACHUSETTS

Comprehensive
Annual Financial Report

June 30, 2005

Table of Contents

	Page
Financial Section:	
Independent Auditors' Report	A - 3 – A - 4
Management's Discussion and Analysis – Required Supplementary Information	A - 5 – A - 16
Basic Financial Statements:	
Statement of Net Assets	A - 17
Statement of Activities	A - 18
Balance Sheet – Governmental Funds	A - 19
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	A - 20
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	A - 21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	A - 22
Statement of Net Assets – Proprietary Fund	A - 23
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Fund	A - 24
Statement of Cash Flows – Proprietary Fund	A - 25
Statement of Fiduciary Net Assets	A - 26
Statement of Changes in Fiduciary Net Assets	A - 27
Notes to Basic Financial Statements	A - 28 – A - 51
Required Supplementary Information:	
Schedule of Funding Progress	A - 52
Schedule of Employers' Contributions	A - 52
Notes to Schedules	A - 53
Schedule of Revenues and Expenditures – Budgetary Basis – General Fund – Budget and Actual	A - 54
Notes to Schedule	A - 55
Supplemental Statements and Schedules:	
Schedule of Expenditures – Budgetary Basis – General Fund	A - 57 – A - 62
Other Governmental Funds	A - 63
Combining Financial Statements:	
Combining Balance Sheet – Other Governmental Funds	A - 64
Combining Statement of Revenues, Expenditures, and Changes in Fund Equity – Other Governmental Funds	A - 65
Agency Funds	A - 66
Combining Statement of Changes in Assets and Liabilities – Agency Funds	A - 67 – A - 68
Other Schedules	A - 69
Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes	A - 70 – A - 72
Schedule of Bonds and Notes Payable	A - 73 – A - 74



KPMG LLP
99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000
Fax 617 988 0800
Internet www.us.kpmg.com

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, as of and for the year ended June 30, 2005, 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 of Cambridge'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 opinion, 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.

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, 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2005 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 on pages A - 5 through A - 16, the schedules of funding progress and employers' contributions on pages A - 52 and A - 53, and the schedule of revenues and expenditures – budgetary basis on pages A - 54 and A - 55 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. 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 introductory section, supplemental statements and schedules, and statistical section 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. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 9, 2005

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2005

(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, 2005. 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 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 the 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 serves as a useful indicator of whether the 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, 2005

(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 in which the City has financial accountability and provides operating subsidies. This entity, The Cambridge Public Health Commission, (CPHC) operates similar to a private sector business and the business-type activity described above.

Complete financial statements for the CPHC can be obtained from its administrative offices located at 10 Presidents Way, 5th Floor, Medford, Massachusetts, 02155.

Fund Financial Statements

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison will assist the reader in understanding the long-term impact of the government's near-term financing decisions. The governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide reconciliations to facilitate the comparison.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2005

(Unaudited)

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

The City has several governmental funds; two 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 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 trend information for the Cambridge Retirement System which includes the schedule of funding progress, schedule of employers' contributions and related notes.

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 - 17 of the financial statements.

The City's combined net assets (government and business-type activities) exceeded its liabilities at fiscal year ending June 30, 2005 by \$590.6 million (presented as net assets). Of this amount, \$192.6 million was reported as

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information
Management's Discussion and Analysis

June 30, 2005

(Unaudited)

“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 infrastructures (roads, sewer pipes, dams, and other immovable assets), less any related debt used to acquire that asset that is still outstanding – the amount is \$394.3 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 \$242.6 million up 25% over prior year; receivables, net of allowance, of \$45 million up 60% over prior year due primarily to the recognition of \$16.5 million from the Commonwealth of Massachusetts School Building Authority (see note 13 for more information); and \$19.5 million due from the Cambridge Public Health Commission.

Governmental activities long term liabilities included \$224.8 million in general obligation bonds and notes payable; \$17.8 million in compensated absence liabilities for unused sick and vacation; \$6.1 million in future year workers compensation benefits. The major increase in the long-term liabilities is the net increase in general obligation bonds of \$57.2 million which will be used for a public safety building, sewer projects, library remodeling and other large capital projects. Other liabilities balance of \$27.9 million includes tax abatement refunds and other accrued liabilities, including payroll, interest and other items.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information
Management's Discussion and Analysis

June 30, 2005

(Unaudited)

Business type activity long-term liabilities include \$58.7 million in general obligation bonds and \$.5 million in compensated absence costs and \$.5 million future year workers compensation 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, net of current year issuance of \$1.2 million to fund an automatic meter reading system for water billing.

Condensed Schedule of Net Assets

June 30, 2005 and 2004

(In millions)

	Governmental activities		Business-type activity		Total primary government	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Current and other assets	\$ 309.7	242.3	9.2	11.6	318.9	253.9
Capital assets	473.5	412.0	137.8	137.1	611.3	549.1
Total assets	\$ 783.2	654.3	147.0	148.7	930.2	803.0
Long-term liabilities	\$ 251.0	189.5	59.8	64.6	310.8	254.1
Other liabilities	27.9	25.6	0.9	1.1	28.8	26.7
Total liabilities	\$ 278.9	215.1	60.7	65.7	339.6	280.8
Net assets:						
Invested in capital assets, net of debt	\$ 315.2	300.3	79.1	76.3	394.3	376.6
Restricted	3.7	5.4	—	—	3.7	5.4
Unrestricted	185.4	133.5	7.2	6.7	192.6	140.2
Total net assets	\$ 504.3	439.2	86.3	83.0	590.6	522.2

Statement of Changes in Net Assets

The City's total net assets increased by \$68.4 million in fiscal year 2005 of which the governmental activities net assets increased \$65.1 million and the business-type activities increased \$3.3 million.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information
Management's Discussion and Analysis

June 30, 2005

(Unaudited)

This summary of net changes is based upon the statement found on page A - 18 of the financial statements.

Condensed Schedule of Changes in Net Assets

June 30, 2005

(In millions)

	Governmental activities		Business-type activity		Total primary government	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Revenues:						
Program revenues:						
Charges for services	\$ 63.3	56.1	18.2	16.9	81.5	73.0
Operating grants and contributions	24.5	23.9	—	—	24.5	23.9
Capital grants and contributions	4.6	5.5	—	—	4.6	5.5
General revenues:						
Taxes:						
Property taxes levied	214.9	211.4	—	—	214.9	211.4
Excises	11.8	10.6	—	—	11.8	10.6
Payment in lieu of taxes	6.8	6.3	—	—	6.8	6.3
Grants and contributions not restricted	43.8	42.6	—	—	43.8	42.6
Investment income	3.9	1.7	0.1	0.1	4.0	1.8
Miscellaneous	12.5	21.2	—	—	12.5	21.2
Total revenues	386.1	379.3	18.3	17.0	404.4	396.3
Expenses:						
General government	27.6	26.1	—	—	27.6	26.1
Public safety	81.9	72.6	—	—	81.9	72.6
Community maintenance and development	41.7	43.7	—	—	41.7	43.7
Human resource development	27.7	25.6	—	—	27.7	25.6
Education	124.8	123.7	—	—	124.8	123.7
Intergovernmental	33.9	33.6	—	—	33.9	33.6
Water department	—	—	14.5	13.7	14.5	13.7
Interest	6.2	5.6	—	—	6.2	5.6
Total expenses	343.8	330.9	14.5	13.7	358.3	344.6
Excess before transfers	42.3	48.4	3.8	3.3	46.1	51.7
Transfers	0.5	0.4	(0.5)	(0.4)	—	—
Special item	22.3	—	—	—	22.3	—
Change in net assets	65.1	48.8	3.3	2.9	68.4	51.7
Net assets – beginning	439.2	390.4	83.0	80.1	522.2	470.5
Net assets – ending	\$ 504.3	439.2	86.3	83.0	590.6	522.2

CITY OF CAMBRIDGE, MASSACHUSETTS

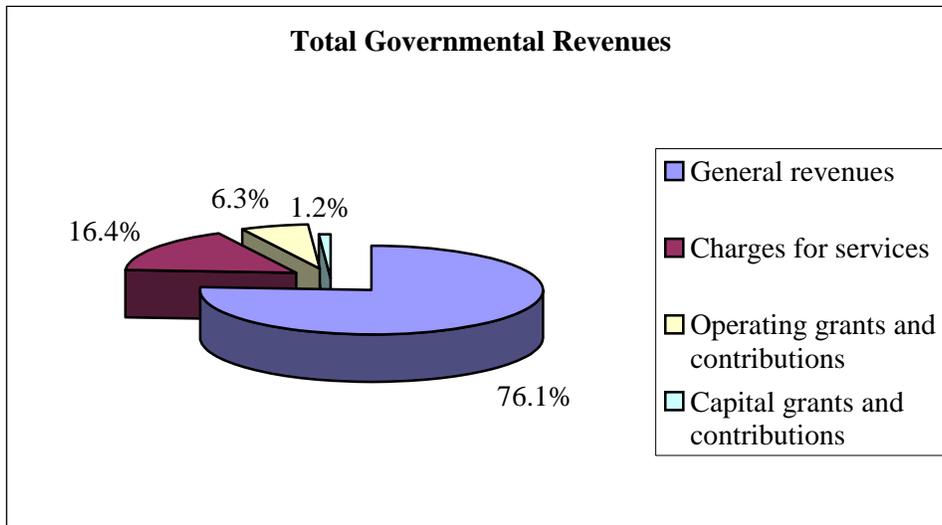
Required Supplementary Information
Management's Discussion and Analysis

June 30, 2005

(Unaudited)

Total Revenues

Total governmental activities revenues for the City are comprised of general revenues of \$293.7 million, charges for services \$63.3 million, operating grants and contributions \$24.5 million and capital grants and contributions of \$4.6 million.



General

Real estate tax revenues are the City's largest revenue source at \$214.9 million representing 73.2% of general revenues. The assessed tax valuation base is \$21.3 billion up from \$19.2 billion assessed in the prior year showing an 11.1% increase mainly due to new construction.

Grants and contributions not restricted to specific programs is \$43.8 million representing 14.9% of general revenues and includes state cherry sheet revenues of \$40.4 million, and other unrestricted contributions. The cherry sheet revenues are up 7% in the current year.

Program

Charges for services are \$63.3 million and represent a variety of department revenues. Charges for services increased in the current year by \$7.2 million or 12.8%. The public safety portion of \$26.7 million includes several types of permit revenues, traffic and moving violation revenues, and City garage revenues. Public safety revenues increased \$3.4 million due to an increase in building permits, plan review and inspectional certificate revenues. The community maintenance and development portion of \$31.3 million includes sewer service revenues, community cable revenues, as well as, other public works type fees. This category increased by \$3.3 million due primarily to an increase in water consumption and an overall water/sewer rate increase of 7.8%.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2005

(Unaudited)

Operating grants and contributions of \$24.5 million represents several federal and state grants restricted to specific grant conditions. This amount accounts for approximately 6.3% of the total City revenues. There is an increase of \$.6 million over prior year due to the City's continuing grant monitoring efforts during 2005.

Capital grants and contributions of \$4.6 million include community development capital grants, state revolving grants, and other capital restricted revenues. There is a decrease of \$.9 million, which is the result of lower state MWRA grant revenues.

Expenses

For fiscal year ended June 30, 2005, expenses for governmental activities totaled \$343.8 million, which cover a range of services. On the whole, the City's expenditures increased \$12.9 million or 3.9% over prior year.

Education continues to be one of the City's highest priorities and commitments representing \$124.8 million or 36.3% of the total governmental activity expenses.

Another important issue to the City is affordable housing and the preservation of open space. This is the fourth 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 2005, the City spent \$4.5 million from the Affordable Housing Trust to subsidize housing projects.

General Governmental expenses increased approximately \$1.4 up approximately 5% compared to fiscal year 2004 due primarily to an increase in salary and fringe benefit costs.

Business-Type Activity

Business-type activity increased net assets by \$3.3 million, accounting for 4.8% of the total growth in the City's net assets.

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 \$233.1 million. Of this amount, \$17.0 million is reserved for other purposes and \$35.8 million reserved for encumbrances. This leaves an unreserved balance of \$180.3 million.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$100.1 million, while the total fund balance was \$124.3 million. As a measure of the General Funds liquidity, it may be useful to compare both unreserved and total fund balances to total fund expenditures. Unreserved fund balance represents 30.9% of total General Fund expenditures, while the total balance represents 38.4% of that same amount.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2005

(Unaudited)

Proprietary Fund

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

Unrestricted net assets of the Water Fund at the end of the year was \$7.2 million and an investment in capital assets, net of related debt of \$79.1 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 2005 actual revenues on a budgetary basis totaled \$333.3 million. This represents an increase of \$24.0 million or 7.8% from fiscal year 2004. Property taxes are the single largest revenue source, representing approximately 65.5% of General Fund revenues, net of abatements. Real and personal property tax revenues, net of abatements, increased by \$13.3 million, or 6.5%. Intergovernmental receipts comprise the City's next largest revenue source, representing 13.1%. Sewer receipts increased by \$2.1 million to \$28.7 million.

Increase of \$1.2 million in the hotel/motel excise reflect the rebounding local economy during fiscal year 2005.

The 120.5% increase in investment income from \$1.0 million to \$2.2 million was the result of higher interest rates earned on its cash and investment balances.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information
Management's Discussion and Analysis

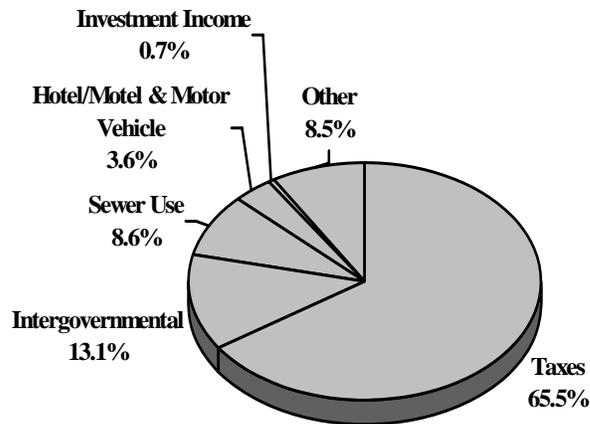
June 30, 2005

(Unaudited)

The following table and graph display the dollar amounts received from various sources of revenue for fiscal year 2005 and compares these amounts to those received in fiscal year 2004.

General Fund Revenues
Budgetary Basis
Fiscal Year 2005
(Dollars in thousands)

Revenue source	2005		2004		Increase (decrease) from fiscal year 2004	
	Amount	Percent	Amount	Percent	Amount	Percent
Taxes, net of abatements	\$ 218,438	65.5%	\$ 205,100	66.3%	\$ 13,338	6.5%
Intergovernmental	43,802	13.1	42,601	13.8	1,201	2.8
Sewer use	28,661	8.6	26,546	8.6	2,115	8.0
Excise taxes:						
Hotel/motel	5,461	1.6	4,287	1.4	1,174	27.4
Motor vehicle	6,452	1.9	6,087	2.0	365	6.0
Investment income	2,223	0.7	1,008	0.3	1,215	120.5
Other	28,309	8.5	23,668	7.7	4,641	19.6
Total	333,346	100.0%	309,297	100.0%	24,049	7.8%
Net transfers in (out)	5,845		8,856		(3,011)	
Total, net of transfers	\$ 339,191		\$ 318,153		\$ 21,038	



Expenditures

During fiscal year 2005, total expenditures increased on a budgetary basis by 3.4% from \$324.3 million to \$335.2 million.

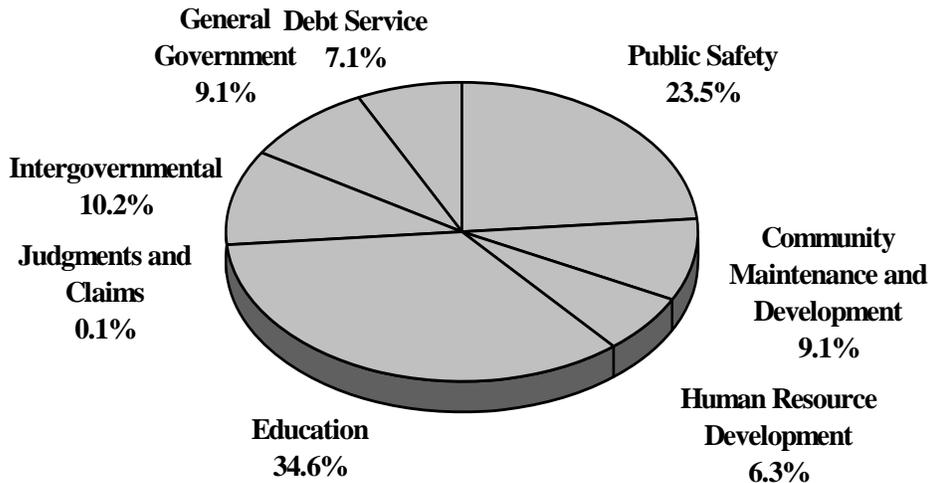
CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information
 Management's Discussion and Analysis
 June 30, 2005
 (Unaudited)

As part of the agreement between the City and the CPHC, the City will continue to subsidize the operations of the CPHC for the year ended June 30, 2005. The City's intergovernmental expenditures include \$6.5 million of subsidy to the CPHC. This amount is consistent with previous years.

**General Fund Expenditures
 Budgetary Basis
 Fiscal Year 2005
 (Dollars in thousands)**

Expenditure function	2005		2004		Increase (decrease) from fiscal year 2004	
	Amount	Percent	Amount	Percent	Amount	Percent
General government	\$ 30,596	9.1%	\$ 29,847	9.2%	\$ 749	2.5%
Public safety	78,618	23.5	73,786	22.8	4,832	6.5
Community maintenance and development	30,674	9.1	28,130	8.7	2,544	9.0
Human resource development	21,094	6.3	19,848	6.1	1,246	6.3
Education	115,840	34.6	117,057	36.1	(1,217)	(1.0)
Judgments and claims	224	0.1	533	0.2	(309)	(58.0)
Intergovernmental	34,244	10.2	33,618	10.4	626	1.9
Debt service	23,951	7.1	21,435	6.6	2,516	11.7
Grand total	\$ 335,241	100.0%	\$ 324,254	100.0%	\$ 10,987	3.4%



Capital Asset and Debt Administration

Capital Assets

As of June 30, 2005, the City's investment in capital assets for its governmental and business-type activity amounted to \$611.3 million (net of depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, open space, road and highways.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information
 Management's Discussion and Analysis
 June 30, 2005
 (Unaudited)

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 beginning on page A - 39.

Debt

At year-end, the City had \$283.5 million in outstanding bonds and notes compared to \$231.4 million last year. That is an increase of \$52.1 million or 22.5%.

	Governmental activities		Business-type activity		Totals	
	2005	2004	2005	2004	2005	2004
	(In millions)					
General obligation bonds and notes payable	\$ 224.8	167.6	58.7	63.8	283.5	231.4

The City maintains bond ratings with Fitch IBCA of AAA, Moody's Investors Service Inc. of Aaa, and Standard & Poor's Corporation of AAA. The true interest rate for the current year bond sale was 3.38%.

The Commonwealth of Massachusetts statutorily limits the amount of general obligation debt a governmental entity may issue to 5.0% of the City's equalized assessed valuation. The current debt limitation is \$1.1 billion.

Additional information on the City's debt can be found in note 8 beginning on page A - 43.

Economic Factors and Next Year's Budgets and Rates

The City's tax levy stabilized at \$223.0 million in fiscal year 2006 due primarily to an increase of \$4.0 million in the amount of free cash used to affect the tax rate. The stabilization of the tax rate was the primary factor in the City's excess tax levy capacity, an extremely important indication of the City's financial health, increasing from \$44.7 million in FY05 to \$65.1 million for FY 06.

The operating budget increased 4.2% over FY 05 budget. The increase is attributable to a 5.0% salary increase cost for all employees; a 9.7% increase in employee health insurance; a 2.5% increase in employee pension costs; 1.6% in school spending and a debt service increase of 17.4%. The capital budget of \$27.4 million is a decrease of approximately \$11.6 million from the prior year.

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, 2005

Assets	Primary government			Component unit
	Governmental activities	Business-type activity	Total	
Cash and investments	\$ 241,993,370	5,151,605	247,144,975	151,860,207
Cash and investments held by trustees	600,000	—	600,000	24,995,696
Receivables, net:				
Property taxes	5,016,863	—	5,016,863	—
Motor vehicle excise	558,413	—	558,413	—
Tax title and possessions	2,603,326	—	2,603,326	—
Intergovernmental	23,036,519	—	23,036,519	—
Other	13,788,245	4,853,234	18,641,479	26,794,176
Other assets	1,734,276	—	1,734,276	23,142,183
Internal balances	838,611	(838,611)	—	—
Due from component unit	19,500,000	—	19,500,000	—
Capital assets:				
Nondepreciable	250,544,780	42,967,092	293,511,872	14,567,872
Depreciable, net	222,955,547	94,869,644	317,825,191	201,507,358
Total assets	<u>783,169,950</u>	<u>147,002,964</u>	<u>930,172,914</u>	<u>442,867,492</u>
Liabilities				
Warrants and accounts payable	1,258,767	16,923	1,275,690	62,686,376
Accrued liabilities:				
Tax abatement refunds	6,273,000	—	6,273,000	—
Accrued payroll	11,132,423	38,482	11,170,905	14,042,865
Accrued interest	2,429,809	931,551	3,361,360	—
Other	6,757,802	—	6,757,802	4,817,478
Deferred revenue	—	—	—	57,834,702
Due to primary government	—	—	—	19,500,000
Long-term liabilities:				
Due within one year:				
Bonds and notes payable	24,822,015	6,267,332	31,089,347	—
Capital leases	—	—	—	7,484,155
Due to third parties	—	—	—	22,821,702
Compensated absences	6,363,000	147,000	6,510,000	12,316,659
Landfill	25,000	—	25,000	—
Claims	3,457,000	122,000	3,579,000	—
Due in more than one year:				
Bonds and notes payable	199,934,536	52,478,367	252,412,903	—
Capital leases	—	—	—	23,379,431
Due to third parties	—	—	—	24,372,303
Compensated absences	11,424,000	311,000	11,735,000	—
Landfill	375,000	—	375,000	—
Claims	2,623,000	396,000	3,019,000	—
Other	1,953,733	29,452	1,983,185	—
Total liabilities	<u>278,829,085</u>	<u>60,738,107</u>	<u>339,567,192</u>	<u>249,255,671</u>
Net Assets				
Investment in capital assets, net of related debt	315,270,305	79,061,585	394,331,890	165,711,644
Restricted for:				
Community preservation	260,000	—	260,000	—
Expendable permanent funds	936,366	—	936,366	—
Nonexpendable permanent funds	1,894,568	—	1,894,568	—
Other purposes	600,000	—	600,000	4,681,019
Unrestricted	185,379,626	7,203,272	192,582,898	23,219,158
Total net assets	<u>\$ 504,340,865</u>	<u>86,264,857</u>	<u>590,605,722</u>	<u>193,611,821</u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Activities

Year ended June 30, 2005

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	\$ 27,614,108	503,519	—	—	(27,110,589)	—	(27,110,589)	—
Public safety	81,863,575	26,731,634	92,179	—	(55,039,762)	—	(55,039,762)	—
Community maintenance and development	41,674,280	31,311,866	1,439,737	4,556,870	(4,365,807)	—	(4,365,807)	—
Human resource development	27,748,356	4,786,376	8,097,437	—	(14,864,543)	—	(14,864,543)	—
Education	124,812,359	—	14,891,881	—	(109,920,478)	—	(109,920,478)	—
Intergovernmental	33,886,544	—	—	—	(33,886,544)	—	(33,886,544)	—
Interest on long term debt	6,184,656	—	—	—	(6,184,656)	—	(6,184,656)	—
Total governmental activities	<u>343,783,878</u>	<u>63,333,395</u>	<u>24,521,234</u>	<u>4,556,870</u>	<u>(251,372,379)</u>	<u>—</u>	<u>(251,372,379)</u>	<u>—</u>
Business-type activity:								
Water	14,456,090	18,153,081	—	—	—	3,696,991	3,696,991	—
Total business-type activity	<u>14,456,090</u>	<u>18,153,081</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,696,991</u>	<u>3,696,991</u>	<u>—</u>
Total primary government	<u>\$ 358,239,968</u>	<u>81,486,476</u>	<u>24,521,234</u>	<u>4,556,870</u>	<u>(251,372,379)</u>	<u>3,696,991</u>	<u>(247,675,388)</u>	<u>—</u>
Component unit:								
Cambridge Public Health Commission	\$ 646,864,899	187,300,158	463,439,622	20,000,000	—	—	—	23,874,881
Total component units	<u>\$ 646,864,899</u>	<u>187,300,158</u>	<u>463,439,622</u>	<u>20,000,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>23,874,881</u>
General revenues:								
Taxes:								
Property taxes, levied for general purposes	—	—	—	—	\$ 214,906,034	—	214,906,034	—
Excises	—	—	—	—	11,753,246	—	11,753,246	—
Payments in lieu of taxes	—	—	—	—	6,839,369	—	6,839,369	—
Grants and contributions not restricted	—	—	—	—	43,801,641	—	43,801,641	—
Investment income	—	—	—	—	3,873,379	135,426	4,008,805	2,321,270
Miscellaneous	—	—	—	—	12,480,304	—	12,480,304	—
Special item	—	—	—	—	22,293,549	—	22,293,549	—
Transfers	—	—	—	—	531,835	(531,835)	—	—
Total general revenues and transfers	—	—	—	—	<u>316,479,357</u>	<u>(396,409)</u>	<u>316,082,948</u>	<u>2,321,270</u>
Change in net assets	—	—	—	—	65,106,978	3,300,582	68,407,560	26,196,151
Net assets – beginning	—	—	—	—	<u>439,233,887</u>	<u>82,964,275</u>	<u>522,198,162</u>	<u>167,415,670</u>
Net assets – ending	—	—	—	—	<u>\$ 504,340,865</u>	<u>86,264,857</u>	<u>590,605,722</u>	<u>193,611,821</u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Balance Sheet – Governmental Funds

June 30, 2005

Assets	General	Capital fund	Other governmental funds	Total governmental funds
Cash and investments	\$ 141,163,873	56,869,191	43,960,306	241,993,370
Cash and investments held by trustees	—	—	600,000	600,000
Receivables, net:				
Property taxes	5,016,863	—	—	5,016,863
Motor vehicle excise	558,413	—	—	558,413
Tax title and possessions	2,603,326	—	—	2,603,326
Intergovernmental	16,484,837	2,599,173	3,952,509	23,036,519
Departmental and other	9,339,475	—	4,448,770	13,788,245
Total receivables	<u>34,002,914</u>	<u>2,599,173</u>	<u>8,401,279</u>	<u>45,003,366</u>
Other assets	884,382	—	—	884,382
Due from other funds	—	2,501,894	—	2,501,894
Due from component unit	19,500,000	—	—	19,500,000
Total assets	<u>\$ 195,551,169</u>	<u>61,970,258</u>	<u>52,961,585</u>	<u>310,483,012</u>
Liabilities and Fund Balances				
Liabilities:				
Warrants and accounts payable	\$ 657,175	—	601,592	1,258,767
Accrued liabilities:				
Tax abatements	2,655,490	—	—	2,655,490
Claims	3,457,000	—	—	3,457,000
Accrued payroll	11,079,181	—	53,242	11,132,423
Other	2,059,842	3,072,057	625,903	5,757,802
Deferred revenue	51,355,574	—	140,311	51,495,885
Due to other funds	32,725	—	1,630,558	1,663,283
Total liabilities	<u>71,296,987</u>	<u>3,072,057</u>	<u>3,051,606</u>	<u>77,420,650</u>
Fund balances:				
Reserved for:				
Deposits	690,000	—	—	690,000
Encumbrances	13,404,205	17,301,713	5,110,519	35,816,437
Subsequent year expenditures	10,061,000	—	—	10,061,000
Reserved for specific purposes	48,657	—	860,000	908,657
Loans	—	—	2,412,375	2,412,375
Permanent funds	—	—	2,830,934	2,830,934
Unreserved (deficit), reported in:				
General fund	100,050,320	—	—	100,050,320
Capital fund	—	41,596,488	—	41,596,488
Special revenue funds	—	—	38,696,151	38,696,151
Total fund balances	<u>124,254,182</u>	<u>58,898,201</u>	<u>49,909,979</u>	<u>233,062,362</u>
Total liabilities and fund balances	<u>\$ 195,551,169</u>	<u>61,970,258</u>	<u>52,961,585</u>	<u>310,483,012</u>

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, 2005

Total fund balance – governmental funds	\$ 233,062,362
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	473,500,327
Adjust deferred revenues to record tax revenues on an accrual basis	51,495,885
Bond issuance costs are capitalized in the government wide statements	849,894
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
General obligation bonds and notes	(224,756,551)
Accrued interest on bonds	(2,429,809)
Compensated absences	(17,787,000)
Landfill	(400,000)
Claims	(2,623,000)
Tax abatements	(3,617,510)
Other	(2,953,733)
	<u>(254,567,603)</u>
Net assets of governmental activities	\$ <u><u>504,340,865</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, 2005

	<u>General</u>	<u>Capital fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Revenues:				
Real and personal property taxes	\$ 220,910,263	—	—	220,910,263
Excises:				
Hotel/motel	5,461,027	—	—	5,461,027
Motor vehicles	6,452,475	—	—	6,452,475
Payments in lieu of taxes	6,839,369	—	—	6,839,369
Intergovernmental	43,801,641	4,556,873	24,521,234	72,879,748
Investment income	2,888,184	6,287	982,910	3,877,381
Sewer use charges	28,661,479	—	—	28,661,479
Departmental and other	23,167,225	1,190,459	28,556,198	52,913,882
Total revenues	<u>338,181,663</u>	<u>5,753,619</u>	<u>54,060,342</u>	<u>397,995,624</u>
Expenditures:				
Current:				
General government	27,402,446	—	156,524	27,558,970
Public safety	77,756,125	—	697,246	78,453,371
Community maintenance and development	28,551,378	—	6,672,789	35,224,167
Human resource development	20,668,301	—	6,461,693	27,129,994
Education	111,212,837	—	15,876,199	127,089,036
Judgments and claims	224,964	—	—	224,964
State and district assessments	33,886,544	—	—	33,886,544
Capital outlays	—	74,043,756	—	74,043,756
Debt service	24,076,062	—	—	24,076,062
Total expenditures	<u>323,778,657</u>	<u>74,043,756</u>	<u>29,864,451</u>	<u>427,686,864</u>
Excess (deficiency) of revenues over expenditures	<u>14,403,006</u>	<u>(68,290,137)</u>	<u>24,195,891</u>	<u>(29,691,240)</u>
Other financing sources (uses):				
Premium on bond issuance	1,768,923	—	—	1,768,923
Bond proceeds	—	80,749,786	—	80,749,786
Transfers in	14,590,085	11,148,907	—	25,738,992
Transfers out	(6,480,462)	—	(18,726,695)	(25,207,157)
Total other financing (uses) sources	<u>9,878,546</u>	<u>91,898,693</u>	<u>(18,726,695)</u>	<u>83,050,544</u>
Excess of revenues and other financing sources over expenditures and other financing uses	24,281,552	23,608,556	5,469,196	53,359,304
Fund balance – beginning	<u>99,972,630</u>	<u>35,289,645</u>	<u>44,440,783</u>	<u>179,703,058</u>
Fund balance – ending	<u>\$ 124,254,182</u>	<u>58,898,201</u>	<u>49,909,979</u>	<u>233,062,362</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, 2005

Net change in fund balances – total governmental funds	\$ 53,359,304
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, (\$78,898,238) exceeded depreciation expense (\$17,366,018)	<u>61,532,220</u>
Tax revenues in the statement of activities that are not reported as revenues in the governmental funds	<u>13,787,982</u>
Proceeds of long-term debt (\$80,749,786) 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 (\$23,570,424) is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments	<u>(57,179,362)</u>
Bond issuance costs are expenditures in the governmental funds, but are deferred assets in the statement of net assets	<u>258,714</u>
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 of (\$241,400) offset by the increase in accrued interest (\$770,443), compensated absences (\$954,335), tax abatements (\$3,617,510), and other items (\$1,575,992)	<u>(6,651,880)</u>
Change in net assets of governmental activities	<u>\$ 65,106,978</u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Net Assets – Proprietary Fund

June 30, 2005

	Enterprise fund
	Water fund
	<hr/>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 5,151,605
Receivables, net	4,853,234
Total current assets	<hr/> 10,004,839 <hr/>
Noncurrent assets:	
Capital assets:	
Nondepreciable	42,967,092
Depreciable, net	94,869,644
Total noncurrent assets	<hr/> 137,836,736 <hr/>
Total assets	<hr/> 147,841,575 <hr/>
Liabilities:	
Current liabilities:	
Warrants and accounts payable	16,923
Accrued liabilities:	
Claims	122,000
Compensated absences	147,000
Accrued payroll	38,482
Interest	931,551
Due to other funds	838,611
Current portion of long-term debt	6,267,332
Total current liabilities	<hr/> 8,361,899 <hr/>
Noncurrent liabilities:	
Bonds payable	52,478,367
Accrued liabilities:	
Compensated absences	311,000
Other	396,000
Other liabilities	29,452
Total noncurrent liabilities	<hr/> 53,214,819 <hr/>
Total liabilities	<hr/> 61,576,718 <hr/>
Net assets:	
Investment in capital assets, net of related debt	79,061,585
Unrestricted	7,203,272
Total net assets	<hr/> \$ 86,264,857 <hr/>

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, 2005

		Enterprise fund Water fund
		<u> </u>
Operating revenues:		
Charges for services	\$	16,728,358
Other		<u>1,424,723</u>
Total operating revenues		<u>18,153,081</u>
Operating expenses:		
Administration		2,482,237
Service and support programs		6,381,827
Other general services		44,978
Depreciation		<u>2,747,803</u>
Total operating expenses		<u>11,656,845</u>
Operating income		<u>6,496,236</u>
Nonoperating revenue (expense):		
Investment earnings – other		135,426
Interest expense		<u>(2,799,245)</u>
Nonoperating expense		<u>(2,663,819)</u>
Income before transfers		3,832,417
Transfers to other funds		<u>(531,835)</u>
Change in net assets		3,300,582
Total net assets – beginning		<u>82,964,275</u>
Total net assets – ending	\$	<u><u>86,264,857</u></u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Cash Flows – Proprietary Fund

Year ended June 30, 2005

	Enterprise fund
	Water fund
	<hr/>
Cash flows from operating activities:	
Cash received from customers	\$ 15,632,491
Cash paid to vendors	(2,355,197)
Cash paid to employees	(2,591,123)
	<hr/>
Net cash provided by operating activities	10,686,171
	<hr/>
Cash flows from noncapital financing activities:	
Transfers	(531,835)
	<hr/>
Net cash used in noncapital financing activities	(531,835)
	<hr/>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(3,464,907)
Interest paid on debt	(2,870,145)
Proceeds from issuance of long-term debt	1,200,000
Repayment of long-term debt	(6,273,814)
	<hr/>
Net cash used in capital and related financing activities	(11,408,866)
	<hr/>
Cash flows from investing activities:	
Investment income	135,426
	<hr/>
Net cash provided by investing activities	135,426
	<hr/>
Decrease in cash and cash equivalents	(1,119,104)
	<hr/>
Cash and cash equivalents, beginning of year	6,270,709
	<hr/>
Total cash and cash equivalents, end of year	\$ 5,151,605
	<hr/> <hr/>
Reconciliation of operating income to cash provided by operating activities:	
Operating income	\$ 6,496,236
Reconciliation of operating income to net cash provided by operating activities:	
Depreciation	2,747,803
Changes in operating assets and liabilities:	
Accounts receivable	(1,095,867)
Due to/from other funds	2,416,154
Other liabilities	121,845
	<hr/>
Net cash provided by operating activities	\$ 10,686,171
	<hr/> <hr/>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Fiduciary Net Assets

June 30, 2005

Assets	Employee retirement plan (as of December 31, 2004)	Agency funds
	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 20,688,139	4,336,983
Dividend and interest receivable	1,325,088	—
Contributions receivable:		
City of Cambridge	3,529,335	—
Cambridge Public Health Commission	2,267,268	—
Other	230,333	—
Other assets	1,688,874	—
Investments, at fair value:		
Fixed income securities	91,864,182	—
Equities	180,973,979	—
Pooled investments:		
Fixed income	96,212,827	—
Real estate	34,084,881	—
Domestic equities	84,513,359	—
International equities	58,457,394	—
Other	9,800,332	—
Total investments	<u>555,906,954</u>	<u>—</u>
Cash collateral on security lending	10,469,334	—
Total assets	<u>\$ 596,105,325</u>	<u>4,336,983</u>
Liabilities		
Accrued liabilities	\$ 589,851	—
Guarantee deposits	—	4,336,983
Due to brokers for securities purchased	441,516	—
Cash collateral on security lending	10,469,334	—
Total liabilities	<u>11,500,701</u>	<u>\$ 4,336,983</u>
Net Assets		
Held in trust for pension benefits	<u>\$ 584,604,624</u>	

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Changes in Fiduciary Net Assets

Year ended June 30, 2005

	Employee retirement plan (as of December 31, 2004)
Additions:	
Contributions:	
Employers	\$ 23,977,875
Plan members	16,615,165
Other systems	1,293,400
Commonwealth of Massachusetts	1,373,894
Total contributions	<u>43,260,334</u>
Investment earnings:	
Interest and dividends	12,772,075
Securities lending income	212,154
Net appreciation in the fair value of investments	39,589,163
Less management fees	(3,009,930)
Less borrower rebates and fees under securities lending program	(183,823)
Net investment earnings	<u>49,379,639</u>
Total additions	<u>92,639,973</u>
Deductions:	
Benefits	36,053,527
Refunds of contributions	2,738,444
Other systems	1,306,931
Administrative expenses	708,461
Total deductions	<u>40,807,363</u>
Change in net assets	51,832,610
Net assets, beginning of year	<u>532,772,014</u>
Net assets, end of year	<u><u>\$ 584,604,624</u></u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

(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, have full authority for operations of the school system and appoint 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) *Blended Component Unit*

The following component unit has been presented as a blended component unit (included in the primary government) because the component unit provides services almost exclusively to the primary government.

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 Board. The System provides pension benefits to retired City, Cambridge Housing Authority, Cambridge Redevelopment Authority and Cambridge Public Health Commission 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, 2004. The System does not issue stand-alone financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

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

This component unit 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 able to impose its will on the organization. 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:

The Cambridge Public Health Commission (CPHC) is a body politic and corporate and public instrumentality of the Commonwealth established by Chapter 147 of the Acts of 1996. CPHC is governed by a nineteen-member board, all of whom are appointed by the City Manager. CPHC is responsible for the implementation of public health programs in the City.

Complete financial statements for the CPHC for its fiscal year ended June 30, 2005 are available from its offices on 10 Presidents Way, 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*, which 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

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

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 fiduciary fund financial statements. The agency fund, although it uses the full accrual basis of accounting only reports assets and liabilities and can therefore not be said to have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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

Governmental Fund Financial Statements

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

The City applies the susceptible-to-accrual criteria to intergovernmental revenues. In applying the susceptible-to-accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended for a specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized as expenditures are incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed 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.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

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.

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.

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 Cambridge Retirement System, which accumulates resources for pension benefit payments to retired City employees.

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.

The System considers short-term pooled money market funds to be cash equivalents. At December 31, 2004, such funds amounts to approximately \$20,605,000.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

(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.”

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

(f) Uncollectible Tax and Other Receivables

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

(g) Capital Assets

Capital assets, 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

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

(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, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(j) *Fund Equity*

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

(k) *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, 2005, 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.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

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.

(3) Deposits and Investments

In fiscal 2005, the City adopted Government Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*.

(a) Deposits

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

(i) Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned. The City carries deposits that are fully insured by FDIC insurance or collateralized with securities held by the City or the City's agent in the City's name. The City also carries deposits that are not collateralized and are uninsured. As of June 30, 2005, the bank balances of uninsured and uncollateralized deposits are as follows:

Primary government	\$ 2,624,930
Discretely presented component unit (CPHC)	<u>10,805,337</u>
	<u>\$ 13,430,267</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.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

The City's pension system has 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 23(2) govern the System's investment practice.

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

The System has retained an investment consultant to work with the 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.

(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, 2005:

<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	\$ 42,537,363	42,537,363	—	—	—
Certificates of deposit	1,250,000	1,250,000	—	—	—
MMDT	107,688,433	107,688,433	—	—	—
Subtotal City	<u>151,475,796</u>	<u>151,475,796</u>	<u>—</u>	<u>—</u>	<u>—</u>
System (as of December 31, 2004):					
Cash collateral pool	10,469,334	10,469,334	—	—	—
U.S. Treasury notes and bonds	1,344,790	1,344,790	—	—	—
U.S. agencies	9,358,840	—	1,299,605	—	8,059,235
Domestic corporate	69,672,007	4,489,669	19,196,399	18,731,309	27,254,630
International government	1,611,581	—	—	—	1,611,581
Asset-backed:					
CMOs	5,471,301	—	—	—	5,471,301
Other	4,405,663	—	2,251,353	1,684,430	469,880
Pooled fixed-income investments	96,212,827	—	96,212,827	—	—
Subtotal System	<u>198,546,343</u>	<u>16,303,793</u>	<u>118,960,184</u>	<u>20,415,739</u>	<u>42,866,627</u>
Total primary government	<u>\$ 350,022,139</u>	<u>167,779,589</u>	<u>118,960,184</u>	<u>20,415,739</u>	<u>42,866,627</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 – 5</u>
Discretely presented component unit (CPHC):			
Money market	\$ 34,796,962	34,796,962	—
MMDT	46,075,440	46,075,440	—
U.S. Treasury notes and bonds	7,854,000	—	7,854,000
U.S. agencies	35,581,707	26,923,120	8,658,587
Domestic corporate	48,113,713	48,113,713	—
 Total discretely presented component unit (CPHC)	 \$ <u>172,421,822</u>	 <u>155,909,235</u>	 <u>16,512,587</u>

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

The collateralized mortgage obligations (CMOs) held by the System 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, 2005

The primary government's fixed income investments as of June 30, 2005 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:

Investment type	Fair value	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Not rated
City:												
Money market	\$ 42,537,363	—	—	—	—	—	—	—	—	—	—	42,537,363
Certificates of deposit	1,250,000	—	—	—	—	—	—	—	—	—	—	1,250,000
MMDT	107,688,433	—	—	—	—	—	—	—	—	—	—	107,688,433
Subtotal City	151,475,796	—	—	—	—	—	—	—	—	—	—	151,475,796
System (as of December 31, 2004):												
Cash collateral pool	10,469,334	—	—	—	—	—	—	—	—	—	—	10,469,334
U.S. agencies	9,358,840	9,358,840	—	—	—	—	—	—	—	—	—	—
Domestic corporate	69,672,007	2,452,141	2,886,133	19,546,242	14,489,246	5,481,738	17,715,492	5,589,613	428,295	416,995	—	666,112
International gov't	1,611,581	—	—	1,611,581	—	—	—	—	—	—	—	—
Asset-backed:												
CMOs	5,471,301	5,471,301	—	—	—	—	—	—	—	—	—	—
Other	4,405,663	3,245,942	—	—	415,477	559,141	86,736	—	90,493	—	7,874	—
Pooled fixed-income investments	96,212,827	—	—	—	—	—	—	—	—	—	—	96,212,827
Subtotal System	197,201,553	20,528,224	2,886,133	21,157,823	14,904,723	6,040,879	17,802,228	5,589,613	518,788	416,995	7,874	107,348,273
Total primary government	\$ 348,677,349	20,528,224	2,886,133	21,157,823	14,904,723	6,040,879	17,802,228	5,589,613	518,788	416,995	7,874	258,824,069
Discretely presented component unit (CPHC):												
Money market	\$ 34,796,962	34,796,962	Not rated	—	—	—	—	—	—	—	—	—
MMDT	46,075,440	46,075,440	Not rated	—	—	—	—	—	—	—	—	—
U.S. agencies	35,581,707	35,581,707	Rated "A" or better	—	—	—	—	—	—	—	—	—
Domestic corporate	48,113,713	48,113,713	Rated "A" or better	—	—	—	—	—	—	—	—	—
Total discretely presented component unit (CPHC):	\$ 164,567,822	164,567,822	—	—	—	—	—	—	—	—	—	—

In addition to the above schedule, the System and CPHC had \$1,344,790 and \$7,854,000, respectively, 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, 2004.

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

(v) *Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. 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, 2004, there were no open forward currency contracts.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

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

<u>Currency</u>	<u>Fixed income</u>	<u>Equity</u>	<u>Total</u>
International equity pooled funds (various currencies)	\$ —	58,457,394	58,457,394
Total securities subject to foreign currency risk	—	58,457,394	58,457,394
Canadian government bond denominated in United States dollars	1,611,581	—	1,611,581
Total international investment securities	\$ 1,611,581	58,457,394	60,068,975

(4) Property Taxes

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

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

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

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

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

(5) Capital Assets

Capital asset activity for the year ended June 30, 2005 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	\$ 162,554,121	—	—	162,554,121
Construction in progress	<u>87,641,011</u>	<u>38,344,023</u>	<u>(37,994,375)</u>	<u>87,990,659</u>
Total capital assets not being depreciated	<u>250,195,132</u>	<u>38,344,023</u>	<u>(37,994,375)</u>	<u>250,544,780</u>
Capital assets being depreciated:				
Buildings and improvements	151,454,786	37,687,472	—	189,142,258
Improvements – nonbuilding	26,877,759	2,810,802	—	29,688,561
Furniture and equipment	31,627,726	7,591,480	—	39,219,206
Infrastructure	<u>134,308,881</u>	<u>30,458,836</u>	<u>—</u>	<u>164,767,717</u>
Total capital assets being depreciated	<u>344,269,152</u>	<u>78,548,590</u>	<u>—</u>	<u>422,817,742</u>
Less accumulated depreciation for:				
Buildings and improvements	(60,645,761)	(4,427,654)	—	(65,073,415)
Improvements – nonbuilding	(4,993,652)	(1,362,965)	—	(6,356,617)
Furniture and equipment	(19,669,323)	(4,142,418)	—	(23,811,741)
Infrastructure	<u>(97,187,441)</u>	<u>(7,432,981)</u>	<u>—</u>	<u>(104,620,422)</u>
Total accumulated depreciation	<u>(182,496,177)</u>	<u>(17,366,018)</u>	<u>—</u>	<u>(199,862,195)</u>
Total capital assets being depreciated, net	<u>161,772,975</u>	<u>61,182,572</u>	<u>—</u>	<u>222,955,547</u>
Governmental activities capital assets, net	<u>\$ 411,968,107</u>	<u>99,526,595</u>	<u>(37,994,375)</u>	<u>473,500,327</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

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

Governmental activities:

General government	\$ 1,184,962
Public safety	1,925,250
Community maintenance and development	10,505,951
Human resource development	285,654
Education	<u>3,464,201</u>
Total depreciation expense – governmental activities	<u>\$ 17,366,018</u>

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activity:				
Capital assets not being depreciated:				
Land	\$ 39,264,325	—	—	39,264,325
Construction in progress	<u>1,148,486</u>	<u>2,964,125</u>	<u>(409,844)</u>	<u>3,702,767</u>
Total capital assets not being depreciated	<u>40,412,811</u>	<u>2,964,125</u>	<u>(409,844)</u>	<u>42,967,092</u>
Capital assets being depreciated:				
Buildings and improvements	80,319,596	—	—	80,319,596
Furniture and equipment	1,023,034	73,922	—	1,096,956
Infrastructure	<u>30,850,378</u>	<u>836,704</u>	<u>—</u>	<u>31,687,082</u>
Total capital assets being depreciated	<u>112,193,008</u>	<u>910,626</u>	<u>—</u>	<u>113,103,634</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,882,458)	(2,007,922)	—	(7,890,380)
Furniture and equipment	(680,223)	(114,827)	—	(795,050)
Infrastructure	<u>(8,923,506)</u>	<u>(625,054)</u>	<u>—</u>	<u>(9,548,560)</u>
Total accumulated depreciation	<u>(15,486,187)</u>	<u>(2,747,803)</u>	<u>—</u>	<u>(18,233,990)</u>
Total capital assets being depreciated, net	<u>96,706,821</u>	<u>(1,837,177)</u>	<u>—</u>	<u>94,869,644</u>
Business-type activity capital assets, net	<u>\$ 137,119,632</u>	<u>1,126,948</u>	<u>(409,844)</u>	<u>137,836,736</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

(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	Other governmental funds	Total governmental funds	Water fund
Receivables:					
Property taxes	\$ 8,812,181	—	—	8,812,181	—
Motor vehicle taxes	3,706,265	—	—	3,706,265	—
Other taxes	2,892,584	—	—	2,892,584	—
Intergovernmental	16,484,837	2,599,173	3,952,509	23,036,519	—
Other	9,757,763	—	7,830,826	17,588,589	5,847,250
Gross receivables	41,653,630	2,599,173	11,783,335	56,036,138	5,847,250
Less allowance for uncollectibles	7,650,716	—	3,382,056	11,032,772	994,016
Net total receivables	\$ 34,002,914	2,599,173	8,401,279	45,003,366	4,853,234

Long-Term Receivable

The City participates in the Commonwealth's school building assistance program, which is administered by the Massachusetts School Building Authority (MSBA). The MSBA provides financial assistance to the City to build and/or renovate schools. As of June 30, 2005, under this program, the City was due funds totaling \$16.5 million.

In the General Fund, the receivable is offset by deferred revenue because the revenue is not considered available. The following is a schedule of the three-year paydown as of June 30, 2005:

2006	\$ 4,590,114
2007	8,001,968
2008	3,892,755
Total	\$ 16,484,837

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general fund)	\$ 6,031,262	—
Due from component units	19,500,000	—
School building assistance receivable	16,484,837	—
Other	<u>9,339,475</u>	<u>140,311</u>
Total deferred/unearned revenue for governmental funds	\$ <u>51,355,574</u>	<u>140,311</u>

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

Individual fund receivable and payable balances at June 30, 2005, are as follows:

<u>Interfund balances</u>	<u>Receivable</u>	<u>Payable</u>
General fund – payable to Capital fund – for capital items	\$ —	32,725
Capital fund – receivable from governmental funds – for capital items	2,501,894	—
Enterprise fund – payable to Capital fund – for capital items	—	838,611
Other governmental fund – Community Development Block Grant payable to Capital fund – for capital items	<u>—</u>	<u>1,630,558</u>
Balance at June 30, 2005	\$ <u>2,501,894</u>	<u>2,501,894</u>

At December 31, 2004, the System has a receivable from the City's General Fund. At June 30, 2005, this amount has been paid by the City. As a result, there is no corresponding payable to the System at June 30, 2005.

Receivable and payable balances between the primary government and CPHC at June 30, 2005 are as follows:

<u>Discrete component unit balances</u>	<u>Receivable</u>	<u>Payable</u>
Primary government:		
General	\$ 19,500,000	—
Discretely presented component unit:		
CPHC	<u>—</u>	<u>19,500,000</u>
Balance at June 30, 2005	\$ <u>19,500,000</u>	<u>19,500,000</u>

In 1998, the City issued \$30 million of general obligation hospital bonds. The proceeds were provided to the CPHC for the construction of an ambulatory care center. CPHC 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. These general obligation bonds amounted to \$19,500,000 at June 30, 2005.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

(8) Long-Term Obligations

Following is a summary of the governmental long-term obligations of the City as of June 30, 2005:

	<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 and notes payable:							
General purpose, serial maturities through January 1, 2025	6/15/92 to 5/15/05	2.25-5.9%	\$ 36,925,000	46,100,000	5,470,000	77,555,000	5,415,000
Urban redevelopment, serial maturities through January 1, 2015	6/15/92 to 2/1/05	2.25-5.9%	25,295,000	14,295,500	3,095,000	36,495,500	4,505,000
Schools, serial maturities through December 1, 2010	6/15/92 to 12/1/00	4.5-5.9%	19,383,000	—	4,808,000	14,575,000	3,485,000
Sewer, serial maturities through January 1, 2015	2/1/94 to 2/1/05	2.25-5.9%	56,914,629	20,354,286	8,328,133	68,940,782	9,522,767
Hospital, serial maturities through February 1, 2018	2/1/98	4.50%	21,000,000	—	1,500,000	19,500,000	1,500,000
Section 108 HUD notes payable, serial maturities through August 15, 2014	2/1/95	7.71-9.03%	395,000	—	10,000	385,000	10,000
School equipment notes, serial maturities through October 15, 2008	6/15/98	6.85%	1,664,560	—	359,291	1,305,269	384,248
Note payable serial maturities April 2010 through April 15, 2021	4/15/00	2.00%	6,000,000	—	—	6,000,000	—
Total governmental obligation bonds and notes payable			167,577,189	80,749,786	23,570,424	224,756,551	24,822,015
Other long-term obligations:							
Claims			4,296,400	28,715,166	26,931,566	6,080,000	3,457,000
Compensated absences, net			16,832,665	25,790,063	24,835,728	17,787,000	6,363,000
Landfill postclosure care costs			425,000	—	25,000	400,000	25,000
Total other governmental long-term obligations			21,554,065	54,505,229	51,792,294	24,267,000	9,845,000
Total governmental long-term obligations			\$ 189,131,254	135,255,015	75,362,718	249,023,551	34,667,015

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

Following is a summary of the business-type long-term obligations of the City as of June 30, 2005:

	<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 November 1, 2019	2/1/94 to 2/1/05	2.5-5.9%	\$ 63,819,513	1,200,000	6,273,814	58,745,699	6,267,332
Total business-type bonds payable			<u>63,819,513</u>	<u>1,200,000</u>	<u>6,273,814</u>	<u>58,745,699</u>	<u>6,267,332</u>
Other long-term obligations:							
Claims			390,800	249,503	122,303	518,000	122,000
Compensated absences, net			349,796	394,642	286,438	458,000	147,000
Total other long-term obligations			<u>740,596</u>	<u>644,145</u>	<u>408,741</u>	<u>976,000</u>	<u>269,000</u>
Total business-type long-term obligations			<u>\$ 64,560,109</u>	<u>1,844,145</u>	<u>6,682,555</u>	<u>59,721,699</u>	<u>6,536,332</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

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, 2005, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2006	\$ 24,822,015	7,172,577	31,994,592
2007	25,713,012	7,891,844	33,604,856
2008	23,997,438	6,880,775	30,878,213
2009	22,388,671	5,951,820	28,340,491
2010	22,220,928	5,061,371	27,282,299
2011-2015	69,650,106	14,647,093	84,297,199
2016-2020	20,971,447	5,712,495	26,683,942
2021-2025	14,992,934	2,182,125	17,175,059
	<u>\$ 224,756,551</u>	<u>55,500,100</u>	<u>280,256,651</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 \$120,000 annually. At June 30, 2005, the principal amount outstanding is \$6,000,000.

Principal retirement of governmental funds has been reflected in the basic financial statements as debt service expenditures of \$18,403,133 and education expenditures of \$5,167,291 totaling \$23,570,424 of principal costs.

In February 2005, the City issued \$46,085,000 in general obligation bonds to fund various capital purchases and improvements throughout the City. Interest is due semiannually on each January 1 and July 1, with principal payments due each January 1 until maturity in fiscal 2025. A portion of these bonds totaling \$1,200,000 was used to fund an automated meter reading system for the water fund.

In fiscal 2005, the City borrowed \$4,864,786 from the Massachusetts Water Pollution Abatement Trust (MWPAT) and the Massachusetts Water Resources Authority to fund various sewer improvements. Principal is due in annual installments through August 2014.

In May 2005, the City issued \$31,000,000 of bond anticipation notes (BAN) to fund the acquisition/construction of a new police headquarters. The City has the ability and intent to refinance this BAN on a long-term basis. As such, this BAN is presented as a long-term obligation at June 30, 2005.

The City enters into loan agreements with the 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 \$3,212,951 in subsidies during 2005 and expects to receive subsidies totaling approximately \$12,518,000 (water portion \$5,479,000) through 2011. Loan payments

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

commenced on February 1, 1994 and end on August 1, 2011, 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.

As of June 30, 2005, the City may issue approximately \$363.5 million additional general obligation debt under the normal debt limit. The City has approximately \$73.3 million of debt exempt from the debt limit.

The annual debt service requirements of the City's water enterprise fund as of June 30, 2005 are as follows:

	Principal	Interest	Total
Year ending June 30:			
2006	\$ 6,267,332	2,641,373	8,908,705
2007	6,034,004	2,364,588	8,398,592
2008	6,203,673	2,089,767	8,293,440
2009	6,284,829	1,802,425	8,087,254
2010	6,347,529	1,506,822	7,854,351
2011-2015	17,108,332	4,522,773	21,631,105
2016-2020	10,500,000	1,151,065	11,651,065
	\$ 58,745,699	16,078,813	74,824,512

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

(9) Retirement Plan

(a) Plan Description

The City contributes to the Cambridge Retirement System (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:

- (1) City of Cambridge
- (2) Cambridge Redevelopment Authority
- (3) Cambridge Housing Authority
- (4) Cambridge Public Health Commission

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

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

The System is administered by a five-person Board of Retirement consisting of the City Auditor who serves as a member *ex officio*, two members who are elected by the participants, in or retired from the service of the System, a fourth member appointed by the Mayor and a fifth member chosen by the other members.

(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:

- (a) Fixed-income securities are stated at quoted market value.
- (b) Equity securities are stated at quoted market value.
- (c) Real estate funds are stated at appraised value or partner's account value.
- (d) Venture capital funds are stated at the lower of contributed cost or fair value.
- (e) International investments are stated at quoted market value and are included in equities and fixed income categories.
- (f) Other pooled funds are stated at unit value.

(c) Membership

Membership in the System consisted of the following at January 1, 2004, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	1,746
Terminated plan members entitled to, but not receiving benefits	822
Active plan members	3,825
Total membership	<u>6,393</u>
Total number of participating employers	<u>4</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

(d) Contributions

Plan members are required to contribute to the System. Depending on their employment date, active members must contribute a range of 5%-9% of their regular gross compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. Participating employers are required to pay into the System their share of the remaining system-wide actuarially determined contribution, which is apportioned among the employers based on active covered payroll. Effective July 1, 1998 Chapter 32 of the Massachusetts General Laws assigns to the local retirement boards authority to establish and amend benefit provisions of the Plan and grant cost-of-living increases. The contributions of plan members and the participating employers are governed by Chapter 32 of the MGL. The City's and CPHC's required and actual contributions to the System for the years ended June 30, 2005, 2004, and 2003 were \$13,962,802, \$13,241,325, and \$13,277,195, respectively, and \$9,055,006, \$8,808,317, and \$8,121,556, respectively.

(e) Legally Required Reserve Accounts

The balances in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2004 are as follows:

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity savings fund	\$ 145,472,784	Active members' contribution balance
Annuity reserve fund	40,174,151	Retired members' contribution account
Military service credit	1,833	Members' contribution account while on military leave
Pension reserve fund	345,347,473	Amounts appropriated to fund future retirement benefits
Pension fund	<u>53,608,383</u>	Remaining net assets
	<u>\$ 584,604,624</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.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

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, 2004. 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, 2004, 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, 2004 were \$183,823.

At December 31, 2004, the fair value of securities loaned by the System amounted to \$10,219,449, against which was held collateral of \$10,469,334.

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.

(10) Other Postemployment Benefit Disclosures

In addition to the pension benefits described in note 9, the City provides postemployment health care and life insurance benefits, in accordance with state statute and City ordinance, to eligible retirees. Approximately 1,746 retirees meet the eligibility requirements as put forth in Chapter 32B of Massachusetts General Laws. The City pays 90% of Blue Cross/Blue Shield of Massachusetts (BC/BS) premiums and 90% of HMO premiums for medical and hospitalization incurred by retirees and their dependents. The City also pays 75% of BC/BS Medicare premiums for each Medicare eligible retiree.

Expenditures of approximately \$13.1 million for health care and life insurance benefits for retirees are accounted for on a pay-as-you-go basis in fiscal 2005.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

(11) Transfers

Transfers and their purposes during the year ended June 30, 2005 were as follows:

	<u>Governmental funds</u>			<u>Enterprise</u>
	<u>General</u>	<u>Capital</u>	<u>Other</u>	<u>fund</u>
				<u>Water</u>
Capital – to fund capital expenditures	\$ (6,480,462)	6,480,462	—	—
Parking – reimbursement of administrative costs and other eligible City expenditures	14,013,250	—	(14,013,250)	—
Cemetery – reimbursement of operational costs to fund renovations of administration, buildings and grounds	45,000	—	(45,000)	—
CDBG – transfer of revenues to reimburse eligible capital costs	—	42,445	(42,445)	—
Water – reimbursement of administrative costs	531,835	—	—	(531,835)
Community Preservation Act – for affordable housing	—	4,086,000	(4,086,000)	—
Parking – to replace obsolete equipment	—	540,000	(540,000)	—
Total	<u>\$ 8,109,623</u>	<u>11,148,907</u>	<u>(18,726,695)</u>	<u>(531,835)</u>

(12) 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 workers' compensation and unemployment claims.

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.

Employees contribute approximately 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 enroll in indemnity plans and 10% for those who enroll in HMO-type plans. The City does not carry stop-loss insurance.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

Changes in the self-insurance liability for the years ended June 30, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Accrued claims, beginning of year	\$ 4,687,200	4,755,988
Incurred claims	28,964,669	31,515,009
Less payments of claims attributable to events of both current and prior fiscal years	<u>(27,053,869)</u>	<u>(31,583,797)</u>
Accrued claims, end of year	<u>\$ 6,598,000</u>	<u>4,687,200</u>

There are numerous cases pending in courts throughout the Commonwealth where the City of Cambridge is a defendant. In the opinion of the City Solicitor, none of the pending litigation is likely to result, either individually or in the aggregate, in final judgments against the City that would materially affect its financial position.

(13) Special Item

Change in Legislation

In fiscal 2005, the City recorded a receivable for amounts owed under the Commonwealth's school building assistance program by the MSBA.

The recognition of the MSBA receivable of \$22.3 million resulted from a change in legislation in July 2005. The change in legislation was not within the control of the City's management.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Pension Information

June 30, 2005

(Unaudited)

Schedule of Funding Progress

(Dollars in thousands)

<u>Actuarial stock 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>
1/1/2004	\$ 569,500	655,107	85,607	86.9%	\$ 184,254	46.5%
1/1/2002	516,947	578,050	61,103	89.4	167,303	36.5
1/1/2000	424,606	510,973	86,367	83.1	140,489	61.5
1/1/1998	342,788	436,216 (1)	93,428	78.6	132,440	70.5
1/1/1996	233,883	361,885	128,002	64.6	114,485	111.8
1/1/1994	182,632	323,644	141,012	56.4	109,775	128.5

(1) Future cost of living increases assumed by the City.

Schedule of Employers' Contributions

(Dollars in thousands)

<u>Year ended December 31:</u>	<u>Annual required contribution</u>	<u>Percentage contributed</u>
2004	\$ 23,978	100%
2003	23,762	100
2002	21,399	100
2001	22,030	100
2000	21,669	100
1999	21,284	100

See accompanying notes to required supplementary pension information.

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Pension Information

June 30, 2005

(Unaudited)

Notes to Schedules

Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2004
Actuarial cost method	Entry age normal cost method
Amortization method	Level dollar amortization of ERI liabilities and increasing amortization for remaining unfunded liability.
Remaining amortization period	4 years from July 1, 2004 for 1992 ERI, 4 1/2 years from July 1, 2004 ERI, 5 years from July 1, 2004 for 2003 ERI, and 9 years from July 1, 2004 for remaining unfunded liability. Amortization period is closed.
Asset valuation method	The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period.
Actuarial assumptions:	
Investment rate of return	8.5%
Projected salary increases	5.5%
Cost-of-living adjustments	3.0% on first \$12,000 of retirement income

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information
(Unaudited)

Schedule of Revenues and Expenditures – Budgetary Basis
General Fund – Budget and Actual

Year ended June 30, 2005
(with comparative actual amounts for 2004)

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>	<u>2004 Actual</u>
Revenues and other available funds:					
Property taxes	\$ 224,335,570	222,953,435	222,953,435	—	209,599,396
Provision for abatements and adjustments	(4,515,930)	(4,515,930)	(4,515,930)	—	(4,499,396)
Payment in lieu of tax receipts	3,600,000	3,600,000	6,839,369	3,239,369	6,329,176
Hotel/motel excise tax	5,800,000	5,800,000	5,461,027	(338,973)	4,286,681
Intergovernmental	38,967,120	40,753,232	43,801,641	3,048,409	42,601,103
Sewer use	26,769,545	27,769,545	28,661,479	891,934	26,546,224
Motor vehicle excise	5,600,000	5,651,906	6,452,475	800,569	6,087,063
Investment income	800,000	800,000	2,223,238	1,423,238	1,008,439
Other	23,942,640	23,631,777	21,469,794	(2,161,983)	17,338,702
Total revenues	<u>325,298,945</u>	<u>326,443,965</u>	<u>333,346,528</u>	<u>6,902,563</u>	<u>309,297,388</u>
Expenditures:					
Current:					
General government	36,798,015	34,396,380	30,595,775	3,800,605	29,846,608
Public safety	77,450,040	79,158,115	78,618,557	539,558	73,785,582
Community maintenance and development	29,743,800	31,323,470	30,673,694	649,776	28,130,441
Human resource development	20,868,495	21,214,152	21,093,962	120,190	19,848,202
Education	122,053,195	117,503,195	115,839,781	1,663,414	117,057,354
Judgments and claims	250,000	250,000	224,397	25,603	533,419
Intergovernmental	34,247,415	35,868,158	34,243,618	1,624,540	33,617,517
Debt service:					
Principal	18,403,135	18,403,135	18,403,133	2	16,192,014
Interest	5,513,935	5,550,945	5,548,075	2,870	5,242,504
Total expenditures	<u>345,328,030</u>	<u>343,667,550</u>	<u>335,240,992</u>	<u>8,426,558</u>	<u>324,253,641</u>
Excess (deficiency) of revenues over expenditures	<u>(20,029,085)</u>	<u>(17,223,585)</u>	<u>(1,894,464)</u>	<u>15,329,121</u>	<u>(14,956,253)</u>
Other financing sources (uses):					
Operating transfers in (out):					
Special revenue funds	15,592,250	15,642,250	14,013,250	(1,629,000)	13,531,350
Capital projects funds	—	(4,037,500)	(6,480,462)	(2,442,962)	(6,956,935)
Permanent funds	3,905,000	3,405,000	3,405,000	—	1,905,000
Enterprise fund	531,835	531,835	531,835	—	377,000
Stabilization – city	—	(1,000,000)	(1,000,000)	—	—
Stabilization – school	—	(4,625,000)	(4,625,000)	—	—
Total other financing sources (uses)	<u>20,029,085</u>	<u>9,916,585</u>	<u>5,844,623</u>	<u>(4,071,962)</u>	<u>8,856,415</u>
Excess (deficiency) of revenues and other financing source over expenditures and other financing uses	<u>\$ —</u>	<u>(7,307,000)</u>	<u>3,950,159</u>	<u>11,257,159</u>	<u>(6,099,838)</u>
Other budget items:					
Free cash appropriations		6,307,000			
Prior year deficits raised		(987,095)			
Overlay surplus		1,987,095			
Total other budget items		<u>7,307,000</u>			
Net budget and actual		<u>\$ —</u>			

See accompanying notes to required supplementary budget information.

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Required Supplementary Budget Information

Year ended June 30, 2005

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

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

In addition, there are certain differences in classifications between revenues, expenditures, and transfers.

The following reconciliation summarizes the differences between budgetary and GAAP basis accounting principles for the year ended June 30, 2005:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other financing sources (uses), net</u>
As reported on a budgetary basis	\$ 333,346,528	335,240,992	5,844,623
Adjustments:			—
Revenues to modified accrual basis	6,604,058	—	—
Expenditures, encumbrances and accruals, net	—	(11,462,335)	—
Bond premium reclassification	(1,768,923)	—	1,768,923
Budgetary transfers not reported on a GAAP basis:			
Stabilization Trust Funds	—	—	5,625,000
Permanent Trust funds	—	—	(3,405,000)
Other	—	—	45,000
As reported on a GAAP basis	\$ <u><u>338,181,663</u></u>	<u><u>323,778,657</u></u>	<u><u>9,878,546</u></u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Supplemental Statements and Schedules

June 30, 2005

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, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
General Government:			
Mayor:			
Salaries and wages	\$ 298,095	266,068	32,027
Other ordinary maintenance	111,440	110,104	1,336
Travel and training	20,500	12,446	8,054
Total Mayor	<u>430,035</u>	<u>388,618</u>	<u>41,417</u>
City Manager:			
Salaries and wages	933,225	910,125	23,100
Other ordinary maintenance	385,450	381,328	4,122
Travel and training	34,465	30,459	4,006
Total City Manager	<u>1,353,140</u>	<u>1,321,912</u>	<u>31,228</u>
City Council:			
Salaries and wages	888,170	884,851	3,319
Other ordinary maintenance	41,900	32,079	9,821
Travel and training	45,500	44,934	566
Total City Council	<u>975,570</u>	<u>961,864</u>	<u>13,706</u>
City Clerk:			
Salaries and wages	660,382	654,826	5,556
Other ordinary maintenance	59,793	58,888	905
Travel and training	750	485	265
Total City Clerk	<u>720,925</u>	<u>714,199</u>	<u>6,726</u>
Law:			
Salaries and wages	1,012,075	932,344	79,731
Other ordinary maintenance	509,225	505,753	3,472
Travel and training	9,675	7,757	1,918
Total Law	<u>1,530,975</u>	<u>1,445,854</u>	<u>85,121</u>
Finance:			
Salaries and wages	6,313,255	6,313,251	4
Other ordinary maintenance	2,367,860	2,364,740	3,120
Travel and training	154,980	134,111	20,869
Extraordinary expenditures	77,800	77,572	228
Total Finance	<u>8,913,895</u>	<u>8,889,674</u>	<u>24,221</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Employment Benefits:			
Salaries and wages	\$ 17,081,560	13,634,683	3,446,877
Other ordinary maintenance	686,630	623,861	62,769
Total Employment Benefits	<u>17,768,190</u>	<u>14,258,544</u>	<u>3,509,646</u>
General Services:			
Salaries and wages	405,680	405,675	5
Other ordinary maintenance	592,555	541,292	51,263
Total General Services	<u>998,235</u>	<u>946,967</u>	<u>51,268</u>
Election Commission:			
Salaries and wages	526,300	526,299	1
Other ordinary maintenance	254,970	252,960	2,010
Travel and training	2,270	993	1,277
Total Election Commission	<u>783,540</u>	<u>780,252</u>	<u>3,288</u>
Public Celebrations:			
Salaries and wages	389,670	375,836	13,834
Other ordinary maintenance	284,105	284,097	8
Travel and training	455	451	4
Total Public Celebrations	<u>674,230</u>	<u>660,384</u>	<u>13,846</u>
Reserve:			
Other ordinary maintenance	18,775	—	18,775
Total Reserve	<u>18,775</u>	<u>—</u>	<u>18,775</u>
Animal Commission:			
Salaries and wages	216,155	215,724	431
Other ordinary maintenance	12,565	11,633	932
Travel and training	150	150	—
Total Animal Commission	<u>228,870</u>	<u>227,507</u>	<u>1,363</u>
Total General Government	<u>34,396,380</u>	<u>30,595,775</u>	<u>3,800,605</u>
Public Safety:			
Fire:			
Salaries and wages	28,728,015	28,727,764	251
Other ordinary maintenance	831,140	831,065	75
Travel and training	458,400	457,505	895
Extraordinary expenditures	95,000	95,000	—
Total Fire	<u>30,112,555</u>	<u>30,111,334</u>	<u>1,221</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2005

	Budget	Actual	Variance positive (negative)
Police:			
Salaries and wages	\$ 30,158,665	29,917,852	240,813
Other ordinary maintenance	846,955	818,107	28,848
Travel and training	477,500	465,218	12,282
Extraordinary expenditures	312,100	311,610	490
Total Police	31,795,220	31,512,787	282,433
Traffic and Parking:			
Salaries and wages	4,982,055	4,874,955	107,100
Other ordinary maintenance	3,107,640	3,099,949	7,691
Travel and training	60,400	29,694	30,706
Extraordinary expenditures	75,000	74,999	1
Total Traffic and Parking	8,225,095	8,079,597	145,498
Police Review and Advisory Board:			
Salaries and wages	70,690	69,458	1,232
Other ordinary maintenance	3,520	2,834	686
Travel and training	3,000	300	2,700
Total Police Review and Advisory Board	77,210	72,592	4,618
Inspectional Services:			
Salaries and wages	2,230,580	2,230,577	3
Other ordinary maintenance	107,100	89,151	17,949
Travel and training	51,825	51,810	15
Total Inspectional Services	2,389,505	2,371,538	17,967
License:			
Salaries and wages	656,845	591,374	65,471
Other ordinary maintenance	111,090	102,668	8,422
Travel and training	8,800	6,807	1,993
Total License	776,735	700,849	75,886
Weights and Measures:			
Salaries and wages	89,485	89,485	—
Other ordinary maintenance	7,780	7,768	12
Travel and training	1,745	1,744	1
Total Weights and Measures	99,010	98,997	13

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Electrical:			
Salaries and wages	\$ 1,032,265	1,032,261	4
Other ordinary maintenance	1,370,040	1,368,478	1,562
Travel and training	4,695	3,449	1,246
Total Electrical	<u>2,407,000</u>	<u>2,404,188</u>	<u>2,812</u>
Emergency Management:			
Salaries and wages	129,245	129,241	4
Other ordinary maintenance	13,635	13,618	17
Travel and training	100	—	100
Total Emergency Management	<u>142,980</u>	<u>142,859</u>	<u>121</u>
Emergency Communications:			
Salaries and wages	2,930,945	2,930,941	4
Other ordinary maintenance	166,010	164,488	1,522
Travel and training	31,850	24,762	7,088
Extraordinary expenditures	4,000	3,625	375
Total Emergency Communications	<u>3,132,805</u>	<u>3,123,816</u>	<u>8,989</u>
Total Public Safety	<u>79,158,115</u>	<u>78,618,557</u>	<u>539,558</u>
Community Maintenance and Development:			
Public Works:			
Salaries and wages	14,616,065	14,478,051	138,014
Other ordinary maintenance	9,473,435	9,487,319	(13,884)
Travel and training	150,625	135,709	14,916
Extraordinary expenditures	485,000	476,162	8,838
Total Public Works	<u>24,725,125</u>	<u>24,577,241</u>	<u>147,884</u>
Community Development:			
Salaries and wages	3,830,920	3,899,737	(68,817)
Other ordinary maintenance	616,140	580,576	35,564
Travel and training	27,600	19,516	8,084
Extraordinary expenditures	512,432	—	512,432
Total Community Development	<u>4,987,092</u>	<u>4,499,829</u>	<u>487,263</u>
Historical Commission:			
Salaries and wages	423,290	423,287	3
Other ordinary maintenance	34,830	34,821	9
Travel and training	750	370	380
Total Historical Commission	<u>458,870</u>	<u>458,478</u>	<u>392</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2005

	Budget	Actual	Variance positive (negative)
Conservation Commission:			
Salaries and wages	\$ 85,010	83,898	1,112
Other ordinary maintenance	3,865	2,129	1,736
Travel and training	885	345	540
Total Conservation Commission	89,760	86,372	3,388
Peace Commission:			
Salaries and wages	63,585	63,513	72
Other ordinary maintenance	11,280	11,112	168
Travel and training	1,350	627	723
Total Peace Commission	76,215	75,252	963
Cable Television:			
Salaries and wages	362,675	353,320	9,355
Other ordinary maintenance	620,283	619,757	526
Travel and training	3,450	3,445	5
Total Cable Television	986,408	976,522	9,886
Total Community Maintenance and Development	31,323,470	30,673,694	649,776
Human Resource Development:			
Library:			
Salaries and wages	4,538,575	4,538,573	2
Other ordinary maintenance	945,545	943,354	2,191
Travel and training	40,150	36,804	3,346
Total Library	5,524,270	5,518,731	5,539
Human Services:			
Salaries and wages	12,028,693	11,956,660	72,033
Other ordinary maintenance	2,701,145	2,692,166	8,979
Travel and training	75,559	51,351	24,208
Extraordinary expenditures	25,000	24,990	10
Total Human Services	14,830,397	14,725,167	105,230
Women's Commission:			
Salaries and wages	145,405	145,403	2
Other ordinary maintenance	9,860	9,756	104
Travel and training	1,000	125	875
Total Women's Commission	156,265	155,284	981

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Human Rights Commission:			
Salaries and wages	\$ 156,200	156,196	4
Other ordinary maintenance	4,055	2,572	1,483
Travel and training	700	645	55
Total Human Rights Commission	<u>160,955</u>	<u>159,413</u>	<u>1,542</u>
Veterans Benefits:			
Salaries and wages	242,565	242,561	4
Other ordinary maintenance	48,900	48,530	370
Travel and training	250,800	244,276	6,524
Total Veterans Benefits	<u>542,265</u>	<u>535,367</u>	<u>6,898</u>
Total Human Resource Development	<u>21,214,152</u>	<u>21,093,962</u>	<u>120,190</u>
Education:			
Salaries and wages	85,392,445	83,964,962	1,427,483
Other ordinary maintenance	22,934,722	22,903,599	31,123
Travel and training	1,429,010	1,228,152	200,858
Extraordinary expenditures	7,747,018	2,087,382	5,659,636
Debt:			
Principal payments	—	4,808,000	(4,808,000)
Interest payments	—	847,686	(847,686)
Total Education	<u>117,503,195</u>	<u>115,839,781</u>	<u>1,663,414</u>
Judgments and Claims	<u>250,000</u>	<u>224,397</u>	<u>25,603</u>
Debt Retirement:			
Principal payments	18,403,135	18,403,133	2
Interest payments	5,550,945	5,548,075	2,870
Total Debt Retirement	<u>23,954,080</u>	<u>23,951,208</u>	<u>2,872</u>
State assessments:			
MBTA assessment	7,421,202	7,421,202	—
MWRA assessment	16,177,455	16,012,292	165,163
Other State assessments	5,769,501	4,310,124	1,459,377
Cambridge Public Health Commission	6,500,000	6,500,000	—
Total Intergovernmental	<u>35,868,158</u>	<u>34,243,618</u>	<u>1,624,540</u>
Total General Fund Expenditures	<u>\$ 343,667,550</u>	<u>335,240,992</u>	<u>8,426,558</u>

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Supplemental Statements and Schedules

June 30, 2005

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 of Cambridge 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, 2005

Special revenue

Assets	Community development block grant	School grants	Fuel assistance	Parking fund	Community preservation act	Other grants	Permanent funds	Total
Cash and short-term investments	\$ 563,044	2,014,626	374,194	8,728,593	2,840,900	26,608,015	2,830,934	43,960,306
Restricted cash and investments	—	—	—	—	—	600,000	—	600,000
Accounts receivable	1,000,000	—	—	—	140,311	3,308,459	—	4,448,770
Due from other governments	130,704	3,821,805	—	—	—	—	—	3,952,509
Total assets	<u>\$ 1,693,748</u>	<u>5,836,431</u>	<u>374,194</u>	<u>8,728,593</u>	<u>2,981,211</u>	<u>30,516,474</u>	<u>2,830,934</u>	<u>52,961,585</u>
Liabilities and Fund Balances								
Warrants payable	\$ 63,190	538,402	—	—	—	—	—	601,592
Accrued liabilities	—	—	—	—	—	679,145	—	679,145
Deferred revenue	—	—	—	—	140,311	—	—	140,311
Due to other funds	1,630,558	—	—	—	—	—	—	1,630,558
Total liabilities	<u>1,693,748</u>	<u>538,402</u>	<u>—</u>	<u>—</u>	<u>140,311</u>	<u>679,145</u>	<u>—</u>	<u>3,051,606</u>
Fund balances:								
Reserved for encumbrances	—	999,240	—	—	—	4,111,279	—	5,110,519
Reserved for specific purposes	—	—	—	—	260,000	600,000	2,830,934	3,690,934
Reserved for loans	—	—	—	—	—	2,412,375	—	2,412,375
Unreserved	—	4,298,789	374,194	8,728,593	2,580,900	22,713,675	—	38,696,151
Total fund balances	<u>—</u>	<u>5,298,029</u>	<u>374,194</u>	<u>8,728,593</u>	<u>2,840,900</u>	<u>29,837,329</u>	<u>2,830,934</u>	<u>49,909,979</u>
Total liabilities and fund balances	<u>\$ 1,693,748</u>	<u>5,836,431</u>	<u>374,194</u>	<u>8,728,593</u>	<u>2,981,211</u>	<u>30,516,474</u>	<u>2,830,934</u>	<u>52,961,585</u>

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, 2005

	Special revenue							
	Community development block grant	School grants	Fuel assistance	Parking fund	Community preservation act	Other grants	Permanent funds	Total
Revenues:								
Intergovernmental	\$ 1,439,737	14,891,881	908,893	92,179	—	7,188,544	—	24,521,234
Investment income	29,697	—	4,686	276,541	78,003	533,119	60,864	982,910
Other:								
Permits	—	—	—	302,318	—	—	—	302,318
Fines	—	—	—	8,620,708	—	—	—	8,620,708
Charges for services	—	—	—	5,883,706	—	—	—	5,883,706
Miscellaneous	—	1,386,555	—	52,100	11,446,262	585,922	278,627	13,749,466
Total revenues	<u>1,469,434</u>	<u>16,278,436</u>	<u>913,579</u>	<u>15,227,552</u>	<u>11,524,265</u>	<u>8,307,585</u>	<u>339,491</u>	<u>54,060,342</u>
Expenditures:								
General government	—	—	—	—	—	38,401	118,123	156,524
Public safety	—	—	—	—	—	697,246	—	697,246
Community maintenance and development	822,647	—	—	—	—	5,850,142	—	6,672,789
Human services	604,342	—	815,661	—	—	5,041,690	—	6,461,693
Education	—	15,876,199	—	—	—	—	—	15,876,199
Total expenditures	<u>1,426,989</u>	<u>15,876,199</u>	<u>815,661</u>	<u>—</u>	<u>—</u>	<u>11,627,479</u>	<u>118,123</u>	<u>29,864,451</u>
Excess (deficiency) of revenues over expenditures	42,445	402,237	97,918	15,227,552	11,524,265	(3,319,894)	221,368	24,195,891
Other financing sources (uses):								
Transfers from other funds	—	—	—	—	—	8,800,000	46,318	8,846,318
Transfers to other funds	(42,445)	—	—	(14,553,250)	(12,886,000)	—	(91,318)	(27,573,013)
Excess of revenues over expenditures and transfers	—	402,237	97,918	674,302	(1,361,735)	5,480,106	176,368	5,469,196
Fund balances at beginning of year	—	4,895,792	276,276	8,054,291	4,202,635	24,357,223	2,654,566	44,440,783
Fund balances at end of year	<u>\$ —</u>	<u>5,298,029</u>	<u>374,194</u>	<u>8,728,593</u>	<u>2,840,900</u>	<u>29,837,329</u>	<u>2,830,934</u>	<u>49,909,979</u>

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Supplemental Statements and Schedules

June 30, 2005

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, 2005

Assets	Balance at June 30, 2004	Additions	Deductions	Balance at June 30, 2005
Contract Bids	\$ 114,015	—	800	113,215
Plans	2,065	—	—	2,065
Tree Removals	485	—	—	485
Driveways	19,753	34,501	45,654	8,600
Street Openings	74,584	—	74,584	—
Sidewalk Openings	150	—	—	150
In Lieu of Bond	70,945	—	—	70,945
License Commission	10,149	—	—	10,149
Cambridge Police Detail	(369,602)	4,264,915	4,140,676	(245,363)
Cambridge Fire Detail	268,234	941,766	997,245	212,755
Dog Licenses	14,212	—	—	14,212
Sporting Licenses	3,082	1,246	1,179	3,149
Dog Officer	(3,555)	—	—	(3,555)
Constable Fees	197,338	19,865	19,062	198,141
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	54,790	3,169	—	57,959
Accident and life Insurance	440,865	103,050	31,770	512,145
Medicare	2,804	—	—	2,804
Car Seat Program	1,539	—	—	1,539
Deferred Compensation	1,410	—	—	1,410
Legal Fees	17,054	4,474	—	21,528
Retirement Office Payroll	115,554	254,138	—	369,692
New England Life	156,078	—	—	156,078
Continental Casualty	12,407	—	—	12,407
Teacher Insurance Reimbursement	4,940	—	—	4,940
Teachers Retirement	1,199,177	259,832	—	1,459,009
Excise Registry Fees	13,857	—	—	13,857
3 Bidglow Contingency Fund	37,774	8,356	—	46,130
Retroactive Wages	6	—	—	6
Land Court Fees	51,752	2,616	—	54,368
Choke Program	1,182	—	—	1,182
Payroll Checks	67,379	—	—	67,379
Retirement Checks	14,693	—	—	14,693
Unclaimed Checks	234,063	—	—	234,063
Stop Payments	23,138	—	—	23,138
Sewer Abatement Appraisal Fee	10,495	—	—	10,495
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	396,193	95	107	396,181
Levangie/J.P. Construction Co.	1,681	—	—	1,681
Forty-Three Mt. Auburn Rents	2,899	—	90	2,809
Police – Recovered Cash	442	456,104	—	456,546
Police – Found Cash	4,012	—	—	4,012
Firearms Recordkeeping Fund	4,053	8,212	—	12,265
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	(245,097)	—	66,811	(311,908)
Robert Chambers Settlement	7,799	—	—	7,799
Total	\$ <u>3,352,622</u>	<u>6,362,339</u>	<u>5,377,978</u>	<u>4,336,983</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Statement of Changes in Assets and Liabilities – Agency Funds

Year ended June 30, 2005

Liabilities	Balance at June 30, 2004	Additions	Deductions	Balance at June 30, 2005
Guarantee deposits and amounts due other:				
Contract Bids	\$ 114,015	—	800	113,215
Plans	2,065	—	—	2,065
Tree Removals	485	—	—	485
Driveways	19,753	34,501	45,654	8,600
Street Openings	74,584	—	74,584	—
Sidewalk Openings	150	—	—	150
In Lieu of Bond	70,945	—	—	70,945
License Commission	10,149	—	—	10,149
Cambridge Police Detail	(369,602)	4,264,915	4,140,676	(245,363)
Cambridge Fire Detail	268,234	941,766	997,245	212,755
Dog Licenses	14,212	—	—	14,212
Sporting Licenses	3,082	1,246	1,179	3,149
Dog Officer	(3,555)	—	—	(3,555)
Constable Fees	197,338	19,865	19,062	198,141
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	54,790	3,169	—	57,959
Accident and life Insurance	440,865	103,050	31,770	512,145
Medicare	2,804	—	—	2,804
Car Seat Program	1,539	—	—	1,539
Deferred Compensation	1,410	—	—	1,410
Legal Fees	17,054	4,474	—	21,528
Retirement Office Payroll	115,554	254,138	—	369,692
New England Life	156,078	—	—	156,078
Continental Casualty	12,407	—	—	12,407
Teacher Insurance Reimbursement	4,940	—	—	4,940
Teachers Retirement	1,199,177	259,832	—	1,459,009
Excise Registry Fees	13,857	—	—	13,857
3 Bidglow Contingency Fund	37,774	8,356	—	46,130
Retroactive Wages	6	—	—	6
Land Court Fees	51,752	2,616	—	54,368
Choke Program	1,182	—	—	1,182
Payroll Checks	67,379	—	—	67,379
Retirement Checks	14,693	—	—	14,693
Unclaimed Checks	234,063	—	—	234,063
Stop Payments	23,138	—	—	23,138
Sewer Abatement Appraisal Fee	10,495	—	—	10,495
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	396,193	95	107	396,181
Levangie/J.P. Construction Co.	1,681	—	—	1,681
Forty-three Mt. Auburn Rents	2,899	—	90	2,809
Police – Recovered Cash	442	456,104	—	456,546
Police – Found Cash	4,012	—	—	4,012
Firearms Recordkeeping Cash	4,053	8,212	—	12,265
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	(245,097)	—	66,811	(311,908)
Robert Chambers Settlement	7,799	—	—	7,799
Total	\$ <u>3,352,622</u>	<u>6,362,339</u>	<u>5,377,978</u>	<u>4,336,983</u>

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Supplemental Statements and Schedules

June 30, 2005

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, 2005.

CITY OF CAMBRIDGE, MASSACHUSETTS
 Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes
 June 30, 2005

	Uncollected June 30, 2004	Commitments	Abatements	Transfers to tax title	Refunds	Collections	Adjustments increase (decrease)	Uncollected June 30, 2005
Real estate taxes:								
1979 and prior	\$ 5,380	—	—	—	—	—	—	5,380
1980	—	—	—	—	—	—	—	—
1981	1,017	—	—	—	—	—	—	1,017
1982	465	—	—	—	—	—	—	465
1983	1,971	—	—	—	—	—	—	1,971
1984	11,578	—	—	—	—	—	—	11,578
1985	1,025	—	—	—	—	—	—	1,025
1987	—	—	—	—	—	—	—	—
1992	13,911	—	—	—	—	—	—	13,911
1993	—	—	—	—	—	—	—	—
1995	—	—	—	—	—	—	—	—
1996	—	—	—	—	—	—	—	—
1997	660	—	—	—	—	—	—	660
1998	3,136	—	—	—	—	—	—	3,136
1999	2,196	—	—	—	—	(1,590)	—	606
2000	5,051	—	—	—	593	(3,527)	614	2,731
2001	3,995	—	—	—	—	(767)	4,785	8,013
2002	(362,593)	—	(277,123)	—	180,629	280,152	186,522	7,587
2003	347,359	—	(510,825)	—	620,737	89,430	(142,882)	403,819
2004	3,640,662	—	(856,809)	—	1,204,040	(2,376,040)	(317,277)	1,294,576
2005	—	214,554,546	(3,046,319)	—	1,154,965	(208,090,736)	(520,984)	4,051,472
Total real estate	<u>3,675,813</u>	<u>214,554,546</u>	<u>(4,691,076)</u>	<u>—</u>	<u>3,160,964</u>	<u>(210,103,078)</u>	<u>(789,222)</u>	<u>5,807,947</u>

CITY OF CAMBRIDGE, MASSACHUSETTS
 Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes
 June 30, 2005

	<u>Uncollected June 30, 2004</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, 2005</u>
Personal property taxes:								
1988	\$ —	—	—	—	—	—	—	—
1989	75	—	—	—	—	—	—	75
1990	1	—	—	—	—	—	(1)	—
1991	139	—	—	—	—	—	—	139
1992	273	—	—	—	—	—	—	273
1993	124	—	—	—	—	—	—	124
1994	202	—	—	—	—	—	—	202
1995	672	—	—	—	—	—	—	672
1996	3,155	—	—	—	—	—	(156)	2,999
1997	20,072	—	—	—	—	—	(272)	19,800
1998	31,244	—	—	—	—	—	(314)	30,930
1999	27,213	—	—	—	—	—	(321)	26,892
2000	29,386	—	—	—	—	(1,374)	(19)	27,993
2001	58,974	—	—	—	—	(1,883)	(2,324)	54,767
2002	72,961	—	—	—	—	(1,902)	669	71,728
2003	200,051	—	—	—	—	(47,797)	26,696	178,950
2004	1,663,121	—	(10,173)	—	50,407	(33,745)	(46,311)	1,623,299
2005	—	8,539,958	(372,769)	—	67,182	(7,252,096)	(39,489)	942,786
Total personal property	2,107,663	8,539,958	(382,942)	—	117,589	(7,338,797)	(61,842)	2,981,629
Tax deferrals	22,602	—	—	—	—	—	3	22,605
Property taxes	\$ 5,806,078	223,094,504	(5,074,018)	—	3,278,553	(217,441,875)	(851,061)	8,812,181

CITY OF CAMBRIDGE, MASSACHUSETTS
 Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes
 June 30, 2005

	Uncollected June 30, 2004	Commitments	Abatements	Transfers to tax title	Refunds	Collections	Adjustments increase (decrease)	Uncollected June 30, 2005
Motor vehicle excise taxes:								
1986	\$ 2,776	—	—	—	—	(100)	—	2,676
1987	152,616	—	—	—	—	(1,401)	—	151,215
1988	164,234	—	(111)	—	—	(1,201)	—	162,922
1989	194,966	—	—	—	—	(582)	—	194,384
1990	148,687	—	—	—	—	(711)	—	147,976
1991	152,925	—	—	—	—	(633)	—	152,292
1992	112,635	—	—	—	—	(1,093)	—	111,542
1993	100,136	—	—	—	—	(645)	—	99,491
1994	107,398	—	(90)	—	—	(777)	—	106,531
1995	116,280	—	—	—	—	(1,063)	—	115,217
1996	120,654	—	(30)	—	—	(946)	—	119,678
1997	129,973	—	(285)	—	—	(1,854)	—	127,834
1998	134,966	—	(154)	—	—	(3,000)	—	131,812
1999	148,330	—	(137)	—	—	(5,648)	—	142,545
2000	195,605	—	(1,002)	—	751	(15,950)	(707)	178,697
2001	318,786	—	(2,193)	—	95	(56,027)	244	260,905
2002	346,451	—	(3,901)	—	443	(57,121)	88	285,960
2003	379,066	26,389	(16,037)	—	13,768	(106,509)	11,780	308,457
2004	718,668	1,134,003	(94,930)	—	45,532	(1,462,488)	6,935	347,720
2005	—	5,268,554	(93,391)	—	—	(4,635,326)	18,574	558,411
Total motor vehicle	\$ 3,745,152	6,428,946	(212,261)	—	60,589	(6,353,075)	36,914	3,706,265

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Bonds and Notes Payable

June 30, 2005

	Interest rates	Issue dates	Final maturity date	Balance June 30, 2004	Additions	Retired	Balance June 30, 2005
Inside debt limit:							
Senior Center/City Hall Renovations	4.75-5.75%	6/15/1996	6/15/2006	\$ 90,000	—	45,000	45,000
Emergency Communications	4.75-5.75%	6/15/1996	6/15/2006	660,000	—	330,000	330,000
Acquisition of computers	4.75-5.75%	6/15/1996	6/15/2006	120,000	—	60,000	60,000
Frisoli Youth Center	4.0-5.0%	6/15/1997	6/15/2007	1,080,000	—	360,000	720,000
Area 4 Youth Center Renovations	4.0-5.0%	6/15/1997	6/15/2007	60,000	—	20,000	40,000
Building Renovations	4.0-5.0%	6/15/1997	6/15/2007	150,000	—	50,000	100,000
Fiber Optics Network	4.0-5.0%	6/15/1997	6/15/2007	300,000	—	100,000	200,000
Frisoli Youth Center	4.3-5.0%	8/1/1998	8/1/2018	350,000	—	70,000	280,000
Personal Computer Acquisition	4.75%	11/1/1999	11/1/2004	450,000	—	450,000	—
Public Art	4.75-5.0%	11/1/1999	11/1/2009	30,000	—	5,000	25,000
City Hall Renovations	4.75-5.0%	11/1/1999	11/1/2009	300,000	—	50,000	250,000
Gately Center Renovations	4.5-5.0%	12/1/2000	12/1/2010	1,750,000	—	250,000	1,500,000
City Hall Renovations	4.5-5.0%	12/1/2000	12/1/2010	2,100,000	—	300,000	1,800,000
City Hall Renovations	5.5-5.9%	11/1/1994	11/1/2004	30,000	—	30,000	—
Senior Center Renovations	5.5-5.9%	11/1/1994	11/1/2004	385,000	—	385,000	—
Open Space Improvements	5.5-5.9%	11/1/1994	11/1/2004	25,000	—	25,000	—
Central Square Enhancements	4.0-5.0%	6/15/1997	6/15/2007	1,065,000	—	355,000	710,000
Yerxa Road Underpass	4.5-5.0%	12/1/2000	12/1/2010	1,330,000	—	190,000	1,140,000
Open Space Improvements	4.5-5.0%	12/1/2000	12/1/2010	3,150,000	—	450,000	2,700,000
MWPAT/Sewer Loan	5.5-5.9%	11/1/1994	11/1/2004	50,000	—	50,000	—
MWPAT/Sewer Loan	4.0-6.13%	5/1/1995	2/1/2005	811,138	—	811,138	—
MWPAT/Sewer Loan	4.25-5.75%	6/15/1996	6/15/2006	150,000	—	75,000	75,000
MWPAT/Sewer Loan	4.0-5.0%	6/15/1997	6/15/2007	150,000	—	50,000	100,000
MWPAT/Sewer Loan	4.0-5.0%	5/1/1997	2/1/2007	1,497,721	—	485,599	1,012,122
MWPAT/Sewer Loan	4.0-5.75%	10/6/1999	8/1/2009	273,778	—	43,100	230,678
MWPAT/Sewer Loan	4.25-5.67%	11/1/2000	8/1/2010	1,495,206	—	199,631	1,295,575
MWPAT/Sewer Loan	4.25-5.67%	11/1/2000	8/1/2010	856,993	—	114,406	742,587
MWPAT/Sewer Loan	4.25-5.67%	11/1/2000	8/1/2010	178,293	—	23,795	154,498
MWPAT/Sewer Loan	4.25-5.67%	11/1/2000	8/1/2010	6,103,160	—	814,875	5,288,285
MWPAT/Sewer Loan	4.25-5.67%	11/1/2000	8/1/2010	2,781,659	—	371,397	2,410,262
MWPAT/Sewer Loan	4.5-5.0%	12/1/2000	12/1/2010	10,920,000	—	1,560,000	9,360,000
Hospital (Ambulatory Center)	4.5%	2/1/1998	2/1/2018	21,000,000	—	1,500,000	19,500,000
MWRA Loan	N/A	10/18/2001	10/18/2006	747,849	—	249,283	498,566
Improvements to War Memorial	3.5-5.0%	12/15/2001	12/15/2011	600,000	—	200,000	400,000
City Hall Renovations	3.5-5.0%	12/15/2001	12/15/2011	10,580,000	—	1,325,000	9,255,000
Sewer Loan	3.5-5.0%	12/15/2001	12/15/2011	8,645,000	—	1,015,000	7,630,000
Traffic Improvement	3.5-5.0%	12/15/2001	12/15/2011	1,000,000	—	125,000	875,000
MWRA Loan	N/A	9/5/2002	8/15/2007	302,852	—	75,713	227,139
Sewer Renovations	2.25-4.00%	1/15/2003	1/15/2013	11,935,000	—	1,325,000	10,610,000
Fire Station Renovations	2.25-4.00%	1/15/2003	1/15/2013	4,385,000	—	490,000	3,895,000
Building Renovations	2.25-4.00%	1/15/2003	1/15/2013	855,000	—	95,000	760,000
City Hall Annex Renovations	2.25-4.00%	1/15/2003	1/15/2013	1,755,000	—	195,000	1,560,000
Street Reconstruction	2.25-4.00%	1/15/2003	1/15/2013	5,435,000	—	605,000	4,830,000
Golf Course Improvements	2.25-4.00%	1/15/2003	1/15/2013	765,000	—	85,000	680,000
Open Space Improvements	2.25-4.00%	1/15/2003	1/15/2013	225,000	—	25,000	200,000
Harvard Square Enhancements	2.25-4.00%	1/15/2003	1/15/2013	450,000	—	50,000	400,000
Fiber Optic Network Infrastructure	2.5-3.3%	1/15/2004	1/1/2014	350,000	—	35,000	315,000
Fire Station Renovations	2.5-3.3%	1/15/2004	1/1/2014	155,000	—	15,000	140,000
War Memorial Renovations	2.5-3.3%	1/15/2004	1/1/2014	1,200,000	—	120,000	1,080,000
Building Renovations	2.5-3.3%	1/15/2004	1/1/2014	540,000	—	55,000	485,000
Library Construction	2.5-4.25%	1/15/2004	1/1/2014	8,650,000	—	435,000	8,215,000
Russell Donnelly Field Improvements	2.5-3.3%	1/15/2004	1/1/2014	9,100,000	—	910,000	8,190,000
Yerxa Road Underpass Construction	2.5-3.3%	1/15/2004	1/1/2014	1,250,000	—	125,000	1,125,000
Cambridge Street Improvements	2.5-3.3%	1/15/2004	1/1/2014	1,500,000	—	150,000	1,350,000
Sewer Reconstruction	2.5-3.3%	1/15/2004	1/1/2014	9,420,000	—	945,000	8,475,000
MWRA Loan	N/A	2/26/2004	2/26/2009	595,980	—	119,196	476,784
Harvard Square Enhancements	3-4%	2/1/2005	1/1/2015	—	2,000,000	—	2,000,000
Gold Star Pool Improvements	3-4%	2/1/2005	1/1/2015	—	1,100,000	—	1,100,000
Library Construction	3-4%	2/1/2005	1/1/2025	—	14,000,000	—	14,000,000
Facility for Police Headquarters	3.75%	5/15/2005	3/1/2006	—	31,000,000	—	31,000,000
Area 4 Park Improvements	3-4%	2/1/2005	1/1/2015	—	2,000,000	—	2,000,000

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Bonds and Notes Payable

June 30, 2005

	<u>Interest rates</u>	<u>Issue dates</u>	<u>Final maturity date</u>	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Retired</u>	<u>Balance June 30, 2005</u>
Russell Field Improvements	3-4%	2/1/2005	1/1/2015	\$ —	3,430,500	—	3,430,500
Cambridge Street Improvements	3-4%	2/1/2005	1/1/2015	—	2,365,000	—	2,365,000
Porter Square Enhancements	3-4%	2/1/2005	1/1/2015	—	2,300,000	—	2,300,000
Yerxa Road Underpass	3-4%	2/1/2005	1/1/2015	—	2,200,000	—	2,200,000
MWPAT Loan	N/A	10/1/2004	8/1/2010	—	183,562	—	183,562
MWPAT Loan	N/A	11/23/2004	8/1/2014	—	2,466,360	—	2,466,360
MWPAT Loan	N/A	11/23/2004	8/1/2014	—	1,919,284	—	1,919,284
MWPAT Loan	N/A	11/23/2004	8/1/2014	—	131,570	—	131,570
MWPAT Loan	N/A	12/2/2004	11/15/2009	—	164,010	—	164,010
Sewer Reconstruction	3-4%	2/1/2005	1/1/2015	—	15,489,500	—	15,489,500
Total inside debt limit				140,134,629	80,749,786	18,393,133	202,491,282
Outside debt limit:							
School:							
Elementary school construction	5.5-5.9%	11/1/1994	11/1/2004	1,323,000	—	1,323,000	—
Elementary school construction	4.75-5.75%	6/15/1996	6/15/2006	480,000	—	240,000	240,000
Elementary school construction	4.5%	2/1/1998	2/1/2008	4,800,000	—	1,200,000	3,600,000
Elementary school renovation-Fitz	4.75-5.0%	11/1/1999	11/1/2009	8,650,000	—	1,445,000	7,205,000
Elementary school renovation-Morse	4.75-5.0%	11/1/1999	11/1/2009	420,000	—	70,000	350,000
Elementary school renovations	4.5-5.0%	12/1/2000	12/1/2010	3,710,000	—	530,000	3,180,000
Total school				19,383,000	—	4,808,000	14,575,000
Water:							
Water Plant Equipment	5.5-5.9%	11/1/1994	11/1/2004	87,000	—	87,000	—
Water Main Replacements	5.5-5.9%	11/1/1994	11/1/2004	100,000	—	100,000	—
Water Main Replacements	4.25-5.75%	6/15/1996	6/15/2006	600,000	—	300,000	300,000
New Water Treatment Plant	4.3-5.0%	8/1/1998	8/1/2018	30,000,000	—	2,000,000	28,000,000
MWPAT/Water Loan	4.0-5.75%	10/6/1999	8/1/2009	7,548,531	—	1,179,198	6,369,333
Construction/Water Treatment Plant	4.75-5.75%	11/1/1999	11/1/2019	8,000,000	—	500,000	7,500,000
MWPAT/Water Loan	4.25-5.63%	11/1/2000	11/1/2010	9,208,982	—	1,207,616	8,001,366
Construction/Stoney Brook	3.5-5.0%	12/15/2001	12/15/2011	5,275,000	—	600,000	4,675,000
Automated Meter Reading System	2.5-3.3%	1/15/2004	1/1/2014	3,000,000	—	300,000	2,700,000
Automated Meter Reading System	3-4%	2/1/2005	1/1/2015	—	1,200,000	—	1,200,000
Total water				63,819,513	1,200,000	6,273,814	58,745,699
HUD Sec 108 Notes	7.71-9.03%	2/1/1995	8/1/2014	395,000	—	10,000	385,000
School Equipment Notes	6.85%	6/15/1998	10/15/2008	1,664,560	—	359,291	1,305,269
Housing Trust Fund:							
Note payable	2.00%	4/15/2000	4/15/2021	6,000,000	—	—	6,000,000
Total outside debt limit				91,262,073	1,200,000	11,451,105	81,010,968
Total debt outstanding				\$ 231,396,702	81,949,786	29,844,238	283,502,250

See accompanying independent auditors' report.

This page left blank intentionally.

PROPOSED FORM OF LEGAL OPINION

EDWARDS ANGELL PALMER & DODGE LLP
111 HUNTINGTON AVENUE, BOSTON, MA 02199-7613

(Date of Delivery)

Louis A. DePasquale
City Treasurer
City of Cambridge
Cambridge, Massachusetts

(\$67,515,000 Cambridge Municipal Purpose Loan of 2006 Bonds Dated February 1, 2006)

We have acted as bond counsel to the City of Cambridge, Massachusetts (the "City") in connection with the issuance by the City of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the City contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, under existing law, as follows:

(1) The Bonds are valid and binding general obligations of the City and, except to the extent they are paid from other sources, the principal of and interest on the Bonds are payable from taxes which may be levied upon all taxable property in the City, subject to the limit imposed by Chapter 59, Section 21C of the General Laws.

(2) Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the City with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with all such requirements. Failure by the City to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

(3) Interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Edwards Angell Palmer & Dodge LLP

APPENDIX C

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Cambridge, Massachusetts (the "Issuer") in connection with the issuance of its \$67,515,000 Municipal Purpose Loan of 2006 Bonds, dated February 1, 2006 (the "Bonds"). The Issuer covenants and agrees as follows:

SECTION 1. *Purpose of the Disclosure Certificate.* This Disclosure Certificate is being executed and delivered by the Issuer 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 Issuer 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.

"National Repository" shall mean any nationally recognized municipal securities information repository for purposes of the Rule. The current National Repositories are listed on 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.

"Repository" shall mean each National Repository and each State Depository.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Act of 1934, as the same may be amended from time to time.

"State Depository" shall mean any public or private depository or entity designated by The Commonwealth of Massachusetts as a state information depository for the purpose of the Rule. (As of the date of this Disclosure Certificate there is no State Depository).

"Transmission Agent" shall mean any central filing office, conduit or similar entity which undertakes responsibility for accepting filings under the Rule for submission to each repository. The current Transmission Agent is listed on Exhibit A attached hereto.

SECTION C. *Provision of Annual Reports.*

(a) The Issuer shall, not later than 270 days after the end of each fiscal year, provide to each Repository 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 Issuer may be submitted when available separately from the balance of the Annual Report.

(b) If the Issuer is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the Municipal Securities Rulemaking Board and the State Depository, if any, in substantially the form attached as Exhibit B.

SECTION 4. *Content of Annual Reports.* The Issuer'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 Issuer's Official Statement dated February __, 2006 relating to the Bonds regarding (i) the revenues and expenditures of the Issuer relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the Issuer, and (vi) pension obligations of the Issuer, and

(b) the most recently available audited financial statements of the Issuer, prepared in accordance with generally accepted accounting principles.

If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year and the 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 Issuer or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Material Events.

(a) The Issuer shall give notice, in accordance with subsection 5(b) below, of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
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 or events affecting the tax-exempt status of the Bonds.
7. Modifications to rights of the Owners of the Bonds.
8. Bond calls.
9. Defeasances.
10. Release, substitution or sale of property securing repayment of the Bonds.
11. Rating changes.

It should be noted, however, that as of this date events of the types listed in paragraphs 2, 3, 4, 5, and 10 above are not applicable to the Bonds.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such an event would be material under applicable federal securities laws and if so, the Issuer shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Depository, if any.

SECTION 6. Alternative Methods for Reporting. The Issuer may satisfy its obligations to make a filing with each Repository hereunder by transmitting the same to a Transmission Agent if and to the extent such Transmission Agent has received an interpretive advice from the Securities and Exchange Commission, which has not been withdrawn, to the effect that an undertaking to transmit a filing to such Transmission Agent for submission to each Repository is an undertaking described in the Rule.

SECTION 7. Termination of Reporting Obligation. The Issuer'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.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer 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 Issuer), to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

If the amendment provides for a change in the accounting principles to be followed in preparing 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 Issuer 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 each Repository.

SECTION 9. *Default.* In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate any Owner of the Bonds may seek a court order for specific performance by the Issuer 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 Issuer to comply with this Disclosure Certificate shall be an action for specific performance of the Issuer's obligations hereunder and not for money damages in any amount.

SECTION 10. *Beneficiaries.* This Disclosure Certificate shall insure 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: _____, 2006

CITY OF CAMBRIDGE

By _____
Treasurer

City Manager

[EXHIBIT A: List of National Repositories and Transmission Agent]

[EXHIBIT B: Form of Notice of Failure to File Annual Report]